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The retail and consumer industry in Brazil – Navigating the downturn

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The Brazilian conundrum

Low growth and high inflation

The current picture for Brazil is a challenging one: GDP growth is at a historic low, commodity prices have gone soft and dwindling demand from China, one of the country's largest trading partners, is significantly impacting exports. Sliding currency exchange rates sent inflation soaring to 9.6% in mid-August 2015, retail sales are retreating, footfalls in shopping centres have fallen and unemployment is approaching 8%, leading to a pessimistic outlook.

Such turmoil has not only impacted consumer sentiment but also had a major impact on the retail and consumer industry in Brazil. According to the Brazilian Institute of Geography and Statistics (IBGE), the retail volume sales index has so far fallen by 4.5% in 2015 over the previous year. Food and beverage sales fell by 2% and clothing and footwear slumped by 7.8%. Big ticket items saw sharper declines, with sales of furniture and white goods declining by 18%.

As a major setback to the government's economic policy, GDP (at current prices) in Brazil contracted to USD 2.35 trillion in 2014 from USD 2.62 trillion in 2011, with an average decline of 3.54% year-on-year (as per IBGE). Confronted with public finances which are slipping out of control, Brazil's GDP is expected to contract further in 2015.

Brazil's gross debt to GDP ratio of 66% may appear small compared to Greece's 175% and Japan's 227%, but the burden is more worrisome if we look at the Central Bank's benchmark SELIC (Sistema Especial de Liquidação e Custodia) rates, which surged from 10% to 14.25% between 2013 and 2015, making debt obligations more expensive to service. Increasing interest rates – a monetary policy tool to arrest the demand and tame inflation-hasn't really played in Brazil's favour either. Inflation accelerated in September to over 9.3%, far higher than the central bank's self-imposed upper limit of 6.5%. Against the backdrop of such increasing debt, untamed inflation and mounting political turmoil, Standard & Poor's responded by downgrading Brazil's sovereign rating in September 2015.

Many believe the government's past approach to stimulating consumption, by handing out cheap consumer loans, reducing interest rates, lowering taxes on goods like cars and appliances, social welfare programmes and loose fiscal discipline, along with the Petrobas corruption scandal, has led Latin America's largest economy into this precarious situation.

How are end consumers and markets reacting?

To combat falling revenue and mounting debts, Brazilian President Dilma Rousseff's government is attempting to pass laws for higher taxation on items ranging from lipstick to gasoline. With increasing costs of electricity and water, Brazilians are digging deeper into their pockets to pay for their daily expenses, pushing consumer disposable incomes lower. Reduced consumer confidence has decreased consumer spending on discretionary and high ticket items like cars, LED televisions and even vacations abroad.

So far consumers have continued to be the central driver of demand creation in Brazil. In the past decade low unemployment rates pushed public and private sector wages up. This encouraged consumers to borrow more and spend further. However, this cycle turned vicious when the growth of real wages started falling recently, as unemployment went up and earlier hikes could not justify low productivity.

Such a decline in wages growth coupled with high inflation started eroding household incomes and spending power – forcing Brazilian consumers to keep a tight rein on household finances.

Unemployment is another negative socioeconomic indicator to worry about. According to the Brazilian statistical agency, IBGE (Instituto Brasileiro de Geografia e Estatística), total unemployment in Brazil rose significantly to nearly 8% in August 2015, as compared to 4-5% during 2014. This significant increase in unemployment has damaged consumer confidence.

The situation has not spared retailers and consumer business owners.[1] Leading shopping malls in Brazil have been facing falling occupancy rates over the past two years, as retailers are confronted by declining margins. Retailer profit erosion has been due to low demand, coupled with high rents and astronomical electricity costs. A few shopping malls are now trying to counter this trend by drastically lowering, and in some cases, waiving the deposit amount charged from retailers.

