JAYA HALEPETE IYER
SHUBHAPRIYA BENNUR

# Retailing in Emerging Markets

2ND EDITION

BLOOMSBURY

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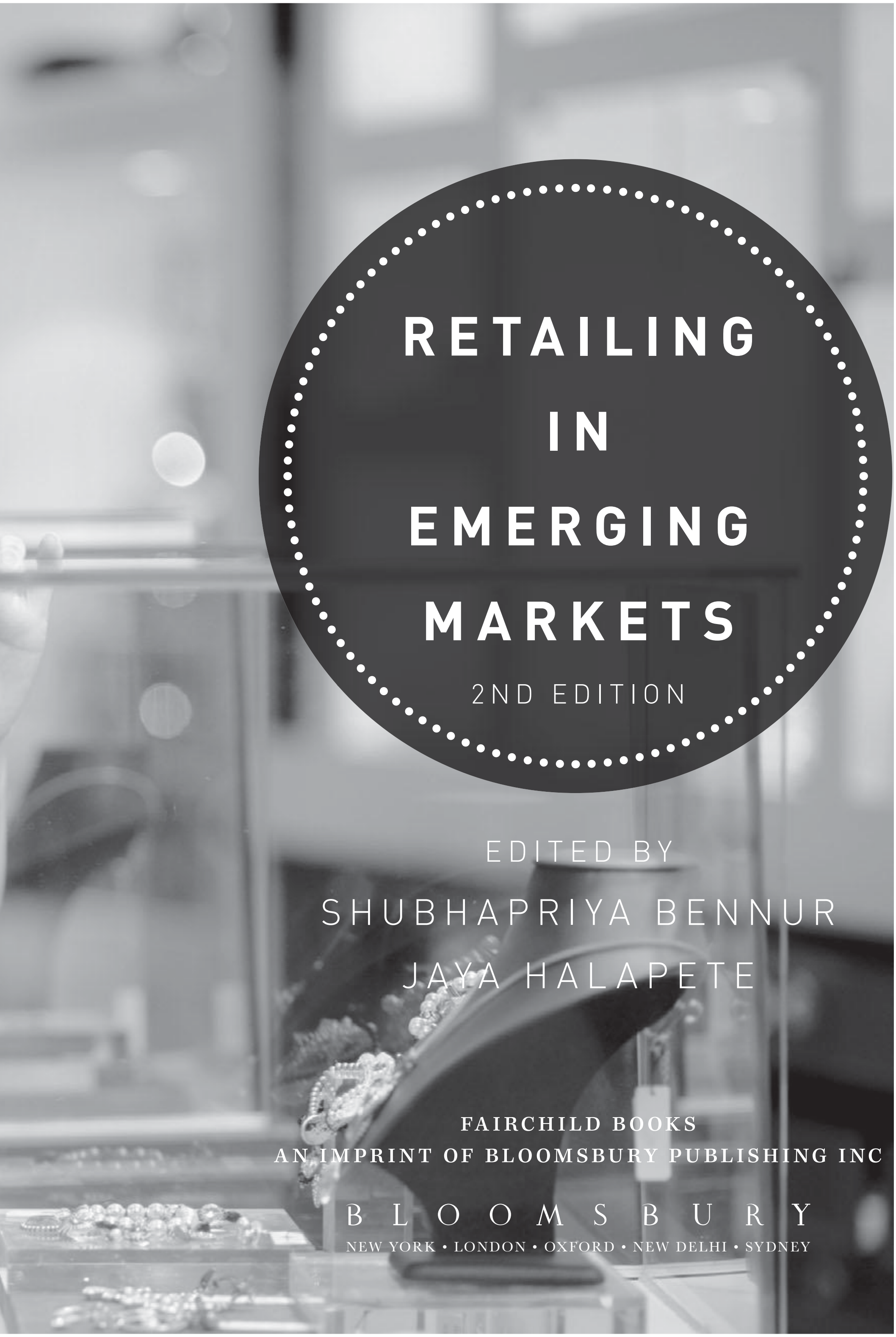

# RETAILING IN EMERGING MARKETS

2ND EDITION

EDITED BY
SHUBHAPRIYA BENNUR
JAYA HALAPETE

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# PREFACE

As domestic retailers outgrow their native markets, many begin to make plans for international expansion. In the past, they targeted mainly developed countries with cultures similar to their own. For example, many American retailers operate successfully in Canada and the United Kingdom. But the market has become saturated in the developed world, and the focus has shifted to developing countries in Asia, the Middle East, and South America. These markets offer great opportunities. But, they come with inherent complexities in terms of how to conduct business. It is important to understand each of these markets from a multidimensional perspective. Students who will be a part of this new trend after they join the workforce as well as retailers need to have a complete understanding of these emerging markets in order to succeed. This book covers aspects such as retailing formats and cultural influences that distinguish selected emerging markets. The main theme of this book is to understand retail as it exists in the emerging markets and various cultural and other factors that influence the retail setup.

Although many books cover some aspect of emerging markets, such as local retail formats or how to behave while doing business, there is no single book that is comprehensive in terms of providing a complete understanding of retail in emerging markets. While teaching courses on the global marketplace for retail industry, we felt a need for a text that would look at emerging markets and provide an understanding of how these markets are different from developed nations. That is what prompted us to write this book. It is designed for courses in international retailing and retailing in emerging markets, and can be used as a supplement for any other apparel-retail courses that require a global perspective. It is also designed for people in retail business who are interested in international markets or retail expansion in these countries.

This text covers the most important aspects of conducting business in nine emerging markets that are consistently ranked in the top 20 in industry reports. The book is designed to help the reader understand the complexities of these markets and provide a detailed understanding of key attributes for conducting business. With emerging markets becoming crucial for international retail expansion, and with many retailers looking to set up offices in multiple countries, it is essential to be knowledgeable about emerging markets. The core chapters in this book are written by experts in retailing from the country being covered. Each contributor provides an understanding of the various concepts from a local perspective.

## FEATURES

This is the only book that covers every topic regarding retailing in the top emerging markets specific to the apparel retail industry, including the unique characteristics of consumers in a particular country, common retail formats, and regulations for foreign direct investment. To aid in student understanding of these topics, the book includes the following features:

- Objectives at the beginning of every chapter help students understand what they can expect to learn.
- Key terms are in bold and appear in the glossary for ready reference. Illustrations are provided to give the reader a better feel for foreign retail formats.
- A section in each chapter on retail careers will help students learn what it takes to work in these countries.
- Case studies at the end of each chapter show how retailers have succeeded or failed due to certain characteristics of the concerned country.

## NEW TO THIS EDITION

Because the world is rapidly changing and new markets are emerging daily, we've updated the text to include new research and pedagogy:

- New to this edition are two new chapters—on South Korea and Qatar—investigating the current marketplace opportunities and challenges.
- All chapters provide increased coverage of the legislative landscapes and long-term economic outlooks for each country.
- Updated and new chapter case studies analyze the expansion strategies of international retailers, including Natura (Brazil), Stylenanda (Korea), LC Waikiki (Turkey), Gap (Thailand) and Grupo Sanborns (Mexico).
- New *Chapter Summaries* and *Critical Thinking Questions* offer additional learning tools.

## INSTRUCTOR RESOURCES

- Instructor's Guide provides suggestions for planning the course and using the text in the classroom, supplemental assignments, and lecture notes

- PowerPoint® presentations include images from the book in full color and provide a framework for lecture and discussion

Instructor's Resources may be accessed through Bloomsbury Fashion Central (www.BloomsburyFashionCentral.com).

