Limited home markets force companies further afield

Expansion

Portuguese-speaking states offer room for growth in a broader international strategy, says *Richard Lapper*

In the departure lounges at Lisbon airport, international brands such as Heineken, Lacoste and Vodafone face competition for passengers' attention from an unexpected source.

Bright purple, yellow and scarlet hoardings for Blue, Angola's largest soft drinks manufacturer, await travellers making their way towards their flights. A trolley containing a selection of trendy sunglasses and watches by Chilli Beans, a Brazilian design company, is another last minute distraction.

Both companies see their presence in the Portuguese capital as part of a drive to expand beyond their limited home markets. And, in both cases, the attractions of the widening Portuguese-speaking market is the first step in a broader international strategy.

Some 250m people live in Brazil, Portugal and Portugal's former African and Asian colonies. And growing numbers of these Portuguese speakers have become active consumers in the past 15 years. Higher wages, social welfare, more widely available credit and — until recently at least — falling unemployment have allowed millions of Brazilians to buy the kind of affordable luxury items made by São Paulo-based Chilli Beans.

Since the end of Angola's civil war in 2002, markets for consumer goods such as the tropical fruit flavoured soft drinks made by Blue have increased at a rapid pace. Portugal's smaller but more sophisticated consumer markets are an obvious first step for businesses from either country looking to diversify.

At the same time, for Portuguese companies faced with slumping demand at home since the onset of the euro crisis half a dozen years ago, Brazil, Angola and Mozambique are a logical area to expand.

"The Portuguese-speaking market has become a lot larger and it can be a platform for global brands," says Rui Gomes Araújo, a Portuguese marketing specialist.

Cultural affinities — as well as economic logic — underpin the potential attractions. Brazilian soap operas are popular in Portugal, Angola and Mozambique. Angolans use their satellite dishes to watch Brazilian championship matches, rather than the English games popular elsewhere in Africa. And Angolan traders travel regularly to São Paulo to buy cheap clothes that they sell on market stalls in Luanda.

> 'The Portuguese-speaking market . . . can be a platform for global brands'

Existing trade patterns suggest there is potential in areas such as foods and cosmetics. Portugal's Gallo is Brazil's most popular brand of olive oil, for example. Portuguese wines also sell well in Brazil, while Brazil's big cosmetics companies such as O Boticário have made their first ventures abroad in Angola and Portugal. The problem is that Brazil so overshadows other Portuguese speaking markets that it limits potential for their lusophonic products in the mass market.

Although Brazil's consumer goods companies have built up strong local brands, market dynamics leave the bulk of them heavily focused on opportunities at home. For example, Hypermarcas, a local conglomerate frequently compared with Procter & Gamble (P&G), is a leader in sectors ranging from cold remedies and condoms to nail varnish and shampoo. But it has had its work cut out to defend domestic market share in the face of fierce competition from international rivals such as P&G and Unilever.

Businesses seeking to grow organically find that Brazil's less developed north, north-east and centre west regions offers ample opportunities. Expansion abroad has tended to focus on the developed markets of Europe and North America.

Havaianas, the flip-flop sandal made by Alpargatas and one of Brazil's most successful exports, opened its first overseas stores in New York, Paris, London and Rome. Brahma, a Brazilian beer that is gaining an international profile seems to be doing so by virtue of the marketing clout of AB InBev, formed through the successive integration first of Ambev with Belgium's Interbrew and then the takeover of Anheuser Busch.

For these reasons, Mr Gomes Araújo thinks the best opportunities are in the luxury sector. Clients of the IMPERIVM consultancy — of which he is president — range from Pinhais, a Portuguese upmarket brand of canned sardines, to Granado, a Brazilian cosmetics company, and Chocolate Q, a high-end chocolate maker from Rio de Janeiro which opened its first Lisbon outlet in May.

All tend to put a big emphasis on quality rather than quantity. Chocolate Q, for example, makes high cocoa content chocolate from forasteiro beans carefully grown on the group's own plantation in the Brazilian state of Bahia.

Mr Gomes Araújo says: "The global market is really demanding, but we think it is worthwhile betting on products that have a real link with the land and its history."

Slowdown hits spending power

continued from page 1

Many Brazilians still put a priority on upmarket shampoos, face creams and other personal care items and cosmetics, but recent research by FT Confidential showed that economy brands have been doing well this year.

Brands doing well in its most recent survey include Bic of France's cheap disposable razors and Risque, a mainstream nail varnish made by Hypermarcas, a Brazilian consumer group known for its slick marketing campaigns.

This trend has also been very clear in the electronics sector, where the upmarket mobile phones, tablets and laptops of international manufacturers such as Apple and Samsung are still hugely popular, but less so than in recent years.

Latin Americans remain big fans of the smartphone and enthusiastic participants in social media but they are less likely to splash out on the most expensive equipment.

In June 2015, only 41.8 per cent of the 1,500 Brazilian respondents in the Confidential survey said they intended to buy an Apple or Samsung tablet over the next six months. When the survey was first conducted in December 2012, 59.7 per cent of respondents said they planned to do so.