A tough business environment together with a swift deterioration of the labour market is impacting consumer and business confidence. The consumer confidence index fell by 70% and the business confidence index plummeted by 21% in the last 12 months, according to Fecomercio SP & CNI;[2] forcing corporates to pull back their future investment plans and consumers to reduce their spend.

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[1] Inputs from Associação Brasileira de Shopping Centers (ABRASCE), Brazil

[2] FecomercioSP (Federação do Comércio do Estado de São Paulo) is the Federation of Trade, Goods, Services and Tourism of the state of São Paulo

Not 'game over' for Brazil

Brazil may be in the grip of recession but we believe that it still has significant potential for both foreign and domestic investors. The macro fundamentals of the country are still promising – a large domestic market with a 203 million strong population and cumulative household spending of around USD 1.4 trillion. The overall demographic is predominantly young, with people aged 15-34 accounting for nearly 50% of the working population (aged between 15-64 years).

Complementing its burgeoning young population, Brazil is also the world's fourth largest market for cell phones with 78 out of 100 inhabitants 3G/4G subscribers and 129 million internet subscribers and 24 million accessing broadband internet, it has strong potential for e-commerce.[3]

Brazil's strong retail coverage, with nearly 14,500 convenience stores, approximately 5,300 discount stores, over 1,220 hypermarkets and more than 8,300 supermarkets is hard to dismiss, and it ranks strongly in the world market for beauty and healthcare products, food products, PCs, TVs, and medical equipment.[4] In fact it is amongst the three largest markets for Unilever, Nextel, Avon, P&G, TIM, J&J and the second largest global producer of organic food (after USA). The recent currency depreciation in Brazil offers further opportunities for foreign players that are planning to enter or expand in the country. This depreciation has dramatically reduced asset values and made the Brazilian market more conducive for deal making.

Overall, it is hard to write off Brazil's future with such credentials, and therefore whilst the government is endeavouring to revive the economy by managing the fiscal slippage, support from industry will be needed to turn Brazil's fortunes around. We see the retail and consumer sector playing a critical role in this nation revitalising process.

How can Brazil's retail and consumer sector support the recovery?

Brazil is a USD 2.3 trillion economy. According to the Brazilian retail and consumer society SBVC, (Sociedade Brasileira de Varejo e Consumo), retail and consumer is a USD 600 billion market that accounts for nearly 20% of the country's gross domestic product. As per the Brazil shopping centre association, ABRASCE (Associação Brasileira de Shopping Centers), the GDP contribution from supermarkets alone reached close to USD 70 billion (BRL 258.7 billion) in 2014. Hence, the sheer economic scale makes the sector very relevant for the country.

The retail sector is also one of the largest employers in Brazil. By comparison, the total Brazilian automotive industry employs around 130,000 employees, whereas CBD (formerly Pao de Acucar, and today owned by the French Casino Group), the largest retail company in Brazil, by itself employs around 170,000 employees – making the retail sector all the more important in a market where unemployment is rising and pension and unemployment benefits have been curtailed.

Last but not least, despite expected sluggish growth in the near term, many domestic and foreign retailers have decided not to shy away from investing in the country's growth. According to a survey conducted by the Sao Paulo Commerce Federation, 48% of retail companies aim to inject more money into their businesses in 2015. Brazil's largest office supply chain, Kalunga, plans to open 20 stores in 2015. Foreign retailer The Body Shop has also announced that it plans to have 500 stores across Brazil by 2019. Adding to this, Swedish fashion retailer company H&M (Hennes and Mauritz) has announced its own entry plans, to join existing foreign companies, such as Apple, Under Armour and Forever21, which all points to the retailer's confidence in the country's longer term potential.

[3] Business Monitor International estimates, Anatel
[4] Central Bank of Brazil, Agency for Statistical and Geographic Information, Business Monitor International estimates, PwC Analysis

Path to recovery for the retail and consumer sector

How can the retail and consumer industry respond to this challenge?

During PwC's *Growth Markets Centre's* recent interactions with retailers, consumer companies and industry associations in Brazil, it was clear that some companies continue to be in 'wait and watch' mode for the economy to turn around, whilst more progressive companies have decided they cannot afford to take this approach – and have begun to launch proactive and positive initiatives to deal with the new economic realities.