## ACKNOWLEDGMENTS

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There are some people who have made a major difference in Jaya Iyer's life and always inspire her to strive to be the best. She would like to thank her brother, Sameer Halepete, and her major professor Dr. Mary Littrell for being her inspiration. She would like to thank her mom for giving her all the love, her dad for pushing her to do her best, and all her family for always being so supportive. Lastly, tremendous love, support, and encouragement from her husband, Sesh Iyer, made this book possible. Her children Sohum and Swaha, who are wonderful in every way and make it possible to work on projects such as this book.

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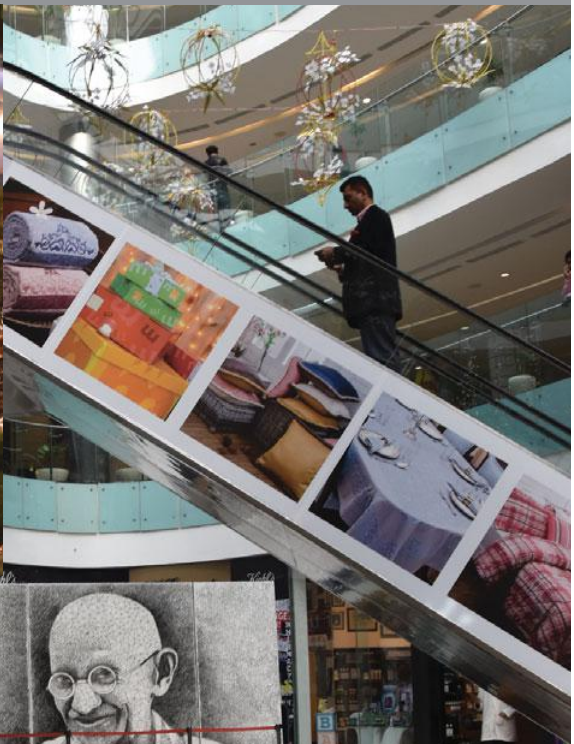

# EMERGING MARKETS

# 1

Shubhapriya Bennur
Jaya Halepete

## OBJECTIVES

After reading this chapter, you will

- Be able to define "emerging market"
- Understand the basic terminology of retailing formats
- Know the terms used for market-entry strategy
- Grasp the importance of understanding consumers in emerging markets

The term **emerging market** was coined in the 1980s, by Antoine van Agtmael. A developing market economy is an economy with a low-to-middle per capita income. Such countries constitute approximately 80 percent of the global population and represent about 20 percent of the world's economy. From developing economies, countries transition into emerging markets. Emerging markets are marked by following characteristics that include:

- *Transitional Economy*—Emerging markets are often in the process of moving from a closed economy to an open market economy.
- *Young and Growing Population*—Emerging markets often have younger populations with spurring strong long-term growth rates. Often a younger population is replacing aging workers; they are affluent consumers.
- *Underdeveloped Infrastructure*—Emerging markets are often in the early stages of building infrastructure. While this means there is often demand

for government spending, it can also mean higher costs and less efficiency for businesses.

- *Increasing Foreign Investment*—Emerging markets usually have lenient regulations for foreign direct investments. However, too much capital can quickly lead to overheated market saturation (Kuepper 2016).

As apparel markets of developed countries have become saturated, their retailers have begun to focus on emerging markets for expansion. Even retailers that have not reached high levels of saturation at home are looking to expand into these emerging markets to gain **first-movers advantage**, a sometimes insurmountable advantage gained by the first significant company to move into a new market.

It is important to note that the first-mover advantage refers to the first *significant* company to move into a market, not merely the first company. For example, Amazon.com may not have been the first online bookseller, but Amazon.com was the first significant company to make an entrance into the online book market.

Many research firms have been conducting analysis to understand emerging countries such as India, Russia, China, the Middle East, and Latin America These economies may have the best potential for apparel retailing; they have an expanding consumer base with higher disposable income.

A.T. Kearney is a Chicago-based global management consulting company founded in 1926. It focuses on the strategic and operational concerns of a CEO's agenda. The retail-apparel index (including all the important drivers that make a market attractive to foreign investors) indicates the rank of a country as an emerging market attractive to foreign investors. A.T. Kearney calculates the retail apparel index using three metrices: clothing market attractiveness (60 percent), retail development (20 percent), and country risk (20 percent). The growth prospects number includes clothing sales, imports, clothing sales per capita, GDP per capita, and population growth. Based on the A.T. Kearney report and other research reports, this book covers Brazil, China, India, Russia, Turkey, Thailand, South Korea, Qatar and Mexico (Table 1.1). Some markets remain as important emerging markets and attractive to investors for a longer time as compared to some others that mature and saturate very quickly. Based on a thorough research of important emerging markets in the current times and owing to space constraints, this book is restricted to these nine emerging markets.

Many large retail chains, such as Tesco (United Kingdom), Metro (Germany), Walmart (United States), and Carrefour (France), have already

**TABLE 1.1** 2013 Apparel Retail Index A.T. Kearney

| Rank | Country | Market Attractiveness | Retail Development | Country Risk | Score |
|---|---|---|---|---|---|
| 1 | China | 40.2 | 10.8 | 11.8 | 62.8 |
| 2 | UAE | 39.1 | 7.2 | 16.0 | 62.4 |
| 3 | Chile | 32.8 | 7.8 | 17.4 | 57.9 |
| 4 | Kuwait | 38.8 | 5.5 | 12.8 | 57.2 |
| 5 | Brazil | 33.5 | 9.9 | 12.1 | 55.5 |
| 6 | Saudi Arabia | 36.2 | 5.6 | 13.2 | 55 |
| 7 | Russia | 36.5 | 9.3 | 8.6 | 54.4 |
| 8 | Malaysia | 30.4 | 6.0 | 15.7 | 52.1 |
| 9 | Mexico | 26.9 | 11.8 | 11.7 | 50.4 |
| 10 | Turkey | 28.4 | 9.3 | 12.6 | 50.3 |

Source: A.T. Kearney, 2013

established themselves in developing countries in various ways. Although these markets may not offer immediate profits due to problems such as poor infrastructure, widespread corruption, and a very diverse customer base driven by strong local culture, traditions, habits, and values, there is the potential for rewards in the long term.

According to International Monetary Fund (IMF) data, the gross domestic product (GDP) based on purchasing-power-parity (PPP) share of world total for emerging markets' is about 57.5 percent as of June 2016. Since 2007, consumers in emerging markets have been spending more money than Americans. The potential growth rate of revenue, return on investment, and low cost of investment make emerging markets attractive to investors. But with increasing competition from many domestic as well as international players, the cost of investment in these emerging markets is increasing. Hence, it is becoming more and more important to make an entry and gain first-mover advantage.

Understanding the apparel retail market in emerging markets is a challenge that most international retailers face. In general, these developing countries have a large geographical spread, cultural diversity, and more than one language, which makes retailing extremely challenging for foreign companies. Other factors such as political situation, economic stability, real estate issues, market size, government regulations for entry, technical advancement, and consumer behavior all affect foreign retailers, who should grasp these challenges fully before making a decision to enter a foreign market. Due to the high level of risk involved in investing in an emerging market, retailers look for acquisitions (buying an existing company) rather than greenfield investments (a foreign company investing in a country by starting the construction from ground up).

This chapter covers some basic concepts that are essential for an understanding of these emerging markets.

