IDEAS LLYC

EXPLORE. INSPIRE.

ARTICLE

LATIN AMERICAN DISCOUNT STORES AND FUTURE CHALLENGES FOR OWN-BRANDS

Bogota, 26 December, 2019

LLORENTE Y CUENCA

The popularity of discount stores is nothing new in European markets, but in Latin America, the new discount store phenomenon has revolutionized shopping, challenging traditional consumer channels.

In recent years, large retail outlets with robust and well-positioned brands have had to compete with new low-cost brands entering the market, as well as contend with major changes in consumer behavior. This is especially apparent in fledgling markets, affecting brand behavior across Latin America. In Colombia, for example, eight in ten households shop primarily at discount stores.

But in a world with increasingly mindful consumers who seek to connect with brands sharing their values, how can a purely transactional model sustain itself?

The discount store business model is undeniably popular in Latin American markets. This phenomenon poses questions about the future of consumer-brand dynamics—questions well worth consideration.

THE ORIGIN OF DISCOUNT STORES

Traditionally, discount stores are retail establishments that sell own-brand products at low prices. This model originated in Germany with stores like Aldi and Lidl, developing into a major global boom in the 1990's and early 2000'[1]s. This rapid expansion created new global retail dynamics, which have reached Latin America in the last decade.

"Large retail outlets with well-positioned brands have had to compete with new low-cost brands, as well as contend with major changes in consumer behavior."

[1] Sachon, Marc, The Hard Discount Model in Retailing, Centro Internacional de Investigación Logística (CIIL), 2010.

But what makes this business model so attractive? For one, it generally utilizes operational and logistical efficiencies, which are then passed on to consumers in the form of highly competitive prices for (usually) basic consumer goods. In addition, these stores are easily adapted to new spaces, requiring no major investments, unlike traditional retail models. Thus, they can expand rapidly, spreading into new territory throughout their country markets.

Aside from economic and financial considerations, Latin America is seeing an especially telling paradigm shift in consumption habits and consumer preferences, one that is, in many cases, challenging fundamental ideas regarding the consumer-brand relationship.

TRANSFORMATION OF CONSUMER HABITS

According to Nielsen Homescan's 2018 report on *Colombian self-service spending*, this model, including in traditional stores, discount stores, cash & carry and independent chain stores, was responsible for 47 percent of Colombian household spending. This figure is not insignificant, indicating very positive growth in Colombian economic indicators. The high performance of the hard discount and cash & carry formats were primarily responsible for this large amount of spending. These models' accelerated growth (60 and 15 percent, respectively) took ground from traditional stores, gaining increasing consumer favor.

The original hard discount model came about as a response to the economic crisis in Europe, but in countries like Colombia and Mexico today, it has become an effective alternative for many consumers, who find these models meet their shopping needs. In fact, there is such diversity among discount store consumers that variations within the model have emerged. Today, not only are there hard discount models, but also hybrids: Stores that exist at a crossroads between traditional retail models and these new models of efficiency.

But how is it that a model attains such positive results across so many sectors with little or no investment in brand development or positioning?

Consumers have begun to branch out and explore uncharted waters. The emergence of new, apparently more attractive alternatives is rapidly beating out customer loyalty.

"Wider access to information and the 'Amazon phenomenon', consumers now want to operate independently from retail models"

As a result of wider access to information and the "Amazon phenomenon," consumers now want to operate independently from retail models. They wish to access a different kind of supply, one emphasizing purchase functionality, ease of purchasing and integrity of development, with a close eye on quality and value.

The discount store model's arrival to Latin American markets has only bolstered this paradigm change, making own-brands the current stars of retail.

FUTURE CHALLENGES FOR OWN-BRAND ENGAGEMENT

Own-brands are not a new factor in consumer dynamics. Large retail outlets have long maintained basic own-brand products in their portfolios, playing a strictly functional role for consumers. Naturally, these products have grown in sales and popularity in recent years thanks to the advent of discount stores.

According to Spanish newspaper ABC Economía, Spain spends the second-most on own-label brands in the European Union. According to data from May 2019, 42 percent of bulk purchases in Spain are of own-brand products[2].

This phenomenon has encouraged large brands worldwide to develop an own-brand area to strengthen organic business growth. Two major examples of this trend are Walmart and Target, whose own-brand numbers spiked in 2017 and continue to increase each year.

