Latin American Brands

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Dynamos gain ground on world's big names

'Multilatinas' are competing hard with some of the best-known companies, writes *John Paul Rathbone*

Who won this year's World Cup in Brazil? A simple question, surely? Not necessarily; it depends on your point of view.

For footballers, the answer is a matter of record: Germany beat Argentina in the final.

For the host country, the answer is less clear-cut. Although Brazil was dogged by worries about social unrest and late building works, many pundits and even some Brazilians described it as the best world cup ever as the tournament progressed – despite the humiliation of the national team's 7-1 defeat by Germany in the semi-finals.

But for companies involved in the World Cup, the winning brand is still being thrashed out. Ostensibly, the winner was Adidas, the German sportswear company that has been a long-time official sponsor. In a stroke of good fortune, the brand sponsored both finalists, who duly appeared in its kit.

Yet Nike, its rival for the spot of being the world's leading football brand, came a close second (*see page 2*). The US-based sportswear company sponsored 10 of the tournament's 32 teams, versus Adidas's nine, but was not an official sponsor of the World Cup itself.

Instead, though Nike disputes the term, it used "ambush marketing" strategies to piggyback the World Cup, such as sponsoring individual athletes and promoting that sponsorship on social media. According to one study, Nike was the company that most Brazilians associated with the tournament.

On top: Corona is the region's most valuable brand (see page 4) — Bloomberg

This is the Financial Times' third annual survey of Latin American brands, and the sophistication of Nike's approach in Brazil, combined with that of regional companies beefing up their branding strategies, shows how the concept continues to gain traction. There are four main reasons for this.

The first is the region's $5.7tn economy and 600m people, 80 per cent of whom live in cities, which makes Latin America an attractive destination for multinationals. Nestlé, for example, derives some 15 per cent of global sales from Latin America.

> 'These emerging-market companies are increasingly eating the multinationals' lunch'

Against that, however, local brands are fighting back against multinationals, building substantial "branding barriers to entry".

One example is Peru's Inca Kola (*see page 3*), which has a 30 per cent domestic market share compared with Coca-Cola's 20 per cent, and has been the subject of a Wharton business school case study on successful branding.

Another is Banorte, the Mexican bank, one of what Boston Consulting Group calls "emerging market dynamos" – and increasingly they are eating the multinationals' lunch.

A second reason is that more local companies are going international and investing heavily in their brands to do this. According to HSBC, these so-called "multilatinas" may also be better-performing investments than companies focused on the domestic market.

Falabella, the Chilean retailer that is expanding across the continent, is one such case (*see page 2*). Other multilatinas include banks, such as Brazil's Itau and Colombia's Bancolombia, and, more unusually, a clutch of food lines that have capitalised on their brand recognition among expatriates to enter foreign markets – especially among Hispanics in the US.

One of the most striking examples is Nescafé, an instant coffee made by Nestlé. Although in coffee-proud Colombia it is sometimes jokingly referred to as "No-es-café", the company won a bridgehead for the brand in the US thanks to sales there of its Mexican brand, Nescafé Clásico. "Nescafé was not a big brand in the US until Clásico, which has now become one," says Chris Johnson, Nestlé's head of the Americas.

A third reason for branding's uptake in Latin America is the rise of the equity culture – either to fund growth or because a stock market listing can smooth succession at the family-owned

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Winemaker serves to refresh country's global status

Chile

Casillero del Diablo is recognised around the world and has contributed to the country's high standing, reports *Benedict Mander*

More than 100 years ago, when Don Melchor de Concha y Toro noticed that his fine wines were mysteriously vanishing, he decided to spread a rumour that the devil inhabited his cellars.

Little did he know how successful his ruse would be. Not only did the pilfering stop, but the tale also inspired a brand of wine – Casillero del Diablo, or "devil's cellar" in Spanish – which has become so well known that Manchester United FC, also known as "The Red Devils", invited the brand to be its sponsor in 2010.

"This was the step we were missing to become a truly global brand," says Blanca Bustamante, manager of corporate communications at Concha y Toro, Chile's most successful wine producer, which was judged to be the most powerful wine brand in the world in 2014 by Intangible Business, a brand valuation consultancy.

Concha y Toro is just one of a clutch of corporate champions in Chile that have enjoyed success abroad since the country opened its economy to the world.

It established free-trade agreements from the early 1990s with countries that together account for about 80 per cent of global gross domestic product.

Myriam Gómez, executive director of the Image Foundation of Chile, says companies that sought to grow abroad received an initial leg-up thanks to the positive image that Chile already enjoyed, especially in Latin America, as a stable and reliable country.

This especially benefited retailers, such as Falabella, which quickly expanded into neighbouring markets once it found there was no more room for growth at home. Chile's retail sector also turned the country into one of the first in the region where department stores offered consumer credit on a mass scale.