## EMERGING MARKETS FOR APPAREL RETAIL: WHAT MAKES THEM IMPORTANT?

Certain characteristics unique to emerging markets make them attractive to foreign investors. All these factors have to be thoroughly analyzed before investing in the market. Timing is very important in making the investment in these markets for various reasons:

- *Growing economy:* Emerging markets grow at a very fast pace. Taking advantage of increasing **gross domestic product** (GDP, which is the total value of all the goods and services produced in a country) and incomes in a country helps retailers become established and profitable quickly.
- *Reduced legislative burden*: To attract foreign investors, emerging markets are reducing regulations associated with starting a business. Many markets are changing their foreign direct investment policies to make entry easier for foreign investors.
- *Market saturation*: Some emerging markets were identified a decade or more ago, and many foreign investors have long since invested in them to have the first-mover advantage. Although some markets may be getting saturated, it is important to identify gaps in the market so that foreign companies can still consider investing to cover those gaps. So it is important to keep a lookout for the right markets to invest in at the right time.
- *Domestic competition*: Domestic retailers know their consumers much better than foreign retailers, making them the biggest threat. Domestic companies learn best practices from international retailers and combine them with knowledge of the local culture to become formidable competi-

tion for foreign retailers; however, the retailing environment in emerging markets is not as highly sophisticated in terms of technological excellence and high level of customer service as it is in developed nations like the United States.

## CONSUMERS IN EMERGING MARKETS: A COMPLEX LOT

In 2015, the GDP for emerging markets such as India, China, and Russia was over 7 percent. In these parts of the world, less than 10 percent of the retail sector is organized and consumption is growing. These factors make for compelling retail opportunities. The spending power of consumers is rapidly changing the retail industry in most of these emerging economies. Multinational retailers seeking new sources of growth are watching the mass markets of Brazil, China, and India. Consumption is also on the rise in Mexico, Turkey, and Russia. As consumers in these nations have greater disposable income, they increasingly spend their money on items beyond the basic necessities. Huge populations and strong economic growth have made them places of high interest in terms of market expansion.

Throughout the 1980s, most multinationals were reluctant to invest in low-income economies because they assumed that people with low incomes spent all their money on basic needs like food and shelter, with nothing left for goods and services. They also assumed that barriers to commerce such as corruption, illiteracy, inadequate infrastructure, currency fluctuations, and bureaucratic red tape made it impossible to do profitable business in these regions. For example, liberalization of trade policies in India began only around 1991. But today, many multinationals run successful businesses in developing economies due to improving conditions; these developing economies are no longer considered as low-income economies. Increasing income levels of the large middle-class population in these economies has fueled the retail market in the developing countries.

Due to the economic growth in sectors such as manufacturing and information technology, many families that fell under the low-income group now have jobs and are a part of the middle-class population. Thus, the middle-income segment has expanded and can represent up to 70 percent of the total population in some emerging markets (Heyde & Sundjaja, 2008). For example, in the large southern and eastern cities of China, consumer spending in the middle income segment has more than doubled since the mid–1990s and is growing rapidly (Moriarity, 2008).

Consumers in emerging markets are intensely interested in branded products. Products that have been customized for local customers attract intense interest. For example, brands such as L'Oreal have introduced fairness products (such as skin-lightening face creams) especially for the Indian market due to high demand for these products in the country. Brands must not be afraid to evolve. Consumers love brands that adapt and commit to emerging markets (Gilpin, 2009). Brands that seek a lasting commitment from consumers need to offer more than just the superficial excitement of their otherness. Brands that do not consider consumers' preference for their local culture will surely fail. Some brands also change their image (from high-end stores to low-end stores or the other way around) in emerging markets. For example, H&M is a mass-market retailer in the West. However, prices that are cheap in Europe and the United States are expensive for the average Chinese consumer; but with increased income levels, Chinese consumers today have higher disposable incomes. To acquire Chinese consumers, H&M has reinvented itself as a profitable player by offering clothes, shoes, and accessories unmatched in terms of style and (lower) pricing by local competitors (Gilpin, 2009).

It is important for foreign investors as well as domestic retailers to classify consumers into groups in order to understand them better and cater to their specific needs. In most emerging economies, consumers fall into four distinct groups:

- At the apex is the **global tier**, which consists of consumers who want products and goods to have the same attributes and quality as products in developed countries. For example, they shop for the same products at Louis Vuitton as consumers in developed countries do. They are well educated and well informed about global markets (Khanna & Palepu, 2005). Most companies that enter foreign markets try to cater to consumers in the global tier.
- The next set of consumers falls under the **glocal tier**, which consists of consumers who demand customized products of near-global standard and are willing to pay a shade less than global consumers do (Khanna & Palepu, 2005). In this group the competition between domestic and foreign companies intensifies. The domestic company understands the needs of the local consumers and can easily tailor the global product to suit. Foreign retailers need to spend time understanding the local consumers to meet their requirements. For example, in Mexico, McDonalds

has a McMolletes, which are refried beans, cheese, and pico de gallo served on an English muffin.

- The set of consumers who follow the glocal consumers falls under the **local tier**. These consumers are happy with products of local quality, at local prices (Khanna & Palepu, 2005). The local retailers of the emerging markets cater to consumers in this group because they understand the consumers and offer them local products at local prices.
- At the lowest tier lie consumers who can afford only the least expensive products. This tier is referred to as bottom of the pyramid (Khanna and Palepu, 2005).

A proper understanding of consumer types in the country where a retailer is interested in investing helps yield the right product and the right price, which in turn helps achieve success in the foreign market.

## RETAIL FORMATS FOR ENTERING EMERGING MARKETS: DEPENDENT ON REGULATORY ENVIRONMENT

Availability of real estate in a country is one of the most important factors in attracting foreign investors. Procuring real estate is important for retailers who want to build new stores rather than acquire existing ones. If a retailer cannot find a format that they are comfortable with due to unavailability or difficulty in obtaining prime location for a store, they are less likely to enter the market. There are many different formats to suit different retailers. Some formats are specific to a country (see individual chapters), but most modern formats are common in all the emerging markets. Some of the most common retail formats are:

**Hypermarket:** Hypermarkets are supermarkets and department stores combined together. Walmart is a great American example. These very large stores sell a wide range of products under grocery, household merchandise, apparel, and general merchandise, and usually have a selling area of at least 50,000 square feet (4,645 square meters) and ample parking. Able to buy in bulk, hypermarkets offer very good prices. They are often adjacent to towns and base their attraction on these prices and convenience to car-owning consumers, who can make many of their purchases in one place. Hypermarkets are widespread, especially in grocery retailing (Law, 2010).

**Supermarket:** A large, self-service store that carries a wide variety of food, household products, and other goods, which it sells in high volumes at relatively low prices (Law, 2010).

**Cooperative store** (consumer cooperative store): A store that is owned and controlled by members of the cooperative who use the products and not an individual owner. In this retail outlet format, members enjoy not only the benefits of good-quality products at fair prices but also a share of the profits (a dividend) based on the amount of each member's purchases (Law, 2010). Cooperatives vary in store type and number of members. These stores are beneficial for promoting products of small business owners or other less-powerful people (What is a cooperative, 2010).

**Warehouse club** (wholesale club; membership warehouse): A cut-price retailer that sells a limited selection of brand-name grocery items, appliances, clothing, and other goods at substantial discounts to members, who pay an annual membership fee (Law, 2010). These stores are normally established in warehouse-type buildings where merchandise is displayed without any frills. Sam's Club, a division of Walmart Stores, Inc., is an example of a warehouse club.

**Main street store:** A store that is located on the primary street of a town. This street is where most of its shops, banks, and other businesses are located (Law, 2010).

**Mom-and-pop store:** A small retail business, such as a grocery store, owned and operated by members of a family and often located on a main street. In developing countries, mom-and-pop stores don't congregate on any specific street; they can be located anywhere, such as in regional markets, markets in residential areas, or markets in suburban areas (The Oxford American Dictionary of Current English, 1999).