The Millward Brown BrandZ survey, part of the broader group's global survey, illustrates more general points.

First, Latin American brands are relatively small compared with the largest global brands. None of the leading Latin American brands is big enough to figure in Millward Brown's table of the top 100 global brands. Skol's brand value is estimated at $8.5bn in the research. By contrast, Scotiabank, the 100th largest global brand, is judged to be worth $11.04bn.

19% The portion of people who think price is important when buying food

$8.5bn The brand value of Skol, Brazil's most popular beer

Second, some of the most successful brands in the Latin American table are only partly Latin American. Ambev is part of the giant AB InBev combine, formed first by the 2004 merger of Belgium's Interbrew and Brazil's Ambev into InBev and then by Inbev's 2008 takeover of Anheuser-Busch of the US. Aguila, the Colombian beer brand judged ninth most valuable, is owned by another drinks giant, SABMiller.

Third, with the partial exception of beers, Latin American brands remain locally or regionally focused. Bradesco (number four in the Millward survey) and Itaú (number seven), Brazil's two biggest banks, are minor players outside their home country. Retailers such as Chile's Falabella (number five) have extended their business abroad but only into relatively small regional markets such as Colombia and Peru.

In the telecoms sector Mexico's Telcel and Telmex are ranked third and 11th, but largely by virtue of their dominance of the highly concentrated local market. The same is true in the media sector of Televisa, the media company.

Experience suggests caution is advisable in assessing the global potential of Latin American brands. Brazil's Petrobras, the state controlled oil company that was judged the most valuable Latin American brand in 2012, has dropped out of the regional top 50.

Traditional outlets lose out as the mall becomes king

Shopping Global retailers are stepping up their exposure, write *Lucinda Elliott* and *Andres Schipani*

Brand power: Centro Andino mall attracts high-end and fast fashion clothes retailers

Centro Andino shopping centre in Colombia's capital Bogotá is brimming with brands. Switzerland's Nespresso, maker of coffee shot capsules, sits comfortably alongside both high-end and fast fashion clothes retailers, from Italy's Dolce & Gabbana to the UK's Burberry.

The mall — which opened in the 1990s — is now full, so international retailers are choosing to plant themselves outside the legendary building just to be associated with those who have made it inside.

Poor urban planning and high levels of crime in many Latin American cities have meant the shopping mall, rather than the traditional high street, is leading the way for global fashion brands to step up their exposure in the region.

"Destination malls", such as Andino, are prime places to home in on target consumers, unlike downtown shopping areas overseas such as New York's Fifth Avenue and Paris' Champs-Élysées.

With more than 1,800 malls across Latin America and a further 150 under construction, choosing the right spot is crucial.

For Inditex Group, the world's largest clothing retailer, with 178 of its flagship Zara stores dotted across 16 countries in South and Central America, opening an outlet next to the Andino Mall in Colombia was an important decision.

"So far in 2015, we've opened 15 stores in Latin America under the Inditex family — most of them in malls," says a representative. "We plan to open more than 30 shops by the end of this year."

American Eagle Outfitters and Gap, both of the US, are following suit, aggressively moving south beyond the US and Mexico to Chile, Colombia and Peru to compensate for sluggish sales growth at home. Colombia is certainly in the vanguard of a regional shopping mall trend.

Of six Latin American markets surveyed by FT Confidential Research last year, 73.2 per cent of Colombians visited malls to shop for clothes compared with a regional average of 66.4 per cent.

"For us, being in Centro Andino sends the correct message to our clients," says Rodolfo Chiari, who runs Mac Center, one of the region's premium resellers of Apple technology products. "It houses the top names under one roof, unmatched by other shopping malls in Colombia, or even Latin America."

Moreover, these international corporations have good negotiating power inside the shopping centres, says Jorge Lizan, managing director of Lizan Retail Advisors, a consultancy. Especially if they have a string of brands they can bring with them.

His company helps foreign names enter the Latin American market and he has noticed a trend of big groups paying lower rents than local names that tend to have a smaller customer base.

"Latin American shoppers are very demanding today and are increasingly endorsing global brands as they travel more widely and want access to different products," he says. "[And] the developers are doing what the customers want, supporting the big brands and bringing them to their malls."

But foreign companies cannot ignore the regional retail downturn. Latin American currencies have fallen hard and fast this year against the US dollar. Consumer confidence and retail sales have already taken a significant hit.

In the region's largest economy, Brazil, which boasts the highest number of shopping malls per capita, retail sales in real terms fell 2.7 per cent year-on-year in June, but for clothing and footwear that figure was even higher, dropping 4.6 per cent compared with the same period in 2014.

Ghosts of lost shoppers are starting to haunt a number of second and third tier Brazilian cities. Itapecerica da Serra, about 20 miles south-west of São Paulo and home to some 165,000 people, is one example. As unemployment rises (up 2.2 per cent already this year) and inflation bites, lower income families from the satellite town who are not in the habit of spending the day at the mall, no longer have the purchasing power shopping centre developers anticipated.