In the race to avoid being irrevocably impacted by the economic downturn, retail and consumer product companies are taking different approaches towards achieving a common goal of beating the downturn. Some of these measures include rationalising costs, optimising investments, refreshing their product portfolio and identifying alluring value propositions that would excite consumers to restart spending; leading to a positive cycle of consumption-led growth.

However, it is easier said than done. The decision to make further investments becomes tough to justify when consumer spending is on a decline. At times when demand is declining it makes immediate sense to trim costs. However, solely focusing on cost cutting can cause longer term problems. Pragmatic companies try to find the elusive balance between cost cutting and investments to spur growth.

For example, during the downturn in the early 2000s major Japanese firm Sony made global cuts, trimming its workforce by 11%, its R&D expenditures by 12% and its capital expenditure by 23%.[5] Such cuts helped Sony improve its margins, but growth in its sales tumbled from an average of 11% in the three years before the recession to 1% thereafter, and Sony has struggled ever since then to regain momentum. By contrast, during the same time Staples,[5] in the USA, took a different approach to cost management. It shut down its non-performing facilities and increased its workforce to support the high end products and services that it had introduced. As a result, sales doubled and profits were 30% higher as compared to its arch rival, Office Depot. Both examples are relevant in the current Brazilian recessionary context, as many companies in the country have started responding to the recession by cutting their workforce. Such strategies alone have limited chances of success, as with low employee morale it's hard to achieve growth and operational efficiency. In contrast, companies that respond to a slowdown by judiciously examining every aspect of their operating cost and how it fits in with their business model, grow faster than their competitors.

Brazil can learn from the executives of consumer product and retail companies across the globe and how they have responded to previous economic crises. For some companies, finding and seizing the opportunity has been achieved without involving significant investment. For example, Procter & Gamble (P&G) realised that people were misusing NyQuil, its medicine for cold and flu, as a sleep aid even when they didn't have a cold.[6] So P&G took a familiar antihistamine diphenhydramine (which causes drowsiness), left out the other ingredients, for a cold, and repackaged and renamed it to ZzzQuil. Eliminating the need for time consuming R&D and costly investment, in 2012 it created a new market for itself. In the words of Dave Tomasi, P&G's marketing director for its North America healthcare business 'This sprang from the idea of meeting the consumers' need when they didn't have a cold. It was really that simple.'

[5] HBR, Roaring out of recession, 2010

[6] Strategy+business, How to achieve growth in a lean Europe, 2014

Learning from India: bigbasket.com[7]

The success of grocery e-tailing in India may belong to a different category, but it shares very similar elements of success – where businesses anticipate needs ahead of time and get themselves ready for the future. 'bigbasket', India's largest e-grocer, started its operation in 2011, at a time when the physical grocery retail in India was dysfunctional due to high inventory costs, rentals and shrinkages. bigbasket saw significant consumer challenges in traditional shopping, in the form of a lengthy commute, lack of adequate parking, and a lack of available time due to long working hours as well as the tediousness of the chore. Several of these challenges are also present in Brazil. bigbasket realised that a channel to address such enormous demand and the unmet need of shopping convenience was missing. So instead of waiting for the tepid economy to turn around and investors to start rolling out red carpets for such ventures it took advantage of existing means – cheap labour availability, low cost of logistics (as compared to many western countries), rising broadband penetration, improving internet connectivity and proliferation of smartphones to turn e-tailing into success. Currently bigbasket is valued as a USD 40 million company that processes more than 20,000 orders per day, spread across six major cities in India, and has plans to touch USD 400 million revenues by FY16 – by increasing its private label penetration, expanding in 35 cities and partnering with 1,800 local stores. While the margins of this business category remain muted and the complexities of supply chain, quality warehousing, efficient delivery and high end IT infrastructure persist; bigbasket and other similar rising e-grocers have threatened the leading brick-and-mortar retailers like Aditya Birla Group, HyperCITY, Spencers,Trent Reliance group and forced them to rethink their traditional business model.

