CHAPTER – 6

DOING BUSINESS WITH THE NEW LATIN CONSUMERS

Firms in Latin American consumer markets are being challenged to re-think strategies crafted for expansion and the liberalising market conditions of the 1990s. The first challenge is to deliver a more compelling value proposition that meets the present economic realities. The second challenge is to build new growth platform in the midst of much decreased consumption. In short term, the goal for any firm in Latin America is to sustain revenues and protect market share and to be among the market leaders that will survive the shakeout.

We need to identify the key strategic areas that firms should focus on, in developing a robust strategy for Latin American consumer markets in the future.

Enduring recession and economic volatility have changed Latin American consumption and shopping patterns. Increasingly, Latin American consumers are seeking better values that meet realistic expectations. Price has become an increasing determinant of choice only to the extent that value is not compromised. Strategies based on price differentiation alone no longer respond to Latin American consumer value priorities. Latin American consumers’ shopping strategies today blur the socio economic classes. Shopping at hard discount and self-service stores for the best value–to–price offerings, just as high-scale shopping environment attract consumers from all segments seeking self-gratification. Shopping Centers and convenience stores have become the down centers of the 21st Century. With the increased choice of products and brands and access to internets, Latin American consumers are becoming more informed and smarter in their choices.

The challenge for firms is to find a value proposition that fits the rapidly changing consumption strategies in Latin America. Once the firm succeeds in finding the right value proposition, the next challenge is to develop a marketing platform that delivers such value at reasonable costs. Building strong brands is at the core of the marketing platform. In searching for the right value, Latin American consumers are
experimenting the new options and finding that price is not necessarily an indicator of superior and consistent value. Local brands have closed the gap of quality and efficiency with global brands.

In some consumer categories local brands have become the epitome of admiration and expression of local culture. Integrators and specialists in consumer markets are vying to conquer the new Latin American consumer. With the highly focused strategy, specialists claim to have superior value and a more intimate relationship with consumer. Integrators base their strategies on the ability to provide the range of products and services under one brand.

What do Latin American consumers value most? Will integrators or specialists emerge as strong players in the shake out?

In changing times, consumer value in Latin America is a moving target because consumers are constantly learning effective strategies to cope with money and time limitations. To grasp the emergence of the new consumer value in Latin America, key components are to be explored.

REALISM AND CYNICISM

Latin American consumers are increasingly translating their sensitivity to social issues such as globalisation, financial crises, and corruption into consumption decisions. The novelty of globalisation vanished with the commoditisation of the consumption experience as global brands became more accessible. Increased visibility of corruption as a social issue has also influenced consumer cynicism, especially in younger segments. In this process, there is increasing interest in the past and in local identity. In general, consumers are more skeptical of marketing claims, global brands have a hard time connecting with more disenfranchised market segments, and consumers rely more on retailers for information.
THE PRICE IMPERITIVE

Low prices are essential to remain competitive, but price alone is no longer an overriding factor to win consumer patronage. The consumer prices have been falling across the region for several years since the peaks of 1998. In most countries, single-digit inflation has been the norms for several years. As prices of all competing brands come down, price ceases to be a differentiating factor. Firms have to decide whether it is better to discount a premium brand or introduced reformulated or new products at lower prices.

SELECTIVITY

Latin American consumers are re-locating their shrinking consumer budgets. Non-essential purchases are postponed and essential goods are prioritised. Two examples illustrate the drastic changes of consumption strategies in recent times. The market for cars has shrunk 40% in Argentina, but Refrigerator sales are up. Consumption of basic personal care categories are down, but consumption of all-purpose cleaning products are up. The implication for firms is that consumer selectivity will create windows of opportunity for some and disappearing markets for others.

STRETCHING THE BUDGET

An important goal for Latin American consumer value in uncertain times is getting the most from the limited resources of time and effort. For example, the increased use of the multiple purpose products such as cleaning liquids for multiple uses in the houses, in the large family economy size, is one way of stretching the budget. Time is also scarce because of increased work commitments and their impact on family life styles. The increased popularity of food mart stores in gas station is one example of how consumers respond to these pressures. Convenience stores offer basic necessities and the range of services such as prepared foods, Automated Teller Machines (ATMs), mail, and internet kiosk. Latin American consumers are also increasingly favouring hard discount stores as part of this strategy of stretching the budget.
INCREASED AWARENESS OF HEALTH AND ENVIRONMENT

A shift to more healthy diets and a concern for environment is part of a global trend but has intensified in Latin America with the crises. The main drivers for health awareness are increased and increased health costs resulting from less public service benefits. A shift to healthier consumption can offset higher health costs. This shift is not a prerogative of more affluent classes alone; diet and health concern are shared by all socio economic classes. The demand for health products is on the increase. Consumption of bottled water is up and that carbonated soft beverages are down. As large consumer companies are slow to react to this trend, the opportunity provides small national and regional specialist a quick entry and expansion opportunities in this markets niche.

