CHAPTER – 7

POSITIONING TO MEET CONSUMER VALUE IN LATIN AMERICA

THE CONVENTIONAL APPROACH

A dramatic realignment of consumer expectations challenges conventional strategy approaches based on socioeconomic segmentations. The traditional view was based on the assumption that markets first develop in affluent segments and trickle down to the masses over time. Under this approach, the market offerings that integrate product, service, promotion, and channel strategies were differentiated for affluent and popular segments. Take, for instance, Whirlpool’s approach to market Refrigerators and washing machines in Argentina: In this market, the firm targets the more affluent families in the ABC1 socioeconomic classes under the Whirlpool brand name. The firm uses the Eslabon de Lujo brand, a basic and affordable appliance, to target the C2 and C3 socioeconomic segments. Both brands are manufactured in Argentina. The company has plans to segment the market even further and introduce a low-priced kerosene-powered refrigerator for rural families not connected to power lines.

The conventional approach worked well for some time, when socioeconomic segments were stable and differentiated and when the competitive challenge came mostly from local firms. However, economic hardships and volatility have blurred socioeconomic class distinctions in many consumer categories. Another factor that challenges the conventional approach is the pressure on premium brand products. As consumers become more realistic in their expectations, they are constantly re-evaluating the price value ratio of alternate product choices. Recent studies of younger consumers in Latin America show a more pragmatic, elusive, less committed and distrustful consumer. In addition, local competitors are closing the performance gap in quality with global brands. Furthermore, discount stores and supermarkets have been very successful in positioning their private brands at substantial discounts from premium brands.
AN EMERGING APPROACH:

CONVERGENCE TO THE CENTER

Two strategies appear to be promising in delivering the best consumer value in today’s environment.

The first strategy is to aim at the middle mass market with the best consumer value in the market place. The goal of this strategy is to attract consumers from affluent markets (ABC1) pressured by economic factors, consumers from the embattled middle class (C2 and C3), and upgraded consumers from the popular segment (D) with the best value-to-price offering. Offering the best market value to consumers in a diverse market is a challenge. A key factor of this strategy is to integrate all the dimensions of consumers value discussed above under a single brand offering. In essence, the firm becomes an integrator of services and aggregator of market segments.

Another factor of the strategy is not to compromise on quality. The firms should aspire to offer world-class quality in the local market.

Mexico’s Telmex is an example of the integrator strategy. Only a fraction of Mexican families had access to the internet, due to the low level of computer penetration in Mexico. After acquiring the Prodigy Internet service provider (ISP) in1998, Telmex decided to target the low end of the market to increase computer penetration to build a market base for Prodigy in Mexico. With the prospect of other ISP providers entering the Mexican market, Telmex had to leverage its incumbent advantage to quickly build a customer base for Prodigy. Instead of subscribing to the traditional approach of a trickle-down of computer penetration from affluent to more popular classes, Telmex used a quick market aggregation approach. Telmex offered a consumer credit program to help Mexican consumers buy computers manufactured by Acer, Compaq, IBM, or Hewlett-Packard with the embedded Prodigy ISP. Under this program, Mexican buyers paid USD40 per month toward the computer, with unlimited access to the Internet to the Prodigy.

A key factor of this strategy was to offer a range of options that incorporated the most advanced computer technology available at the time. By offering the best technology, the offer was attractive not only to low-end users but also to high-end users. In the first year of
the program, Prodigy acquired 220,000 new subscribers, mostly from the low end. The offer attracted customers who could not afford to buy a computer. Prodigy customers who were Telmex customers of wired and wireless services were able to integrate all services in a single Internet interface. For low-income Mexican families, Telmex delivered the best of the twenty-first century in one package. Telmex training programs nation-wide helped educate these families on the use of new powerful technologies. The Telmex example shows the market power of integrating product and services to offer a compelling value to customers from all socio economic segments. In 2000, Prodigy boasted 635,000 customers in Mexico, claiming 50% of the market.

The second strategy is that of the specialists. At the high end, premium specialists base their strategies on redefining the notion of premium. After a decade of open market competition, the concept of premium has been commoditised. Competitor’s offerings are easily imitated, and consumers expect that companies will provide the same level of quality and service as anyone else. In response to this pressure, many companies have introduced boutique-type strategies that deliver value added services and personalisation. These operations are in many cases spin-offs from mainstream operations and delivered under another brand name. BancoItau’s Personnalite business combines personalised service, financial service, financial advice, specialized investment products, and a network of exclusive branches in Brazil. Since its introduction in 1999, BancoItau has attracted 12000 new customers. New market competitors are also changing the definition of premium products and services. France’s Louis Vuitton Moet Hennessy (LVMH) is redefining what is upscale in accessory, clothing, and cosmetics in Latin America. LVMH opened its first Latin American global retail store in Sao Paulo in 1999. In a single location LVMH offers an assortment of leather goods, champagne, and cognac, perfumes, cosmetics, watches, and jewelry with luxurious brand names that include Dom Perignon, Hennessy, Louis Vuitton, and Christian Dior. With the initial success of the first store, LVMH opened a second store in Sao Paulo and others in Rio de Janeiro and Brasilia. The next stop for LVMH is Mexico City. Other upscale retailers have also followed LVMH’s retail approach. Tiffany opened its first store in Sao Paulo in 2001. Clearly, Tiffany and LVMH have redefined the retail experience for luxury goods in key Latin American markets.
Specialists can also be found in the low end of the market. Low-income consumers represent an excellent opportunity to develop mass-market strategies. Here the strategy is the opposite of the trickle-down approach. The strategy is based on building volume quickly in the short term with low priced basic products that contribute to high fixed capital costs of building the network. **Specialists use a combination of technological advances and low prices to build demand quickly.** For example retail chains of small self-service convenience pharmacy stores aimed at the mass market are competing with large discount and supermarket chains using a strategy of low prices, location, and convenience.