E-commerce has grown at a fast pace in Brazil but relatively it still remains small when compared to the overall market. According to eMarketer, retail e-commerce sales in Brazil accounted for 3.8% of total retail sales as compared to 13% in the UK, 10% in China, and 6.5% in the USA during 2014. The success of e-commerce in Brazil will require e-retailers to focus on specific categories relevant to the market, and navigate some of the existing operational challenges of the business such as shipping delays, taxes, custom clearances, payment method limitations and language barriers.

[7] http://yourstory.com/2015/09/bigbasket-growth-story/

Similarly, there is no dearth of similar evidence of past innovation and business excellence in the Brazilian market. The PwC's Growth Markets Centre analysis revealed that many retail and consumer companies find it difficult to adapt their strategies to navigate the challenges ahead. However, some progressive retailers like Telhanorte, Maquina Vendas and Edson Queiroz are trying to rediscover their heritage, core values and capabilities and focus on addressing the industry challenges through five fundamental enablers for the business – **Innovation, business models, consumer affordability, people and technology.**

1. Leading the change with innovation

Innovation remains a critical lever for companies to achieve their long-term strategic objectives; however, many companies often make the mistake of curtailing innovation efforts during difficult times, probably when new ideas are needed the most.

Telhanorte, one of Brazil's largest building material retailers, has exhibited innovation in marketing.[8] Telhanorte combined its expertise with Facebook's logic to create a new concept of a 'Personal Wall' – a technology to print tiles, linked with a Facebook app, which invites people to send in their own photos to be printed on a wall tile. With an innovative approach, a 'cool' technology and a little help from the social networks, Telhanorte has inspired people and helped them to make their homes all their own.

The process of building a new home involves consumers visiting home improvement stores such as Telhanorte to buy materials. However, these stores are not perceived as inspirational and, for most Brazilians, the thought of home improvement stores conjures up images of boring items such as bricks and cement. The fact is that when people are shopping for bricks, tiles, grout and mortar, their only goal is to take home a decent product for the best price possible, in order to save money for a nice sofa. The challenge was to build a distinct consumer appeal for which Telhanorte needed to come up something interesting. The concept of a personal wall helped establish a genuine, concrete and 'cool' connection between Telhanorte and its Brazilian consumers.

There are various ways in which companies approach innovation. Some companies concentrate on competency, building products, assets and capabilities that will make the company distinctive. Others approach it by focusing on consumers' tacit, unmet needs. Esmaltec, an Edson Queiron Group company, combined both approaches to innovate and create value for its customers.

Esmaltec[9]

Since its inception in 1963, Esmaltec has been a pioneering manufacturer of gas stoves. It understood that the majority of the population in the Northeast region of Brazil at that time belonged to the weaker socio-economic class and were using wood burning stoves for cooking purposes which were less user friendly and energy efficient. Understanding this need Esmaltec launched the a range of gas stoves to meet such C, D and E class consumer demands, which meant creating products that offered good design and high quality in terms of functionality, but that also respected people's financial realities. It created a range of stoves that could cater to those with varying budgets. Esmaltec kept the prices low to make it affordable and developed technology that focused on energy reduction – stoves that consumed less gas. It created value for its customers not only by offering products that were unavailable to its consumers before, but by making them affordable and providing larger societal health benefit in the form of fumeless cooking. It also found creative ways to offload some of its logistics cost. It resized the stoves so that more could fit in the truck used for the delivery. Today Esmaltec is a national market leader for gas cookers and has grown into a leading producer of essential household appliances by expanding its product portfolio to refrigerators, water coolers and freezers.