This area may enjoy sustained growth in North America and Europe, but there undoubtedly remains a great opportunity for Latin American

own-brands to participate and bolster their continued growth. Octavio Blasio[3] believes Latin America is in an early stage of own-brand development, but will soon undergo the same natural evolution other world markets have seen. This transition can be envisioned thus:

1. **Initial stage:**
   a. Limited supply
   b. Simple presentation
   c. Emphasis on price
2. **Development stage:**
   a. Greater supply
   b. Better presentation
   c. Economies of scale
   d. Emphasis on both price and quality
3. **Maturity stage**
   a. Plentiful supply
   b. Considerably improved labeling and packaging
   c. Emphasis on quality

However, the number of consumers willing to try new brands continues to grow, especially in the Colombian market.

REPRESENTATION OF OWN-BRANDS IN THE LATIN AMERICAN RETAIL MARKET 2018[4]

Colombia is the country with the greatest weight of own-brands in the region, with 15, 4 percent; followed by Peru with 12 percent, Central America with 8 percent of participation and in the Southern Cone, Chile and Argentina, with 6 percent and 5 percent respectively.

Consumers are becoming increasingly informed, with access to new experiences and a previously unheard-of market dynamism (aided by the advent of e-commerce). The concept of traditional brand loyalty no longer applies.

Nielsen's 2019 *Global Loyalty-Sentiment* Study shows that 92 percent of consumers lack brand loyalty, and in countries like Colombia, only 7 percent consider themselves loyal to their favorite brands. At first glance, this figure appears apocalyptic for communications and marketing. This state of affairs raises several questions which beg consideration from all self-service channels with own-brands:

"There undoubtedly remains a great opportunity for Latin American own-brands to participate and bolster their continued growth"

[2] Casos de éxito en los que productos de marcas blancas se volvieron «verdes». ABC España.
[3] Marcas propias en LATAM: Oportunidades y retos. MERCA 2.0.
[4] Kantar Worldpanel 2018

1. Are you anticipating consumer needs? Consumers have always changed, and companies have always needed to adapt in turn. The key to distinction in this new market environment lies in anticipating new consumer needs. Consumers will favor whichever brand is swift and efficient enough to generate a memorable experience, be it an own- or traditional brand.

The global green sector is a good example. In Spain, the consumption of products packaged with green labels has increased by 14 percent. Large discount retailers have adapted to this shift with remarkable speed: Carrefour now offers Carrefour Bio, Lidl has Lupilu and Bio Organic and Aldi created Gutbio. These are just some examples of a market opportunity being anticipated and leveraged[5].

2. How can you compete if price is no longer king?: It is true that discount models are based on price differentiation, but how sustainable is this model over time?

No matter how inexpensive, consumers will not stay loyal to a product which lacks a simple return on quality for the price paid. Additionally, competition based solely on price will not generate brand equity, and in some cases, it could even inhibit purchasing.

In Latin America, 42 percent of consumers are willing to actively try new products and brands. However, quality is a key factor is securing purchases. In Colombia, consumers base purchasing decisions primarily on product quality and performance, valuing price secondarily and discounts only after that[6].

3. How are you positioning yourself as a market leader?: Today's own-brand development struggles to distinguish itself in terms of consumer experiential and emotional connection.

To attract new consumers and maintain a distinguished position, a clear strategy is indispensable. Today's consumers are more sophisticated than ever. They will readily invest in brands that concretely improve their lives over brands that are simply well-known.

Douglas Mello, planning chief of the Mexican advertising agency J. Walter Thompson, says own-brands must consider four key areas to strengthen their consumer connections and communication:

- Education
- New Experiences
- Vocal engagement
- Social Responsability

As Blasio says, "[the brand] should be capable of establishing a clear strategy and solid infrastructure, supporting the launch of new products capable of reaching more shopper demographics. There must be a proper mix of low-cost and premium brands[7]."

4. Are you giving convenience the importance it deserves?: Consumers all over the world are searching for ways to make their lives easier. To build long-term relationships, linking products to brand messaging is essential. At the same time, however, consumers are constantly seeking convenience in their purchase decisions, putting newfound emphasis on a brand's ease of access and usefulness.

