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Understanding Consumers and Retailers at the Base of the Pyramid in Latin America

A cross-country study conducted in Latin America

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The Truth About Emerging Consumers

- In spite of being perceived as “poor”, emerging consumers have considerable purchasing power as a group and they dedicate a larger portion of their income to household purchases

Understanding the Real Value of Emerging Consumers



Note: (1) % of household income; A/B/C_{1,2} = 10% per year; C₃ = 30% per year; D/E = 50% per year

(2) % Buying power set aside for consumer products

Source: Strategy Research Corporation, UN Data

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- Emerging consumers are not necessarily attracted to whatever is low cost or “low price”

Understanding Emerging Consumers

Not necessarily attracted to whatever is low cost and “low price”

- **Prefer leading brands. Higher loyalty in basic foods and categories that impact self-esteem as a caregiver**
 - **Brands = quality, backing and performance**
 - **Underperforming product have large financial implications and impact on caring for the family**
- ▶ **Size is more important than price**
- ▶ **Value is associated with the “Total Purchasing Cost”, not just “Price Sensitive”**
 - **Transportation costs**
 - **Other costs: finding child care, time spent commuting, coping with family members’ demands while shopping**

The Truth About Emerging Consumers

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- Emerging consumers are not necessarily attracted to whatever is low cost or “low price”
- Significant barriers exist beyond lower incomes and transportation issues for shopping at large supermarkets

Understanding Emerging Consumers Not “junior versions” of upper income segments—they show very distinct shopping behavior and format preference

- **Product: Assortment = small / fractionable, to consume right after, affordable**
 - ▶ “Good” prices... within an acceptable distance
 - ▶ **People: Emotional proximity is critical**
 - ▶ **Informal credit = financial flexibility. The ‘virtual wallet’**
 - ▶ **The store: clean**

Understanding Emerging Consumers

Significant barriers for shopping at large chain supermarkets

- “Stocking” places – at odds with their economic situation
 - Larger sizes
 - Higher ticket items
 - Higher total bill – out of budget
 - Promotions can be a trap
- ▶ Long distances
- ▶ Poor quality perception in perishable categories
- ▶ Prices perceived as being higher
- ▶ Lack emotional proximity

Lessons from Small – Scale Retailers

Small-Scale Retailers



- ▶ **Small scale retailers reach every corner of the land, and make Latin America's retail landscape unique in its composition**
- ▶ **Their value proposition covers effectively the most important aspects for emerging consumers**
- ▶ **Despite the appearance of low productivity, small-scale retailers have a sustainable business model**
- ▶ **Informality is only another component of the business**

Lessons from Small – Scale Retailers: They fit the needs of emerging consumers quite well

Proximity /
Ubiquity



- ▶ Location is a compelling proposition of small retailers to emerging consumers who make small daily purchases and are not willing to travel very far and incur transportation costs

The “Right”
Assortment



- ▶ Small retailers are able to optimize the mix to the micromarket they operate in –offering the main categories, brands, and sizes that fill emerging consumers’ daily needs

Affordability
Price/Value



- ▶ Shelf prices are higher (5% - 20% more expensive for like substitutes) except for fresh fruits and vegetables but physical proximity lowers total purchasing cost

Emotional
Proximity



- ▶ Small retailers benefit from the presence of the store owner-manager who can provide a “personal touch”

Service and
Other
Extras



- ▶ Small retailers are improving their capabilities (“local” promotions, transportation & delivery) and they offer both informal credit and “virtual” wallet