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8 https://ddbbrasil.wordpress.com/2012/11/21/ddb-brasil-case-studies/

9 http://industrytoday.com/FlippingBook/15.2/index.html#/127/zoomed

2. Creating a winning business model

Within the Brazilian retail and consumer industry, there is a clear need to move towards a new agile business model which is not only responsive to the changing business environment, but also stays closer to the mainstream consumer needs and desires. However, companies quite often find this change hard to pull off.

While today Walmart is very successful in Brazil, things were different in 1994 when it entered the Brazilian market. Walmart struggled to replicate the business model success achieved in the USA. Walmart overlooked several key components which were required to build its emerging market business model for Brazil. It assigned 25% floor space to food items which represented 60% of supermarket sales in Brazil. Brazilians were more used to shopping from small and medium size neighbourhood stores and visited discount supercentres less frequently. It also failed to account for Brazilian suppliers' process and technology capabilities which were not sufficiently mature to cope with heavy traffic jams and support Walmart's 'Just in Time' model; and coordinating with the local distributors proved more complex and time-consuming than anticipated.

The underlying reason behind this failure was because Walmart overlooked local cultural differences and a number of institutional voids (See ***'Bridging growth markets' voids'*** by Growth Markets Centre, Sep 2015). Walmart failed to acknowledge that a different business model was needed to succeed in Brazil – where only some strands of its traditional model were required with a different focus.

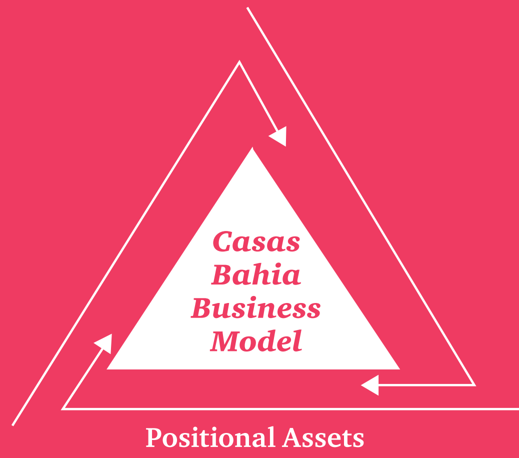
Casas Bahia[10]

On the otherhand, Casas Bahia, founded in 1952 by Samuel Klein, one of the most valuable retail brands in Brazil, clearly understood the prevalent market challenges, the need of its consumers, ways to navigate high credit risks, and the limitations of margins and then crafted an exemplary business model to serve the BoP (Base of the Pyramid) consumer segment. Other than its innovative approach to serve the unserved, Casas Bahia's greatest achievement has been to understand the emotional needs and buying habits of low-income consumers and then translate those dreams into realities by providing affordable household products and offering easy access to credit. Casas Bahia proved itself to be a fine example of how companies can translate consumer aspirations into real experiences and unlock the enormous purchasing power they hold.

While many of its competitors saw BoP customers as undesirable, Casas Bahia saw an opportunity. It made products such as TVs, refrigerators and washing machines accessible to its customers from the lower economic segments, even with almost 65% having no formal jobs. It adopted unique, innovative platforms and established exemplary credit processing systems to make high-ticket retail items affordable through easily accessible, flexible and tailored credit.

Casas Bahia's unique selling proposition

- **Debts can be renegotiated**
- **Passbook strategy**
  - Instalments paid in stores
  - Cashier cross-sells products
- **Easily accessed credit**
  - Fast track credit approval (immediately for value R$600)
  - Proof of home address and not blacklisted in SPC (credit bureau)
  - Debt regeneration – High number of Instalments



Positional Assets

- Store location (low income traffic areas – e.g. close to bus/metro terminals)
- IT integrated credit scoring and tracking too

Key capabilities

- **Credit risk management**
  - Sales assistants from the community to leverage local knowledge and provide support to credit decisions
  - Salespeople educate customers to buy in accordance with to their budgets, in order to prevent default and avoid customer frustration – results in very low default levels (less than half of its closest BOP competitor)
  - Delivery and furniture assembly teams check data accuracy

Casas Bahia customers come from C/D/E social classes, and almost 65% have no formal job. Currently, payments can be made in up to 18 instalments for home appliances; further credit is offered to those customers who have fully paid the last purchase

Once the customer finances the purchase, he has to go to the store every month to pay the passbook, unless the client opts to add a bank fee. More visits result in more opportunities to deepen the company's relationship with the customer

It's also clear that what has worked in the past may not be the recipe for the future. Nevertheless, we believe that it's necessary to develop innovative ways of engaging with your existing and new consumer base at times like these, when retail earnings are on a decline and consumer affordability is taking centre stage.