**Cash-and-carry store:** A wholesaler that sells to retailers and other businesses at discounted prices on condition that they pay in cash, collect the goods themselves, and buy in bulk (Smullen & Jonathan, 2008). One needs to be a member of the store in order to make purchases. These stores sell products in bulk and the main customers are other business owners. For example, Metro (Germany) is an example of a cash-and-carry store where only business owners that are members can shop.

## ENTRY MODES FOR EMERGING MARKETS: DEPENDENT ON REGULATORY ENVIRONMENT

A retailer chooses its entry format based on a country's regulations for venturing into new markets. The options include the following.

**Franchising:** A license given to a manufacturer, distributor, or trader that enables them to manufacture or sell a named product or service in a particular area for a stated period. The holder of the license (**franchisee**) usually pays the grantor of the license (**franchisor**) a royalty on sales, often with a lump sum as an advance against royalties (Law, 2009). The franchisor may supply the franchisee with a brand identity as well as financial and technical expertise. Common franchises are fast-food restaurants, gas stations, and travel agencies.

**Joint venture:** A joint venture is a contract between two companies to conduct business for an agreed upon duration of time. Companies get together in a joint venture to share each other's strengths, reduce risks, and be more competitive by using each other's skills in a marketplace. Joint venturers often carry on their principal businesses independently at the same time as the joint venture is functioning (Smullen & Jonathan, 2008).

**Licensing:** An agreement by which a company (the **licensor**) permits a foreign company (the **licensee**) to set up a business in a foreign market using the licensor's manufacturing processes, patents, trademarks, and trade secrets in exchange for payment of a fee or royalty (Black, 2003).

**Direct investment:** In this method of entry, the foreign company owns 100 percent of the company. Direct investments are made in different ways:

- *Wholly owned subsidiary*: A parent company holds a majority or all of the shares of a **subsidiary** and controls all of its functions. In a wholly owned subsidiary, the parent holding company owns virtually 100 percent of the common stock. There is no minority interest in the subsidiary (Downes & Goodman, 2006; Smullen & Jonathan, 2008).
- *Acquisition*: An acquisition is the purchase of a company or asset. A foreign company may acquire a small or a large domestic company to enter the market depending on the size of the foreign company. The foreign investor does not have to worry about buying real estate and building from the ground up (Moles & Nicholas, 2005).

- *Greenfield investment*: A form of foreign direct investment in which a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building facilities, most parent companies also create long-term jobs in the foreign country by hiring local employees (Clark, 1999).

## REGULATIONS FOR FOREIGN DIRECT INVESTMENT: OPENING UP FOR TRADE

Foreign direct investment, in its classic definition, is defined as a company from a country making a physical investment into building a factory or setting up a business in another country. Smart investors consider a country's regulations for foreign direct investment (FDI) very carefully before investing in an emerging market. Most emerging markets are interested in attracting foreign investment and are working to make their FDI regulations simple and ensuring that their policies create a friendly business environment. The governments in emerging markets are also working to control corruption, eliminate unnecessary paperwork, and encourage transparency (where all laws and regulations are clearly defined and understood easily) (Foreign Direct, 2010).

## TOP GLOBAL RETAILERS: MARKET LEADERS

There are many successful retailers in the world. Some are successful in their home country and only present there. Some others are successful not only in their home country (for example, El Corte Inglés in Spain) but also in all the countries where they are present (for example, Walmart, Metro). In this section, the top four global retailers, based on their domestic and international revenues, will be discussed.

### WALMART

Walmart is the largest retailer in the United States. It operates over 6,300 retail facilities globally. Walmart provides general merchandise that includes family apparel, health and beauty aids, household needs, electronics, toys, pet supplies, fabrics, crafts, lawn and garden, jewelry, and shoes. It also runs a pharmacy department, tire and lube express, and a photo processing center (Wal-Mart, 2016). Walmart is largely a discount retailer, and it sells products at the lowest possible prices. Its strategy is to expand by selling goods at low prices, thus outselling its competitors. The company's competitive strategy is to dominate every sector the company enters into. Walmart measures success in terms of sales and dominance over competitors. Internationally, the company's strategy has been to acquire companies and convert them into Walmart stores (Walmart, 2016). The company first expanded into Mexico, Brazil, Argentina, and Canada. In 1996, Walmart moved to China. It subsequently tapped European markets such as Germany and the UK, as well as other Asian markets such as South Korea. Japan was the next stop. As of 2016, Walmart has 11,535 stores in 27 countries. The retail giant has succeeded everywhere but Russia, Germany, and South Korea. The failures were mainly due to tough competition in the low-price segment and lack of understanding of the local culture in these countries.

### CARREFOUR

France's Carrefour is the largest retailer in Europe and second largest in the world. The company operates through four formats: hypermarket, supermarket, hard discount, and convenience stores. The group has over 11,935 stores in more than 30 countries; these are either operated by Carrefour or are franchise operations. Carrefour is looking to grow into China, Brazil, Indonesia, Poland, and Turkey. Depending on the country of operation, almost 90 to 95 percent of the merchandise sold in the store is sourced locally. Carrefour's main strategy is to gain customer trust in the company, the product quality, price, and service. Carrefour pioneered the hypermarket model, selling everything from household electronic items to fresh produce (Carrefour, 2016).

Carrefour has opened stores in many countries and has eventually pulled out of many in a strategy to close down poorly performing stores to invest in more profitable countries. The countries where they pulled out include Japan, Mexico, Russia, Switzerland, the United States, the UK, and China. In 2010, the company opened several new stores in China and Romania, and its first cash-and-carry (where only business owners that are members can shop) in India.

### METRO

Metro group has over 2,100 stores in 34 countries in Europe, Africa, and Asia. Metro is Europe's third-largest retail chain after Carrefour and the UK's Tesco and the world's third-largest trade and retail group in terms of sales. This German retail giant's guiding principle is "as decentrally as possible, as centrally as necessary." The group started as a wholesale store in Dusseldorf in 1964, and transformed itself into Germany's largest retailer (Metro group, 2016). Though the company generated the majority of its sales from its home market, retail sales in Germany began to show a decline during the early twenty-first century due to a high unemployment rate, the country's wavering economy, a rise in inflation, and an increase in taxes. This led Metro group to operate in a high-cost environment with a low profit margin, which in turn had an adverse effect on the company's profits in Germany. To compensate for the declining sales in its domestic market, Metro pursued a strategy of expansion and internationalization through its cash-and-carry business model, and started focusing on emerging markets in Asia and Eastern Europe. Metro's focus on international markets has been an important factor in driving its growth in the light of the slowed growth in its home country. In its expansion, the company has a long-term focus on growing economies and consumers with high purchasing power. On March 30, 2016 Metro Group announced that it would be splitting into two independent companies: a leading international wholesale and food specialist, comprising Metro, Makro and Real, as well as a corresponding division and service companies and a leader in consumer electronics products and services, comprising Media Markt and Saturn and its portfolio including strong formats and brands (Metro Group, 2016).

### TESCO

Jack Cohen, who sold groceries in London's East End markets, founded Tesco in 1924. It is the UK's largest retailer with 3,529 stores including all its formats Express, One Stop, Super Stores etc. worldwide (Tesco.com, 2016).

There are two primary reasons for Tesco's success: first is the company's tremendous market penetration in the UK (95 percent) and European markets. The second is Tesco's commitment to supply its online visitors with a continuous stream of new, compelling offers and editorial information every time they visit the Tesco.com site (Tesco.com, 2003).

