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Global corporations adjust to new reality in Latin America

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The good times have stalled in Latin America. Or have they? It depends whom you talk to. For global companies, the current economic volatility could be an opportunity.

More than a decade of rising employment, wage rises and cheap credit spawned a new type of Latin American consumer — brand-savvy, digitised and hungry for innovation.

Big name global brands reaped the rewards, in the process triggering a shift in revenue power from North to South America. Coca-Cola is a case in point. As recently as 2005, its sales in Latin America were $8.6bn lower than in North America. Yet, according to Euromonitor, the research group, by 2014 they were $17bn higher.

Retail rise: sales at McDonald's doubled between 2005 and 2014 – ©Jenny Matthews/Alamy

Other groups experienced similarly rapid Latin American growth, while their sales stagnated in developed markets. Unilever, Nestlé, Procter & Gamble, Danone, PepsiCo, Kimberly-Clark, Colgate-Palmolive, Nike, L'Oréal, Samsung, Apple, Microsoft, McDonald's — all saw retail sales more than double (in US dollars in Latin America over the decade 2005-2014).

Flush with cash, a new generation wanted the latest gadgets, the coolest sneakers and the most luxurious shampoos. Latin America has become "extremely important", says Laurent Freixe, executive vice-president and head of the Americas at Nestlé, maker of Nescafé coffee and KitKat chocolate.

The region accounts for just under 9 per cent of the world's population but 15 per cent of Nestlé's sales. And that share has been climbing year-on-year.

"The commodity boom and the expansion related to it was a very good time for Latin American society. Now, it's a bit more difficult," says Mr Freixe.

Latin American brands: Top 50

It is difficult primarily because of the strain on spending power in Brazil — by far the region's biggest market. But as the country faces its worst recession in a quarter of a century, how difficult will things become?

Brazilians have a reputation as spenders more than savers. It is a throwback in part to the high inflation of the 1980s and 1990s, when households did all their monthly shopping in one go, the moment pay cheques arrived.

Marcel Motta, a São Paulo-based analyst for Euromonitor sees signs of a come back for one-stop "planned" shopping. "The problem is it leaves very little room for impulse buying, so manufacturers are having to adjust to this new reality in the stores."

Mr Freixe accepts that Brazilians will tighten their belts, but he believes that the main impact will be on big-ticket items such as cars, fridges and holidays.

For Nestlé, he sees the crisis in Brazil as a chance to bolster market share. "While some players will be reducing investments, we will continue to invest significantly. So this is certainly a time of opportunity."

Consumer expectations have ramped up in Latin America over the past two decades, and companies have had to work their brands much harder to obtain results. It will be harder still in a downturn, as they have to find ways of making their products more affordable, but without undermining brand image or putting too much strain on margins.

"We want to offer options so that the consumer can trade up or down"

- Laurent Freixe

The big groups are experts at it. Unilever will push its economy shampoos and washing powders, Gillette will raise the visibility of smaller size packs of razors. Coca-Cola will increase the penetration of cheaper returnable bottles.

Mr Freixe says: "You will find Nescafé being offered in any format from 2 grams to 200 grams or more. We want to offer options so that the consumer can trade up or down."

And that, perhaps, is the key. Latin America's new consumer class is not going to retreat into the informal sectors of the past. It will continue to shop in the malls, supermarkets and convenience stores that have come to define shopping culture in the region. The difference now is that consumers will demand familiar brands at accessible prices.

Euromonitor’s Mr Motta says: “The demand is not going to go away. Brazil still has 200m people, and a very westernised consumer base that will try anything. The only thing holding it back is income. So, it’s a matter of getting through the down cycle.”
But not everyone agrees. Some believe that the problems in Latin America run deeper. “Brazil is a tough environment, not because of the economy but because of corruption,” says Wim-Hein Pals, head of emerging market equities at Robeco, an asset management firm.
“It’s a structural theme in Latin America, more than in other parts of the world, and a long-term headwind for global corporates.”.
Brazilians have been out in force this year, protesting against allegations of corruption at Petrobras, the state controlled oil company, where dozens of politicians are suspected of involvement in a multibillion-dollar bribery scandal.
Thanks to high profile cases such as this, Mr Pals believes Brazil will continue to lose influence with investors. And companies should probably take heed.

National identity: Losing it can be commercial suicide — even if the company is foreign owned

Image conscious: YPF rebranded
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National identity is a common thread among the region's top selling brands.
Take Argentina's oil company YPF. The government renationalised it in 2012, ousting the Spanish group Repsol. In its subsequent rebranding, a small Argentine flag was placed in the top left of its logo. The aim, unashamedly, is to project the image that YPF is more Argentine now than it was before.
"To be successful in Latin America, the big national brands have to catch the mood of society in any given period.
"They have to come up with new products and advertisements all the time, while retaining the DNA of their tradition and heritage", says Guillermo Oliveto, director of the W consultancy (and author of *Argenchip*, a book about Argentine consumer culture).
A Quilmes beer commercial running in Argentina does just that. It features a young man waiting for a job interview. He has no work experience, but he does have "street cred". He speaks Portuguese, French and Japanese by mashing them with Spanish. And he's a good guy. He looks after his granddad, helps his neighbour. You get the idea.
He lands the job and celebrates with a Quilmes, but has to borrow the cash because his first pay cheque is not due for another month. It has been a hit, because the character's predicament resonates in a country where youth unemployment is about 20 per cent but aspiration is still high.
"Quilmes has a knack of tapping into what makes an Argentine 'Argentine'," says Gustavo Koniszcer, Latin American director of FutureBrands, a consultancy.
The irony is that Quilmes, for the past decade, has been owned by Anheuser-Busch InBev, a Belgium-Brazilian brewer that also owns some of Latin America's other biggest beer brands, including Skol, Corona and Brahma.
"If Quilmes lost its Argentine-ness, it would be brand suicide. It's in foreign hands but it has to keep reflecting national attributes", says Mr Koniszcer.
Brands that do not have much heritage to shout about, yet are fast becoming key influencers in Latin America, are Google and Facebook. What they have in common with the national brands, though, is their cultural relevance. Indeed, without having to adapt to fit Latin American society the likes of Facebook inherently tap into what underpins it.
"Latin Americans like to be together, to talk, to meet with friends — and social media brands play into that", says Mr Oliveto. Social media brands are set to install themselves much more in Latin America over the next five years, carrying communication providers like Telcel and Telmex along with them.
Their rise will also put pressure on the current stock of billion dollar brands, which will have to align with a new world of hyperconnectivity to maintain their status.

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