3. Addressing the affordability factor

While it's important for companies to take a fresh look at business models and re-align operating strategy, one factor that can't be disregarded is how to address the affordability issue. During the downturn when customers set stricter priorities and reduce their spending, the industry has to find creative ways to understand evolving consumption patterns, revive the product appeal and fine tune their strategies to regain consumer trust.

Multinational companies know that they need to come up with cost-effective offerings in emerging markets. Consumers expect them to offer more for less.[11] In India, back in 2000, Coca-Cola used to sell a 300ml bottle of coke at a price of 10 rupees – Because of this, a large fraction – more than 70% – of India's population couldn't afford the product. So to reach the larger consumer base, Coca-Cola later introduced a 200ml bottle and cut the price by half. Such moves initially impacted Coca-Cola's margins, but then by making its product affordable it was able to achieve scale and also position Coca-Cola as a popular alternative to other local substitutes such as 'Rasna' (local drink) and lemonade. Similar success of 'shampoo sachets' in India also prove the point that understanding the real consumer need (affordability in this case), can lead to real success.

Unilever[12]

Sometimes, to create an affordable offering, you don't need all the ingredients of the original product to create the desired magic. Success of 'Ala', a detergent brand that was created by Unilever to cater to the need of low end consumers in Brazil, endorses this point. Unilever studied the washing process undertaken by women in Brazil's Northeast region (with a significant population of lower income segments) and figured that in general, women were using bars of laundry soap to do most of the cleaning and in the end adding bleach for whitening and a little detergent to make clothes smell good. Having understood their consumption pattern and needs, Unilever introduced Ala, a product which eliminated undesired attributes of its costly powder 'Minerva', but retained the specific formula for a particular whiteness and smell – which could then be priced reasonably for the lower income segment to afford.

The success of Ala does not indicate that making a cheap and low quality product must be the only priority of companies in Brazil but it could be a strategic choice to capture market share. However, during the downturn when consumer confidence is down and spending power has receded, it makes sense for companies to offer products that consumers can afford without compromising on their usual consumption appetite – a necessary requirement to maintain the market demand.

On other occasions, foreign companies in Brazil have taken creative approaches to overcome the challenges of the high cost of doing business in Brazil and maintained their product affordability. L'Occitane is one such example. Local taxation for cosmetics, fragrances and toiletries(CF&T) products in Brazil are high and can be up to 140% of the original product value.[13] L'Occitane realised that to expand its business in Brazil and to maintain lower price points it has to partner with local producers, which would help it avoid import taxes. With this partnership, it extended its core brand to 'L'Occitane au Brésil', charging prices 30% below original L'Occitane products, but still 30% more than local brands Natura or O Boticário. There are several such occasions when foreign firms have found it difficult to navigate alone through the complexities and different ways of doing business in the new growth markets. Though, at times, finding the right partner in growth markets is a strategic endeavour, for such situations having a local partner helps foreign brands to maintain undivided focus on their business and offers them the bandwidth needed to create value for their customers.

11 http://www.coca-colacompany.com/stories/20-years-later-a-look-back-at-cokes-dramatic-1993-return-to-india
12 INSEAD, Unilever in Brazil (1997-2007): Marketing Strategies for Low Income Consumers, 2007
13 BTG Pactual

4. Improving people productivity

It's true that many retail and consumer companies will not look within their organisation to adopt innovation, but continue to look outward for growth opportunities. The trouble with this approach is the limited number of external growth avenues available in difficult times, such as the current situation in Brazil. And even if such external opportunities are found, then organisations may not have the right capabilities or the deep pockets required to exploit them. Therefore, there is a strong case for companies to profitably invest in their primary intellectual and non-depreciating asset – People.