Tesco.com was initially launched in 1999 with a major relaunch in 2005. Tesco is the world's largest online grocery retailer and recognizes that product images and packet information are essential for online shoppers. Customers must be able to visualize products and have access to full label information to allow them to make more informed purchases (Tesco.com, 2003). Tesco has expanded into Central Europe and Asia. It operates in 12 markets. By the beginning of the 1990s, Tesco had 371 stores in England, Scotland, and Wales—150 of which were superstores—and the company had become one of the United Kingdom's top three food retailers. On the international front, Tesco entered Thailand in 1998, South Korea in 1999, Taiwan in 2000, Malaysia in 2002, and China in 2004. The company's existing operations abroad were bolstered by several acquisitions, including the 2002 purchase of Poland-based hypermarkets HIT, the 2003 purchase of Kipa, a four-store hypermarket chain in Turkey, and the 2003 acquisition of the C, a chain of 78 food stores in Japan (Tesco Plc, n.d.). On 27 January 2017 it was announced that Tesco had reached an agreement to merge with Britain's biggest wholesaler Booker Group to create the UK's largest food group.

## THE FUTURE OF EMERGING MARKETS: CHALLENGING MARKETS

More than a dozen of the United States' top 20 retailers have focused their attention on emerging markets in their expansion plans. Retailers that invested early on in these markets are at a definite advantage over latecomers. Many factors, such as cultural differences, consumer behavior, local competition, and a business environment very different from home, make these markets challenging. But a proper understanding of the market and alterations that meet the market requirements can make a retail investment very profitable. Economists expect emerging markets to yield the world's biggest growth between 2010–2020. These emerging markets are at various levels of maturity. Foreign retailers have just begun to enter some markets and have already established themselves in others. A foreign retailer needs to analyze each emerging market separately to determine the right moment to invest in it.

*Case Study*

Emerging markets or emerging economies are those lower-income but rapid-growth countries that use economic liberalization as their primary engine of growth and are participating in a more industrious capacity. They are moving away from their traditional economies which were depend on agriculture and the export of raw materials. In order to create a better quality of life for their people, leaders of developing countries want to rapidly industrialize and adopt a free market or mixed economy. Emerging markets are important because they drive growth in the global economy. Furthermore, their financial systems have become more sophisticated.

Emerging markets have few agreed-upon characteristics. First, they have a lower-than-average per capita income. They have either low or lower middle per capita income of less than $4,035 as per World Bank estimates. Second, they have Rapid Growth. Emerging markets are willing to accept the rapid change to a more industrialized economy. For example, in 2016, the economic growth of most developed countries, such as the United States, Germany, the United Kingdom and Japan, was less than 3 percent. In contrast, growth in Egypt, Turkey, and the United Arab Emirates was 4 percent or more. China and India both saw their economies grow by around 7 percent. Third, the emerging markets are highly volatile due to rapid social change that can come from natural disasters, external price shocks, and domestic policy instability. Emerging markets are more susceptible to volatile currency swings and changes in the price of commodities, such as oil or food. Fourth, the rapid growth requires a lot of investment capital. But the capital markets are less mature in these countries than the developed markets. However, if investors take risk, there is the promise of a higher-than-average return for investors, as many of these countries focus on an export-driven strategy. They don't have the demand at home, so they produce lower-cost consumer goods and commodities for developed markets. The companies that fuel this growth will profit more, which translates into higher stock prices for investors. This characteristic makes emerging markets attractive to investors.

While each market has its own unique characteristics, multiple challenges distinct from those facing the developed world are common factors. These include:

- Severe financial and digital divides between more wealthy urban centers and rural districts
- Less developed or poor infrastructure

- Growing labor costs
- Bureaucratic and corrupt government.

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*Discussion Questions*

1. List the characteristics of emerging markets. Why it is important for foreign investors to understand these markets?
2. What are some of the challenges of emerging markets?

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Venezuela
Suriname
French Guiana
Colombia
Recife
Brazil
Peru
Brasilia
Bolivia
Belo Horizonte
Pacific Ocean
Campinas
Rio de Janeiro
Paraguay
São Paulo
Atlantic Ocean
Argentina
Uruguay


BEN BROS.
PASCALE V.

# BRAZIL

# 2

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Flavia Silveira Cardoso
Wlamir Xavier

**OBJECTIVES**

After reading this chapter, you will

- Understand why Brazil is considered to be an emerging market
- Learn about unique characteristics of Brazilian consumers
- Gain knowledge about various traditional and nontraditional retail formats in the country
- Understand government regulations for foreign direct investment in Brazil

Many people have agreed with Jeffrey Simpson, Canadian journalist and national affairs columnist for *The Globe and Mail,* when he wrote in 2010, "For a country with a tumultuous economic history, the first decade of the twenty-first century has been remarkably good: low inflation by Brazilian standards (4 to 5 percent), steady growth (4 to 5 percent), shrinking national debt, an economy lifted by high commodities prices, and success in selected industrial sectors. Who would have thought a decade ago that Brazil would actually be lending money to the International Monetary Fund? Best of all, studies show a slow but steady diminution in income inequality. Poverty rates have fallen from 35 percent to 25 percent in a decade." However once again six years later, Brazil has been struggling with unemployment rates, inflation is on the rise and it has impeached its second president in the last 25 years. Additionally, part of the social and economic gains are being diluted and for some economists, Brazil has gone back 10 years in terms of economic development. Even so, given its geographical and market size, the country may still be considered a potential market with huge untapped potential. Is Brazil still the country of the future? How far in the future will this be?

Slightly smaller in area than the United States, Brazil has the fifth-largest population in the world and the largest in Latin America. According to the World Bank, Brazil is the world's seventh-largest economy (2014). By 2020, the majority of its population will be between the ages of 15 and 44, making Brazil one of the most important job and consumer markets in the American continent (Table 2.1).

Brazil has a wide range of natural resources. About 40 percent of the world's biodiversity is located in Brazil. Its continental dimension holds five important biomes: the Amazon (rain forest), the Cerrado (savanna), the Atlantic Forest, the caatinga (dryland), and the Pantanal (swamplands). The Brazilian Amazon is the most important biological reserve in the world and holds 10 percent of the world's total freshwater reserves. Mineral deposits are also abundant in the country.

The Portuguese, who claimed Brazil in 1500 and ruled for more than three centuries, first brought the region into the global economy. Throughout the eighteenth and early nineteenth centuries, the Portuguese crown grew wealthy on the gold and diamonds they forced Native Americans and African slaves to mine. The colony became a constitutional monarchy in its own right in 1822. In 1889, a military coup established a constitutional democracy, which was destabilized by additional coups in 1930 and 1964. In 1985, the military returned power to civilian rulers, and a democratic regime was implemented. However, the international oil crisis in the 1970s plus a noncompetitive state-driven and somewhat closed economy have created a high inflationary business environment. In 1985, the indirectly elected president Tancredo Neves never took office. He was rushed to the hospital on his inauguration day where he died 39 days later. His vice president, José Sarney, took office definitively and tried through many different economic plans to control one of the world's highest inflation rates. Fernando Collor, the first directly elected president, took office in 1990. In an attempt to improve Brazil's competitiveness, he tried

**TABLE 2.1** Fast Facts about Brazil

| | |
|---|---|
| **Capital** | Brasilia |
| **Population** | 204.3 million (2015 est.) |
| **Type of government** | Federal Republic |
| **GDP: purchasing power parity in US$** | $3.166 trillion (2015) |
| **Age structure** | 0–14 yrs: 23.27 percent<br>15–24 yrs: 16.47 percent<br>25–54 years: 43.80 percent<br>55 yrs plus: 16.46 percent |
| **Religion** | Catholic: 65.0 percent<br>Protestant: 22.3 percent<br>None: 8.0 percent<br>Others: 4.3 percent<br>Unspecified: 0.4 percent |
| **Ethnicity** | White: 47.7 percent<br>Mixed Black and White: 43.1 percent<br>Black: 7.6 percent<br>Other: 1.6 percent |

Source: CIAfactbook.gov

to implement drastic economic measures to control inflation, reduce government weight in the economy, and eliminate many legal restrictions to import goods such as cars and computers. Collor was impeached in 1992, accused of political corruption; his vice president, Itamar Franco, then took office. Under Itamar Franco, a set of economic measures, known as Plano Real, was implemented, and finally inflation started to be controlled and a stable foundation for economic growth was set. Itamar Franco was succeeded by Fernando Henrique Cardoso, his Finance Minister under whose guidance Plano Real was created. Fernando Henrique's first term was characterized by the continuation of inflation control and the launch of some relevant social programs.