> 'Developers [are] supporting the big brands and bringing them to their malls'

More than 130 malls have opened in Brazil since 2010, and about half are outside big metropolitan areas, says the Brazilian unit of Cushman & Wakefield, a commercial real estate consultant.

However, there is a strong conviction that the secular change among Latin American shoppers will ride out the cyclical downturn. Much like the central squares or plazas of Hispanic towns, malls or "lifestyle centres" are becoming the centres for social gathering.

They are more than just traditional retail outlets with a food court — they also offer play areas for children, art galleries, banks and even indoor parks and office blocks. Shoppers are therefore encouraged to spend time in the mall beyond making purchases and the long-term trend for malls is positive.

"The minute they've got a bit of money to spend, the mall will be where they'll choose to part with their cash because that's where they're spending time," says Alexis Frick, research analyst at Euromonitor International based in São Paulo.

Andrea Abrams from Time Retail Partners in New York adds: "Today is about getting the right merchandise and weathering the storm."

Coffee co-operative puts its faith in Juan Valdez figure

Marketing

The advertising icon has served Colombian growers well over the years, reports *Andres Schipani*

Almost a decade ago, some 400 moustachioed candidates sporting leather bags, ponchos and cowboy hats appeared on a misty hillside of Colombia. For some 500,000 coffee growers in one of the world's top producers of Arabica beans, it was a moment of high symbolism.

After all, they were electing the new Juan Valdez, the fictional coffee farmer who has embodied Colombia's coffee in its advertisements since 1959.

He is one of advertising's most successful fictional characters, created by Doyle Dane Bernbach, now known as DDB Worldwide, on Madison Avenue.

The winning candidate, Carlos Castañeda — unlike his two predecessors who were both actors — is a real coffee grower. During the past nine years, he and his mule Conchita have toured the world as the face of a global marketing campaign, first launched to educate the US about Colombian coffee.

Procafecol, the holding company for the Juan Valdez Café brand, is 84 per cent owned by the Colombian Coffee Growers Federation, which started in 1927. Moreover, more than 18,000 coffee farmers are now direct shareholders, owning 4 per cent of the brand, with the International Finance Corporation holding another 12 per cent.

Hernán Méndez, chief executive officer of Procafecol, says: "We aim at a consumer who recognises that our brand is a premium coffee that directly benefits Colombia's coffee producers."

Procafecol not only buys its coffee from members of the federation but also pays royalties to Colombia's National Coffee Fund. Mr Méndez says the company has poured some $22m into the fund to help with social ventures in coffee-growing regions as well as research and development on coffee beans.

Promotional tour: Coffee grower Carlos Castañeda as Juan Valdez

Juan Valdez Café now has more than 320 stores worldwide, from Colombia and other parts of Latin America to Malaysia, but for a time, it was touch and go. Procafecol started in 2002 after coffee experts, officials and the government gathered to devise a plan to cushion the effects of plunging prices. It was a radical move from having a decades-long strategy focused on the coffee itself — with Juan Valdez within the triangular logo of Café de Colombia — to making him the focus of a coffee chain consumer brand.

Mr Méndez says: "Given the popularity coffee shops were enjoying around the world, one of the recommendations was to try that business model, taking advantage of the Juan Valdez icon, which was already highly valued and recognised."

But the initial aggressive move into global markets backfired. The company expanded rapidly, opening more than 100 stores in Colombia, Spain and the US. These included two flagships in very high-end locations — Times Square in New York and Serrano Avenue in Madrid — which dug a hole in the company's budget. Procafecol was then forced to retreat.

After closing shops and cutting costs, Cornell-educated Mr Méndez took the company's reins in 2010. Two years later, Procafecol produced its first profit in a decade — albeit a meagre $775,000 — after reaching sales of $67m.

Although the company still owns its Colombian locations, and a handful overseas, it has mainly moved to a franchise model to avoid committing capital in advance. It is still cashing in a percentage of sales while ensuring that its partners — such as retailer Falabella in Chile — buy their coffee from Colombia's coffee federation.

Even with Starbucks' arrival in Colombia last year and a slowdown in Latin America's expanding economies, where the Juan Valdez brand now has a strong presence, the strategy is yielding results. Sales have grown from $74m in 2013 to $85m in 2014. In the first half of 2015, the company made $37.6m in sales. That was a 25 per cent increase over the same period the previous year.

"It is hard not to associate good quality coffee with the name and the image of Juan Valdez," says Mr Méndez.

"After all these years in the spotlight, and millions poured into marketing, he is the one who deserves the credit."

Contributors

Richard Lapper
Rob Walker
FT contributors

John Paul Rathbone
Latin America editor

Jude Webber
Mexico correspondent

Lucinda Elliott
FT Confidential Research

Andres Schipani
Andes correspondent

Amy Stillman
FT contributor

Aban Contractor
Commissioning editor
Steven Bird
Designer
Andy Mears
Picture editor