There is much to learn from successful retailers in other geographies that have created value by focusing on people productivity.

Mercadona, QuickTrip, Trader Joe's and Costco[14]

Retailers such as Mercadona – the largest supermarket chain in Spain, QuickTrip – a USA based convenience store chain, Trader Joe's – a supermarket chain in the USA and Costco have good sales and substantially higher worker productivity than their peers. These model retailers make an effort to provide advancement opportunities by offering more convenient work schedules, better benefits and multiple trainings to their employees. About 98% of store managers at Costco and all store managers at Mercadona, QuikTrip, and Trader Joe's are promoted from within, and many executives at these companies have started out in the stores. Such measures have kept employee turnover down and morale up.

These investments have not only improved employee productivity, but also have positively impacted the operating metrics of these retailers. It has helped them lower their costs, increase employee efficiency, improve customer service and boost sales.

Edson Queiroz, a Brazilian conglomerate with multiple businesses including water, gas and home appliances manufacturing is focusing hard to discover novel ways to create shareholder value that are less dependent on the external business environment. In the process, it has realised that improving employee productivity will be an important value driver. Overall, Brazil has been experiencing stagnation in this area. As opposed to other growth markets such as China and India, where a moderate increase in wages has been accompanied by a corresponding hike in productivity; Brazil witnessed a mismatch – where the real minimum wage[15] increased by 76% between 2003-14 and productivity increase remained muted at 1% during the same period. Higher incomes are typically a healthy sign of development, but real wage gains without corresponding productivity gains could be unsustainable in the long run.

This mismatch began to hurt companies, especially when workforce cost started to emerge as a significant cost component of many retail and consumer companies operating in Brazil – making its effective management a requirement for survival rather than just a strategic choice.

Brazilian labour laws also impact productivity and increase costs for certain retailers. Unlike in the USA and many European countries where formal part-time work is largely applicable in retail stores, certain labour laws in Brazil (e.g. CLT) pose restrictions on part-time jobs.

Such a restricted part-time workforce compels companies to hire people with higher skill sets, thus adding more cost to the operations. The average annual turnover (attrition) rate in Brazilian retail is around 40%, but it has a part-time workforce provision to make up for this high attrition, which is currently missing in Brazil – impacting the efficiency of retail store operations.

According to the Conference Board Productivity Brief 2015, India witnessed significant improvement in productivity growth from 2.8% to 3.8% between 2013 and 2014, whereas productivity in China touched 7% in 2014.[16] Given such headroom of the potential available in similar emerging markets, retail and consumer companies in Brazil can focus more on improving their workforce productivity.

14 HBR, Why 'Good jobs' Are Good for Retailers, 2012

15 CEPR – Centre for Economic and Policy Research

16 https://www.conference-board.org/retrievefile.cfm?filename=The-Conference-Board-2015-Productivity-Brief.pdf&type=subsite

5. Tapping into technology

Technology has the potential to enable retail and consumer product companies to track and choose consumer information they may need to unlock greater efficiencies, offer personalised services and a whole new set of user experiences. 'Connected retail' is empowering in-store employees to access data on digital devices which enable them to develop meaningful customer relationships and delight clients with personalised services. Technology is not only sharpening the edges of conversion opportunities but is also fostering customer loyalty.

SKF's recent partnership with the leading Brazilian shopping group Iguatemi can be viewed as an example where a retailer has taken a step towards embracing technology to understand and serve its customer better. SKF is responsible for setting up public Wi-Fi networks that help users shop, giving advertisers a chance to influence them, and also collects big data on their behaviour that can be crunched into retail sales strategies.[17] Iguatemi, one of the largest shopping groups in Brazil, which owns 17 shopping malls and generates revenue of over USD200 million, has given SKF its preferred partner status. SKF will gather and provide data on thousands of Iguatemi customers. While time will determine the success of this relationship, many see this as a bold move, especially at a time when many companies look hesitant to invest in businesses and appear less ready for the future.