According to a Nielsen study, the driving forces behind this newfound reliance on convenience can be summarized in six factors. Although these may vary according to the exact political and cultural context in a given market, they all share some common threads that drive consumer decision making:

- Rapid urbanization
- Diminishing household size
- Urban transport saturation
- Changes in gender roles
- Generational changes
- Increasing reliance on technology

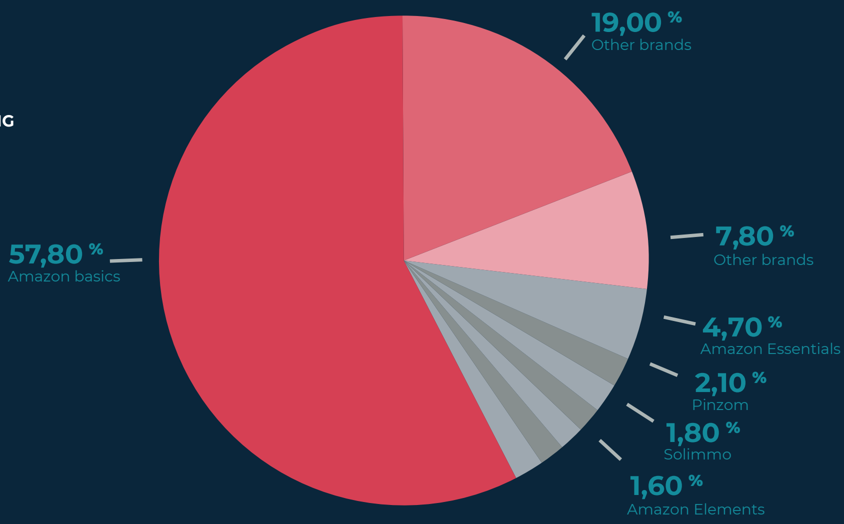
It is important to realize, especially for self-service establishments like cash & carry and discount stores, that convenience refers to more than company sales portfolios or physical closeness of stores.

According to a study published in journal PyM, 46 percent of Latin Americans consider grocery

[5] Casos de éxito en los que productos de marcas blancas se volvieron «verdes». ABC España.
[6] Revista PYM - Estudio Global de Nielsen Lealtad del Consumidor 2019
[7] Marcas propias en LATAM: Oportunidades y retos. MERCA 2.0

SUCCESSFUL BRANDS. AMAZON - OWNED TOP 10 MOST SUCCESSFUL PRIVATE LABEL BRANDS ARE:

- AMAZON BASICS - HOUSEHOLD GOODS, ELECTRONICS
- AMAZON COLLECTION - JEWELRY
- AMAZON ESSENTIALS - MEN'S AND WOMEN'S CLOTHING
- SOLIMO - HOUSEHOLD GOODS
- AMAZON ELEMENTS - VITAMINS AND SUPPLEMENTS
- SIMPLE JOYS BY CARTER'S - CHILDREN'S CLOTHING
- GOODTHREADS - MEN'S CLOTHING
- DAILY RITUAL - WOMEN'S CLOTHING
- LARK & RO - WOMEN'S CLOTHING



SOURCE: MERCA 2.0

shopping to be a tiresome, boring chore and seek to minimize their time spent shopping. For this reason, implementing digital services, single channels and other retail models will inevitably play an integral role in determining consumer preference. Thus, these differing models will eventually become inextricably linked with market value.

In this manner, environments in which multiple self-service channels are implemented will see convenience become a sort of currency, facilitating interaction by satisfying consumer demand for efficiency.

THE ILLUSION OF AMAZON'S OWN-BRANDS: A LESSON FOR THE MARKET

Approximately 78 percent of consumers base their purchase decisions on brand communications[8]. For this reason, it is necessary to build a transparent, active relationship infrastructure to help you form ever-stronger bonds with consumers.

Amazon has over 400 own-brands in various areas to appeal to different consumer demographics. However, a Marketplace Pulse study shows that just 10 of these own-brands account for 81 percent of the company's own-brand sales, which in turn represent only 1 percent of its total sales.

One reason for this "failure" of Amazon's own-brands is the technology giant's apparent branding and positioning strategy. Amazon's example is clear-cut evidence that a product by itself, relying solely on price, will not get through to consumers.

Thus, we are presented with the challenge of not only making major investments in publicity and marketing (which have a direct impact on a discount model's effectiveness), but also creating two-way mechanisms to transcend perceptions of having a solely functional purpose. Achieving this balance is key to creating products and services that satisfy consumer interests.