Although re-election was not allowed then, changes were implemented to the Constitution in order to allow presidents to be re-elected. Fernando

Henrique was easily re-elected; however, his second term was tainted by accusations of maneuvering to approve the re-election legislation and an enormous electricity and power crisis. Accused of being too liberal, Fernando Henrique's candidate for succession was defeated by Luiz Inacio Lula da Silva. The early days of Lula were very complicated: there was a big devaluation of the Real, and characteristic of Lula's historical position as a union and workers' leader, a hard and strong speech against the private sector and the markets. However, to everybody's surprise, Lula integrated the business community into his government and maintained the gains from the economic stability created by his predecessors. Lula improved the existing social programs and increased their scope and reach; however, corruption scandals started to pop up which led to important changes in his government team, including the fall of Antonio Palocci his Finance Minister, who had been very well accepted by the business community. Lula succeeded in being re-elected but, during his second term, despite social progress and inclusion, corruption was still a major issue. This culminated in the fall of José Dirceu, one of the most visible members of the Workers' Party and a virtual candidate to replace Lula.

During Lula's terms, Brazil was elected to host the World Cup in 2014 and the Olympics in Rio in 2016. Lula nominated Dilma Roussef to succeed him and with a speech against the privatization of Petrobras and other state and mixed ownership companies as well as the maintenance of the social programs, she was elected. However, Dilma Roussef was not as savvy as Lula as a politician and has faced many different issues with Congress. Her government was still tainted by corruption issues and by a lack of dialogue with politicians and society. During her first term, a lot of attention was given to the World Cup preparation and the infrastructure legacy that such an event would entail. In mid–2013, Brazilians started protesting in the streets since a lot of funds were being invested in the World Cup while other critical areas, such as healthcare, security and education were neglected. Economic indicators were already deteriorating but, once again, Lula helped Dilma and she was re-elected in a very close election with Aécio Neves. This dispute really divided the country and Dilma took office under a cloud of suspicion related to another huge corruption scandal involving Petrobras, the largest Brazilian company and one of the top oil companies in the world. In September 2016, Dilma was impeached by Congress due to fiscal malpractice. Michel Temer, the Vice-president took office and inherited a country with high inflation and high unemployment rates. The dream of transforming Brazil into a developed economy and country was, once again, postponed: GDP hasn't grown since 2014 and was down 3.8 percent in 2015. FMI's projections indicated another contraction of almost 4 percent in 2016, followed by zero growth in 2017. Unemployment rates and inflation are on the rise. Since 2003, Brazil's economy has grown steadily at 5 percent per year (Brazil takes off, 2009) but recent years' results will delay development for some time.

Highly unequal income distribution is a critical challenge. Since 2003, the government's social policies have helped increase the minimum wage and boost retail sales, but these gains are at risk given the present economic outlook. Brazil has a predominantly urban population (81 percent live in urban areas) and a very young population with increasing disposable income. Additionally, the country has no ethnic or religion conflicts and its localization and relevance in Latin America represents a very attractive gate to the region. These characteristics still make Brazil a very up-and-coming market for foreign investors. The private sector and the government have both been encouraging foreign investment by expanding and restructuring various sectors. Brazil is consid-


▲ **FIGURE 2.1** The commercial zone of Saara, in the central region of Rio de Janeiro, Brazil. Stores sell nonbranded apparel, either from China or locally produced. These stores still dominate the market targeting new and growing lower classes of consumers.

ered a very promising economy and its internal market makes it very attractive and resilient as the recovery following the 2008/2009 crisis has demonstrated. The familiar quote says it all: “Brazil is the country of the future—and always will be.” It seems, however, that with many recent political and economic changes, the strengthening of the country’s democracy and an ideal customer base for retailers, the future seems to have finally arrived. Brazil is still an emerging and relevant market that has caught the attention of foreign retailers.

## RETAIL INDUSTRY IN BRAZIL: GIANTS AND DWARFS

Even with a large number of consolidations among retail businesses, small, independent outlets still dominate Brazil’s retail landscape. Modern retail formats such as hypermarkets, supermarkets, and shopping centers have expanded very quickly in recent years due to mergers, acquisitions, and foreign investment. Food retailing is by far the most developed retail segment in Brazil, and the French-Brazilian Grupo Pão de Açúcar, French-based Carrefour, and the U.S.-based Walmart dominate some Brazilian markets. However, in some capitals, and mainly in the interior of the country, small and medium independent players and retail networks are dominant.

In an August 2010 article, Sara Andrade, fashion editor of *Vogue Portugal*, wrote, “Unlike [in] Europe or the U.S., where there are many high-street options like Zara and Mango, in Brazil most brands fall into two extremes: They have very low-profile brands like C&A, where you can get things of rather low quality at a really cheap price and, on the other end, designer brands like Maria Bonita and smaller independent labels that offer good quality and design at a high price point.” Six years later, C&A is still in the market in Brazil, while Maria Bonita has closed all its stores. This example reflects the dynamics of retail apparel in Brazil.

Although multinational retailers, such as Timberland and Zara, serve the country’s richer consumers, few global retailers, except for C&A, compete in its mass market, which is served mainly by small and medium independent stores, and large local single-format retailers accounting for more than 60 percent of the country’s apparel sales (Artigas & Calicchio, 2007). “Brazil is the most attractive apparel market for reasons of demographics and demand: there is great potential for global apparel retailers,” says Hana Ben-Shabat, a partner with global management consulting company A.T. Kearney. It seems some global companies have discovered such potential: TopShop opened in Brazil in 2012, followed by GAP in 2013 and Forever 21 in 2014. Recently, TopShop has already ended its operations in the country alleging difficulties with taxes and exchange rates (Duarte, 2015).

With a per capita apparel consumption of US$210 per year, Brazilian consumers are extremely fond of shopping for clothes. The importance of individual identity among Brazilian consumers makes clothing retail an essential for them. Consumers are highly fashion conscious and celebrities tend to influence fashion trends in a country where more than 60 percent of the population is under the age of 39. Given income restrictions, Brazilian consumers look for good-quality products at the lowest possible prices, with credit playing a major role in the apparel market.

The apparel industry in Brazil is very competitive and has a significant number of local brands. The highly fragmented retail industry in Brazil provides an interesting opportunity for consolidation by retailers willing to understand and explore the idiosyncrasies of such a large and complex market ("Opportunities in Brazil," 2007). A study conducted by A.T. Kearney in 2009 ("Emerging markets," 2009) ranked Brazil as the most attractive market for apparel retailing. This ranking considers, among other factors, the size of the market as well as the country demographics and economic perspectives. The 2015 Global Retail Development Index from A.T. Kearney still presents Brazil as the eighth most attractive market for retailing despite its stagnant GDP growth with inflation on the rise and consumer confidence low.

Financial experts consider Brazil to be an extremely attractive market for retail expansion, and the most dynamic emerging market for the luxury retail sector. A better understanding of the Brazilian market requires an understanding of Brazilian consumers and the various formats in which the retail industry operates in Brazil.