According to SBVC, some forward-looking companies in Brazil have invested in technologies to optimise their distribution, make logistics cheaper, gather point of sales data and improve the customer experience.

C&A[18]

C&A, a Dutch fashion retailer operating in Brazil, is one such example of how to take advantage of technology to improve the modern shopping experience. At times when consumers are undecided about their fashion choices and uncertain about shopping spend, use of technology as a fashion marketing tool can be a compelling way to crowdsource real-time customer feedback and keep consumers interested in a retailer's popular offerings.

On its special clothing hangers, C&A displays how many 'Facebook likes' each garment/look has collected from the social media community. Whenever someone 'likes' a clothing item online at the company's Facebook page, that thumbs-up is tallied on a screen embedded in clothes hangers on the store's physical racks. Such a convergence of the digital world with the real world is not only making consumer fashion choices simpler, but also impacting real life buying decisions. Needless to say, such technological interventions are redefining the shopping experience and keeping tech-savvy companies ahead in the game.

It is clear from the C&A example that data can be a predictive indicator to understand and anticipate the need of the consumer. But as a next step, using that data to improve value chain management will set companies apart from the crowd. Improving the accuracy of demand will drive efficiency throughout the supply chain; manufacturers and retailers will be able to ensure zero stock-out positions, higher speed to shelf and showcase a better interface to consumers.

In Brazil, mobile technology is ubiquitous and internet penetration is high, which makes a stronger case for retailers to leverage technology and use digital tools to gather consumer insights. There is a bigger incentive for them to capture and mine data to create differentiated offerings that are critical to the success of the business.

Consumer-centric stores enabled by technology can target a diverse set of consumers with different purchase expectations. Some consumers will pay more for attributes such as faster delivery, higher quality product, ease of shopping etc. while others may trade down to lower cost products by compromising on some features. Retailers will need to recognise their market play and decide on which consumer-centric opportunities to focus on and leverage.

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17 http://www.nexttechstock.com/skf-brings-big-data-brazils-expanding-retail-sector/

18 http://retail-innovation.com/brazil-retailer-ca-showing-facebook-likes-on-its-clothing-hangers/

The countdown begins

Which changes companies will adopt and how they will come to fruition remains to be seen

Brazil's large population, which is relatively young and aspirational and has an incredible appetite for consumption, offers a tremendous opportunity for retail and consumer companies, both domestic and foreign, to invest and expand. The influx of foreign brands that started with C&A and Carrefour in the 1970s was strongly followed by the entry of Zara, Tiffany, CK, D&G, Jimmy Choo, Prada, Amazon, Omega, Fendi and many other foreign brands during the 2000s – showcasing their deep trust in Brazil's long-term potential which certainly cannot be written off due to a recession that may not even last for a few years.

To survive, companies need to achieve success (during and post-recession) not simply by reducing costs, but also by managing conflicting priorities. They need to adopt a business and operating model that helps them maintain the right balance between cost optimisation and innovation. They will have to align their core capabilities to support their strategy and focus on solutions which can add value to their customers. Organisations must also work towards sharpening their products and services to differentiate them and in the process add capabilities that are essential to win in the market.

Progressive companies in Brazil will have to discover which of the growth levers mentioned in this article (or which combination of levers) are most applicable to their business needs and best suited to their core capabilities; and combine those findings into a portfolio of initiatives to improve their functioning. To do this, they will need to be selective in looking out for opportunities that match their core strengths, deprioritising or divesting businesses that have limited upside potential and are extraneous, increasing investments in growth assets and taking advantage of the existing ones – from amongst people, process, technology and consumers. It is clear that Brazil holds significant potential for the retail and consumer industry and successfully navigating this current downturn is an important first step for organisations to win in this market.

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