[8] Green Study, carried out by green business directory Las Páginas Verdes and consultancy firm Kantar Millward Brown (2017). https://expansion.mx/mercadotecnia/2018/01/19/cuatro-formas-de-posicionar-las-marcas-blancas

[9] "Amazon tiene más de 400 marcas propias, pero sólo 10 de ellas tienen éxito: ¿Por qué no funcionan?" Merca 2.0. https://www.merca20.com/amazon-tiene-mas-de-400-marcas-propias-pero-solo-10-de-ellas-tienen-exito-por-que-no-funcionan/

AUTHORS

María Esteve. Partner and Managing Director at LLYC in Bogota.
María became the Managing Director of the Colombian operation in July 2013, after having served as the Director of Corporate Communication and Institutional Relations at Banco Santander, a company which was later absorbed by the Chilean CorpBanca, for two years. Prior to that, she had worked for almost ten years for Dattis Consultores en Comunicación as an Account Manager and Consulting Partner, with clients like Ecopetrol, Telefónica and BBVA, among others. She has extensive experience in Crisis Communication and Public Affairs as a result of her work in communication companies and private enterprises. María has a degree in Social Communication from the Pontificia Universidad Javeriana.

Alejandra Aljure. Director of the Consumer Engagement area at LLYC in Bogota.
Aljure is a social communicator with an emphasis in organizational communication and public relations from the Pontifical Xavierian University, along with a specialization in public policies and development from the University of los Andes. For three years, she led brand positioning and crisis management projects in the technology, air, retail, pharmaceutical, and food sectors at various communication consulting firms. Furthermore, she worked in the Corporate Affairs area of LATAM Airlines for three years. At LLYC, she has led projects with brands such as TigoUne, Maggi, Jerónimo Martins, Primax and TDT.

MANAGEMENT TEAM

José Antonio Llorente
Founding Partner and Chairman
jallorente@llorenteycuenca.com

Alejandro Romero
Partner and CEO Americas
aromero@llorenteycuenca.com

Enrique González
Partner and CFO
egonzalez@llorenteycuenca.com

Adolfo Corujo
Partner and Chief Strategy and Innovation Officer
acorujo@llorenteycuenca.com

Nazaret Izquierdo
Chief Talent Officer
nizquierdo@llorenteycuenca.com

Cristina Ysasi-Ysasmendi
Corporate Director
cysasi@llorenteycuenca.com

Juan Pablo Ocaña
Director, Legal & Compliance
jpocana@llorenteycuenca.com

Daniel Fernández Trejo
Director, Technology
dfernandez@llorenteycuenca.com

José Luis Di Girolamo
Partner and Global Controller
jldgirolamo@llorenteycuenca.com

Antonieta Mendoza de López
Vice President, Advocacy LatAm
amendozalopez@llorenteycuenca.com

SPAIN AND PORTUGAL

Arturo Pinedo
Partner and Managing Director
apinedo@llorenteycuenca.com

Luisa García
Partner and Managing Director
lgarcia@llorenteycuenca.com

Barcelona

María Cura
Partner and Managing Director
mcura@llorenteycuenca.com

Óscar Iniesta
Partner and Senior Director
oiniesta@llorenteycuenca.com

Muntaner, 240-242, 1º-1ª
08021 Barcelona
Tel. +34 93 217 22 17

Madrid

Joan Navarro
Partner and Vicepresident, Public Affairs
jnavarro@llorenteycuenca.com

Amalio Moratalla
Partner and Senior Director, Sport and Business Strategy
amoratalla@llorenteycuenca.com

Iván Pino
Partner and Senior Director, Digital
ipino@llorenteycuenca.com

David G. Natal
Senior Director, Consumer Engagement
dgonzalezn@llorenteycuenca.com

Paco Hevia
Senior Director, Corporate Communication
phevia@llorenteycuenca.com

Jorge López Zafra
Senior Director, Financial Communication
jlopez@llorenteycuenca.com