## CONSUMERS: DIVERSITY AND COMPLEXITY

Brazil has a vast territory, a diverse culture, and nearly 205 million inhabitants. Although the common Portuguese language and an excellent communications system (in both TV and radio) have created some homogeneous tastes and behavior, local consumer habits are still very relevant. A closed economy and a low per capita income used to limit consumers' access to imported goods and brands, but the 1990s witnessed economic stabilization and inflation reduction. In the 2000s, the gross domestic product (GDP) started to grow at a low but steady rate, prices were reduced on some imported goods (through import-taxes reduction), and consumer credit became cheaper. As a result, the Brazilian middle class boomed.

Saving is not a common practice in Brazil. On the contrary, a substantial part of people's income is used to reduce debt. Financial institutions profit from anxious customers who may pay interest rates of 6.5 percent per month on average to own a new appliance or fashion apparel. Big retail stores use credit as a marketing tool to boost sales, and small ones need to offer credit services through credit card companies in order to compete.

Due to the presence of many informal businesses that do not pay taxes in total or partially, it is not easy to assess the Brazilian apparel industry, but Brazilian Textile and Apparel Industry Association (ABIT) reports that for 2015, 5.5 billion items were produced, there was a $36.2 billion revenue, and 1.5 million jobs, of which 75 percent are female in 33,000 formal companies. Unlike Asian countries, Brazil is not recognized as a cheap clothing exporter, and products such as Havianas (the rubber flip-flop) and Osklen (beachwear) are sold in all continents at premium prices.

Brazilians are living longer and the middle class is growing. The United Nations' *Centro Latinoamericano y Caribeño de Demografia* (CELADE) classifies Brazil as a country where the elderly population is increasing (ONU, 2008). In the 2000s, a 100 percent increase in the minimum wage and the acceleration of income-oriented social programs have reduced income inequality and given millions of consumers access to basic products for the first time. Those emerging consumers are not looking for exclusivity; they are looking for inclusion and belonging. As a result, several industries, including apparel, have had to increase production and reshape their product lines.

These new middle-class consumers have different preferences and priorities: sustainability issues, for instance, alter upper-class consumer behavior in many industries, but "the (emerging) C class [middle class] is not concerned about the environment, if they buy a low-energy-consumption home appliance, they are more concerned about their wallet, not the world," states Fabio Mariano, professor and partner of Insearch, a consulting firm which focuses on consumer behavior (Folha de Sao Paulo, 2010a).

Apparel stores in Brazil may benefit from the population's preference for similar fashions. Apart from designs and materials influenced by weather and cultural differences, a store in the northeastern region may carry a stock very similar to a store in the south, 2,000 miles away. Heloisa Omine, professor and former president of the Brazilian chapter of The Global Association for Marketing at Retail (POPAI), alerts her colleagues that "stores need to adapt to drag the attention of consumers from the emerging middle class, product displays must be accessible and enable self-service" (Portal Exame, 2010). Traditional regional apparel is usually restricted to special occasions.

Brazilian consumers' favorite place to buy apparel is the shopping center. In Brazil, in 2015, 19 percent of all retail revenue is through malls. This industry's revenue in 2015 was approximately US$50 billion, distributed among 549 malls, over 100,413 stores, with 1,056,055 employees (www.portaldoshopping.com/br/). For Brazilians, the shopping experience is a social event. Shopping does not necessarily mean buying, as a visit to the mall encompasses meeting people (and even flirting), going to the cinema, and sharing meals. In big and violent cities, malls are safe islands where middle-class parents can leave their children for some leisure time. Usually people go to the malls in small groups: family, couples, or with friends. But teenagers sometimes gather in parties of a dozen people or more, with no intention of buying. In many cities, small downtown shopping centers with a limited number of stores continue to thrive.

Through fashion, Brazilian people achieve group identity, social conformity, and distinction. Fashion is a means to show creativity and express sexuality (Mello et al., 2003). A 2007 survey (Garcia & Miranda, 2007) identified the following motivations among Brazilian shoppers:

- Communication. Even fashion denial is a way to reject society's standards.
- Integration. Fashion style denotes the group someone belongs to.
- Individuality. Clothing distinguishes members of a specific group.
- Self-esteem. Clothing reinforces the buyer's self-regard.
- Transformation. People dress to be different.

Brazilian consumers differ significantly from consumers in most developed and many emerging markets. Some important differences for foreign retailers interested in entering the Brazilian retail market to keep in mind are (Artigas & Calicchio, 2007):

- About 80 percent of Brazilian consumers are very fond of shopping for clothes and they look forward to it. The wear these clothes mainly for going out with family and friends.
- They are very fashion conscious, and local celebrities dictate fashion trends. Local retailers in Brazil offer local fashion trends in clothing to their consumers.

- Brazilian consumers like to have a full range of merchandise to choose from, even if they don't intend to buy the high-end products. They want to treat themselves occasionally.
- Consumers trust local brands. The current multinationals have established a local identity by using local models in their advertising campaigns.
- Brazilians are more comfortable using credit than consumers in other emerging markets.
- They are very brand loyal to the brands associated with designers.
- They have special fondness for cotton apparel such as denim and T-shirts.
- Foreign brands are associated with wealth.
- Brazilian consumers are addicted to promotions. They look for promotions with attractive credit offerings, such as installment payments. These promotions are year-round, not seasonal as in other countries.
- Brazilian consumers demand good customer service in the stores. They prefer being known by salespeople, and like being extended credit without any formalities.

▲ **FIGURE 2.2** Buzios, Brazil. People browse and window shop in a shopping arcade.

- They are known for comparison shopping. Brazilian consumers know the prices of twice as many products as consumers in other emerging markets. They visit several stores to compare prices before making a decision to buy.

### WOMEN

Through fashion, human beings demonstrate their basic desires and instincts, and most fashion activity is related to social integration (Garcia & Miranda, 2007). Brazilian women in particular express their personalities not only with clothes but also with accessories and jewelry. Fashion also may indicate social status, professional activity, and style (Leao et al., 2007). In Brazil, women generally have an important role in apparel buying by shopping alone, without other family members. Teenagers and young adults usually rely on friends and fashion trends for their shopping decisions (Rubens, 2003).

Since the mid–1980s, Brazilian women's participation in historically male-dominated professions such as law, medicine, and engineering has increased. Their new incomes combined with their fashion consciousness have created a huge market for women's clothing. This market grew considerably in the first decade of the twenty-first century.

Soap opera stars and other TV celebrities are a powerful influence on the fashion choices Brazilian women make. Many Brazilian women stay abreast of fashion trends by reading magazines such as *Vogue, Caras, Manequim,* or *Nova* (the Brazilian version of *Cosmopolitan*) and when they go shopping, they are not shy. Sônia Hess de Souza, former CEO of Dudalina, a Brazilian apparel manufacturer with stores in six different countries, observed that "(Brazilian) women do not buy a single shirt, they buy two or three at a time" (Folha de Sao Paulo, 2010b).

### MEN

Many Brazilian men don't own a suit, blazer, or jacket because they will never have the need to wear one. Casual business wear is the most common clothing worn by Brazilian men in both formal and social settings. Brazilian men dress casually in their tropical climate. In many places, a shirt and slacks are acceptable business attire.

There are signs that Brazilian men are increasingly concerned about personal aesthetics. For example, Brazil is the fifth-highest consumer of men's cosmetics in the world and the highest in Latin America. According to industry reports, men's cosmetics consumption is expected to grow by 9 percent in the Latin American region. Advertising and social expectations are changing the way men's cosmetic purchases are made. Instead of their wives, men are making these purchases for themselves. Most of these purchases are made in supermarkets.