LATIN CONSUMER VALUE

We see the emerging Latin American consumer value in terms of four dimensions. The first is the economic value. In this dimension, consumers are searching for all in one solution, convenience, and functionality that meet their budgets. The second dimension is self-gratification and feeling well in the midst of pessimism. Latin American consumers are looking for a light of hope and welfare. They are concerned increasingly with their personal health and turning to simple, immediate, and more realistic gratifications. The third dimension of the consumer value is belongingness. Today, Latin American consumers are turning to local values and icons. They look to the past for nostalgic inspiration, as the future seems so uncertain. The final dimension is honesty and transparency. As part of a social shift toward more transparency in society, Latin American consumers are demanding honesty and more transparency in commercial transaction. Any claim or practice that seems exaggerated will only erode consumer trust.

Strategies for Latin American consumer markets need to integrate several dimensions of consumer value. Firms that focus on only one dimension such as price are doomed to fail. The proper mix of these dimensions depends on the culture and degree of demographic transformation of different countries in Latin America. Some of the dimensions of Latin American consumer value may be more important in some countries and less in others. The right consumer value in Brazil, for instance, should stress the belonging value, an intrinsic part of the Brazilian culture. Thus, a key element of market strategies in Brazil should be
based on intense use of customer service and personalisation strategies. Given that the deep economic recession makes economic value an overriding factor in Argentina, effective strategies may economise on customer service and pass the savings to the customer.

Mexican consumers place the high value on shopping time given Mexico’s robust economy until recently. Consumer market strategies in Mexico should stress the value of one-stop-shopping, whether for financial services or groceries.³

CONSUMER PROFILE – LATIN AMERICA

Latin America is ethnically a mix of Europeans (mainly from Spain and Portugal) with local Indian population and the Africans. The following information on the consumers of Latin America is worthwhile noting from the business point of view:

- Spanish is spoken throughout Latin America except Brazil where Portuguese is the language.

- Latin America has a warm tropical climate except for Argentina and Chile which have winter months.

- Average life expectancy ranges from 62 years to 76 years.

- The population of Latin America is aging rapidly and by 2015, Latin markets will resemble those of the developed world.

- Brazil has the largest population of African origin in the Western Hemisphere, including USA.

- Sao Paulo State has the largest number of Japanese population (over one million) outside Japan. These had migrated in the beginning of the 20th century to work in coffee plantations and have now become professionals and farmers.
- Sao Paulo has more Italians than Rome and Milan put together.

- People of Lebanese origin are a significant force in business in most of the Latin American countries.

- People of German origin dominate the knitwear industry based in Florianopolis, Bluemenau and Joinville in southern Brazil.

- Television is the principal source of entertainment in Latin America. The average Latin American household watches about five hours of TV every day. Film industry is very limited. Mostly Hollywood films are shown in Cinema Halls.

- According to a survey in 17 large cities of Latin America, the average Latin American household expenditure is USD161 per month.

- Latin American consumers derive a great deal of satisfaction from shopping. A trip to a shopping mall means social interaction and entertainment, besides purchases.

- 75 percent of Latin American population lives in cities. There are 52 cities with population over one million inhabitants. Brazil alone has 13 cities with over one million populations each.

- While Soccer is the mania of Latin America, baseball is the number one sport in Venezuela, Cuba and Dominican Republic.

- Accordingly to a study, Private Consumption Expenditure (PCE) is USD1.2 billion, which represents 25% of European PCE and 18% of North American PCE.

- Household buying power in Latin America reached a total of USD1.3 trillion in 2000. The total number of households is 121 million.

- The buying power of consumers has increased with the decrease in rate of inflation. The banks have started offering more credit to more consumers for purchase of durable goods.
• Close to 70% of Latin American buying power is concentrated in 10 metropolitan cities.

• Among the urban markets, average household income (upper class) is the highest in Mexico City - USD31000 and Caracas – USD28210.

• According to a survey of the top-six countries of Latin America, 24.6% of the households are headed by females. In the case of Colombia, it is 31%.

• The percentage of women in labour force in Latin America is an average of 33%.

• The level of intake of dairy products and meat in Latin America is much higher than in USA.

• Venezuela has one of the highest per capita consumption of Top Branded Whisky, Cosmetics etc.

• During times of crisis, the Latin Americans tend to spend more on clothes and cosmetic products for better appearance.

• The disparity in income between the rich and poor is the highest in Latin America. A small percentage of people account for a large percentage of wealth of Latin America. For example, 5.3% of the urban households in Venezuela account for 40% of the total urban buying power. While the middle class is expanding slowly, there is a large percentage of poor people who live in slums.

• The Indian exporters should keep these segments of the population in mind while choosing the mix of styles and prices for marketing in Latin America.