Lagasca, 88 - planta 3
28001 Madrid
Tel. +34 91 563 77 22

Lisbon

Tiago Vidal
Partner and Managing Director
tvidal@llorenteycuenca.com

Avenida da Liberdade nº225, 5º Esq.
1250-142 Lisboa
Tel. + 351 21 923 97 00

UNITED STATES

Erich de la Fuente
Partner and Chairman
edelafuente@llorenteycuenca.com

Mike Fernandez
CEO
mikefernandez@llorenteycuenca.com

Miami

Emigdio Rojas
Executive Director
erojas@llorenteycuenca.com

Claudia Gioia
SVP Americas, Business Development
cgioia@llorenteycuenca.com

600 Brickell Avenue
Suite 2020
Miami, FL 33131
Tel. +1 786 590 1000

New York City

Gerard Guiu
Director, International Business Development
gguiu@llorenteycuenca.com

3 Columbus Circle
9th Floor
New York, NY 10019
United States
Tel. +1 646 805 2000

NORTH REGION

Javier Rosado
Partner and Regional Managing Director
jrosado@llorenteycuenca.com

Mexico City

Juan Arteaga
Managing Director
jarteaga@llorenteycuenca.com

Rogelio Blanco
Managing Director
rblanco@llorenteycuenca.com

Av. Paseo de la Reforma 412
Piso 14. Colonia Juárez
Alcaldía Cuauhtémoc
CP 06600, Ciudad de México
Tel. +52 55 5257 1084

Panama City

Manuel Domínguez
Managing Director
mdominguez@llorenteycuenca.com

Sortis Business Tower
Piso 9, Calle 57
Obarrio - Panamá
Tel. +507 206 5200

Santo Domingo

Iban Campo
Managing Director
icampo@llorenteycuenca.com

Av. Abraham Lincoln 1069
Torre Ejecutiva Sonora, planta 7
Suite 702
Tel. +1 809 6161975

San Jose

Pablo Duncan - Linch
Partner and Director
CLC Comunicación | Afiliada LLYC
pduncan@clcglobal.cr

Del Banco General 350 metros oeste
Trejos Montealegre, Escazú
San José
Tel. +506 228 93240

ANDEAN REGION

Luis Miguel Peña
Partner and Regional Managing Director
lmpena@llorenteycuenca.com

Bogota

María Esteve
Partner and Managing Director
mesteve@llorenteycuenca.com

Av. Calle 82 # 9-65 Piso 4
Bogotá D.C. – Colombia
Tel. +57 1 7438000

Lima

Gonzalo Carranza
Managing Director
gcarranza@llorenteycuenca.com

Av. Andrés Reyes 420, piso 7
San Isidro
Tel. +51 1 2229491

Quito

Carlos Llanos
Managing Director
cllanos@llorenteycuenca.com

Avda. 12 de Octubre N24-528 y Cordero – Edificio World Trade Center – Torre B - piso 11
Tel. +593 2 2565820

SOUTH REGION

Juan Carlos Gozzer
Partner and Regional Managing Director
jcgozzer@llorenteycuenca.com

Sao Paulo

Cleber Martins
Partner and Managing Director
clebermartins@llorenteycuenca.com

Rua Oscar Freire, 379, Cj 111
Cerqueira César SP - 01426-001
Tel. +55 11 3060 3390

Rio de Janeiro

Daniele Lua
Executive Director
dlua@llorenteycuenca.com

Ladeira da Glória, 26
Estúdios 244 e 246 - Glória
Rio de Janeiro - RJ
Tel. +55 21 3797 6400

Buenos Aires

Mariano Vila
Managing Director
mvila@llorenteycuenca.com

Av. Corrientes 222, piso 8
C1043AAP
Tel. +54 11 5556 0700

Santiago de Chile

Marcos Sepúlveda
Managing Director
msepulveda@llorenteycuenca.com

Francisco Aylwin
Chairman
faylwin@llorenteycuenca.com

Magdalena 140, Oficina 1801
Las Condes
Tel. +56 22 207 32 00

IDEAS LLYC

EXPLORE. INSPIRE.

IDEAS by LLYC is a hub for ideas, analysis and trends. It is a product of the changing macroeconomic and social environment we live in, in which communication keeps moving forward at a fast pace.

IDEAS LLYC is a combination of global partnerships and knowledge exchange that identifies, defines and communicates new information paradigms from an independent perspective. Developing Ideas is a constant flow of ideas, foreseeing new times for information and management.

Because reality is neither black nor white, IDEAS LLYC exists.

llorenteycuenca.com
www.uno-magazine.com