### CHILDREN

Children's apparel accounts for 15 percent of the industry's market share (IEMI, 2015) in Brazil. The mother, who used to make all decisions regarding her children's apparel, is starting to share the process with their other parent and the children themselves. Clothing is an opportunity for children and their parents to express themselves and leads to social integration (Frederico & Robic, 2006). Buying behavior has four primary drivers when it comes to children's apparel:

- Product quality
- Point of sale (store)
- Appearance
- Fashion

Appearance and fashion affect both children and parents, but quality and shopping convenience mainly concerns parents. Brazilian retail and apparel brands devote significant advertising efforts to attracting children's attention, although there are several legal restrictions on advertising for children.

The children's clothing market has been growing at a steady pace in Brazil, generating revenue of US$6 billion in 2014. Small stores with sole proprietors dominate the children's wear market. The market does have a few large retail chains that account for a significant portion of the business. But a lack of brand loyalty in this sector leaves space for more retail chains in Brazil (Childrenswear in Brazil, 2009). An investor could very easily enter this sector through small-scale investment and healthy growth is attracting foreign retailers. However, entrants should study the market carefully to avoid issues experienced by companies such as Petit Bateau, DPAM and JC Penney (a tentative joint venture with Brazilian department store chain Lojas Renner). Unable to adjust their processes and products to local business practices, tastes, taxes, and income levels, these companies exited the market.

### THE ELDERLY

The number of people over 60 is significantly high in Brazil (Ibge, 2008). Increased life expectancy is such a recent change that the fashion industry has not yet responded with products or services, but changes are already visible in other industries, such as tourism and hospitality. The elderly have slightly different motivations from younger generations for buying apparel in Brazil (Slongo et al., 2009):

- Comfort
- Self-esteem and vanity
- Emotional security
- Fitness to age and physical conditions
- Self-expression

For the elderly, clothing is symbolic and socially important. Health concerns may also drive apparel choices, not only because of attendant constraints on finances and mobility constraints but also because health issues change people's motivation. Key elements that influence elderly people in their apparel-buying behavior are also different from young adults:

- Social group, friends, and family
- Fit to a special occasion or event
- Willingness to please someone
- Worries about their appearance and presentation

## THE BEAUTY INDUSTRY IN BRAZIL

Brazil's youth culture is obsessed with beauty and celebrity. The country has two salons for every bakery, making beauty seem more important than bread (Research, 2005). Brazil is the third major consumer of cosmetics in the world and represents 9.4 percent of the global consumption (ABIHPEC, 2015). The Brazilian beauty fair, Hair Brasil, has more than 500 exhibitors and nearly 148,000 visitors. Natura, a domestic cosmetic company, is one of the most successful brands in Brazil. They sell through direct sales (like Avon in the United States), and have more than 1.3 million representatives in Brazil.

### ▸*Beauty Industry and Women*

The average Brazilian woman devotes much of her time and money to her appearance. This behavior is not limited to wealthy people; even in poor income areas, including slums and shantytowns, beauty salons are easily found. An average middle-class Brazilian woman has a manicure at least once a week, usually along with another body or hair treatment. The majority (65 percent) of Brazilian women have either wavy or curly hair, and fashion dictates straight hair. Hence, there is a huge market for hair treatments. A single hair treatment in a luxury salon, for a bride for instance, can cost thousands of dollars.

Beauty products for black women, both services and cosmetics, represent another fast-growing market in Brazil. Several cosmetic lines have been released to fulfill the demand created by racial pride and consciousness. Beleza Natural (belezanatural.com.br) is a very interesting example of entrepreneurship focusing on the black women's market, particularly for haircare. From a humble start in a community in Rio de Janeiro, the company accounts for 40 stores dedicated to curly-haired people and has been the subject of one book and a case study from Harvard Business School. Other interesting examples are O Boticario, a Brazilian franchise, which offers beauty products through over 2,700 stores and is already present in 15 countries and L'Occitane au Brésil a branch from the French company that leverages Brazil's biodiversity in its offering and accounts for 70 stores across the country.

#### ▸*Beauty Industry and Men*

Previous generations linked pride in appearance to homosexual behavior. That attitude is gone. Men's health and beauty represents a promising new market. Men who until recently limited their grooming activities to a haircut and shave at the barber now have at their disposal professional treatments and dedicated salons, such as Garagem (http://www.garagemestetica.com.br/), a franchise with customers who spend 15 percent of their net income on beauty products or Barbearia Cavalera (https://www.facebook.com/Barbeariacavalera/). It is not hard to find men in beauty salons, taking care of their nails, beard or hair, or even in depilation sessions.

Young men in Brazil are leading important changes, and new beauty products for men have come into play. As men usually do not set aside as much time as women for their home beauty care, cosmetics for men are developed to consider not only gender and biological differences but also ease of application.

All of these factors make the beauty industry in Brazil a lucrative market for international investors.

### LUXURY RETAIL IN BRAZIL

Brazil's GDP expansion in the first decade of the 2000s created an affluent customer base, reducing income-distribution inequality to bring the country closer to international standards.

In general, Brazilians also spend more of their disposable income on fashion products than consumers in many other countries. Brazilians spend more money on designer clothing, luxury cars, and cruises than consumers from other nations. This hedonistic consumption is one of the main reasons so many international luxury retailers want to enter the Brazilian retail market.

Many foreign luxury retailers are entering the market on their own, but some are partnering with Brazilian companies, a smart move given the country's complexity in terms of income distribution, taxes, and logistics (Brazil: The Allure, 2009).

It seems that Joãosinho Trinta, producer of Brazil's most spectacular Carnival, was right when he said "only intellectuals like misery; what poor people go for is luxury." Luxury stores such as Tiffany & Co. and Louis Vuitton stores in São Paulo are among their most profitable. Lack of cash does not deter Brazilians from purchasing luxuries (A Better Today, 2009), however, the economic downturn in 2015 has affected all retail segments, including luxury goods.


▲ **FIGURE 2.3** A man walks past a showcase of Brazilian luxury store Daslu for men on sale at the high-class Cidade Jardim shopping center. Luxury shopping centers are expanding fast in Brazil and particularly in São Paulo. Cidade Jardim hosts Tiffany, Hermès, Chanel, and Furla stores.

São Paulo is not the only market for luxury products, and many other cities have emerged for luxury retailers to consider, such as Rio de Janeiro, Belo Horizonte, Campinas, Brasília, and Recife. One of the most significant barriers to the luxury retail market is the escalated price of products with high import and local taxes and duties. Many products cost twice or three times their retail prices in the United States.

## APPAREL RETAIL FORMATS: OLD AND NEW WITH A LOCAL TWIST

Similar to most emerging markets, Brazil has a wide range of retail formats, and Brazilian consumers tend to shop in many of them, regardless of their social or economic status. There are specialty retailers in urban markets, along with boutiques, discount stores, department stores, and street markets. Even as more organized retail formats enter the market, the unorganized sector is not affected much. Tax evasion and lean overheads may give traditional retail formats a relevant advantage in operating margins over organized modern retailers.

### TRADITIONAL RETAIL FORMATS

Some traditional retail formats are still common in Brazil. They create competition for some of the large format stores by undercutting them on prices and selling right on their doorstep. The traditional classification approach, through store and nonstore-based retail, can be used to classify retailing in Brazil.

#### ▸*Store-based Retail*

A physical store is the primary characteristic of store-based retail, which is further classified according to the following criteria.

**Specialized small stores:** Small and medium-sized family-owned businesses that are mainly located on city streets and in shopping centers. According to the Brazilian Development Bank (BNDES) this type of store is predominant in the Brazilian apparel retail market.

**Specialized retail network:** A network of stores controlled by a central headquarters with very little flexibility on price and promotion policies. Franchising is also an alternative to develop specialized retail networks. Such a network may be local, regional, or national and classified as small, medium,