"There is a kind of positive feedback loop in which the national brand adds value, while companies in turn contribute through their operations by raising the country's visibility," says Ms Gómez.

> 'We have tried to leverage the umbrella brand that is Chile, and the results are impressive – it really works'

Another reason often cited for the success of Chilean brands abroad is their willingness to adapt their businesses to local markets. For example, Sodimac, the home improvement retailer owned by Falabella, has been judged a "great place to work" by the eponymous website in all countries in which it operates.

When explaining Falabella's success, Gonzalo Somoza, corporate general manager, emphasises the importance of "a profound understanding" of clients and the markets in which the company operates. These include Argentina, Brazil, Colombia and Peru.

Concha y Toro, by contrast has adopted a strategy that emphasises the origin of its wines and the quality of Chile's soil.

"We are ambassadors for Chile," says Ms Bustamante, who describes a "synergy" between the industry and the country that has helped Casillero del Diablo almost quadruple sales over the past decade.

Concha y Toro has sustained average annual sales growth of 16 per cent over the period. In 2003, they were $224m and had risen to $957m in 2013.

Jennyfer Salvo, director of marketing, communications and branding at ProChile, an organisation that promotes Chile's exports, is helping strengthen the brands of sectors that do not boast big companies such as Concha y Toro with already strong brands.

"The state works with those that most need our help. The big companies don't need us," says Ms Salvo.

Chile has more than 25 free trade agreements with more than 60 countries. The agreements have reduced tariffs or in many cases eliminated them, which has improved the competitiveness of Chilean companies abroad.

But since 2009, ProChile has provided extra support and funding to 26 business associations, or about 2,300 small and medium-sized companies, in the belief that they have greater clout when clubbing together.

"We have tried to leverage the umbrella brand that is Chile," says Ms Salvo, who points to the country's association of salmon farmers, which sought ProChile's help to target Brazil. After two years, the programme succeeded in increasing exports to Brazil by 130 per cent, she says.

"The results have been impressive. It really works," she says.

However, she adds: "There is still a lot to do."

Cannabis: legal to plant and consume

Progressive drugs policy helps give image a high

Uruguay

Government measures have captured world attention. *Benedict Mander* reports

Uruguay may not be important in geopolitical terms, but it punches well above its weight in other areas.

It is now applauded as one of the most progressive countries in the world – which makes promoting the national brand much easier for the government agency charged with the task.

Uruguay was named the Economist magazine's first "country of the year" in 2013, in recognition of the government's "path-breaking" reforms. US President Barack Obama this year singled out President José Mujica's "extraordinary credibility" on democracy and human rights.

Most recently, Uruguay caught the world's attention with its attempt to regulate the market for cannabis, becoming the first country in the world to legalise everything from planting and production to consumption.

The value of the country's cannabis market is $30m-$40m. The legislation is at an early stage, but the government is aiming to take the business out of the hands of drug traffickers and ultimately reduce crime.

What is more, Uruguay's anti-tobacco legislation is in the global vanguard. The government has banned multiple sub-brands of cigarettes and the country was the first in the region to ban smoking in enclosed public spaces in 2006. Graphic health warnings cover 80 per cent of both sides of cigarette packets, and brands must use a single marketing image – meaning sub-brands such as Marlboro Red and Marlboro Gold are prohibited.

The legislation is contested by Philip Morris, one of the world's biggest tobacco companies, in the hope of discouraging similar laws elsewhere.

Legalisation of same-sex marriages and the decriminalisation of abortion during Mr Mujica's presidency have put Uruguay ahead of most other countries in the region.

In South America, only Guyana joins Uruguay in permitting unrestricted abortion, while Argentina and Brazil are the only other countries in the region to allow same-sex marriage.

Many of these policies were under discussion before Mr Mujica became president, but the former guerrilla fighter, known for his humble lifestyle, has implemented them.

> 'José Mujica, known for his humble lifestyle, has helped improve the country's reputation'

Larissa Perdomo, who heads the government agency in charge of promoting the national brand, says her organisation's "meagre" budget would never have been able to fund a media campaign capable of generating the kind of coverage that Mr Mujica has achieved.

The Economist cited Uruguay's "admirably self-effacing" leader as the main reason for its decision.

Ms Perdomo points out that the value of Uruguay's brand rose from $23bn in 2011, the year after Mr Mujica took office, to $30bn in 2013, according to Brand Finance, a consultancy.

But Mr Mujica's image is much more positive abroad than it is at home.

Oscar Bottinelli, a pollster at Factum in Montevideo, says the personal qualities that have earned him so much international respect – such as his rejection of authoritarianism and his reflective nature – have generated a feeling of uncertainty among Uruguay's voters.

"There is no clear direction, so people sometimes feel a bit disorientated," he says.

Competition will force state oil producer to come up with slicker act

Mexico Pemex will share the domestic market for the first time. *Jude Webber* looks at the challenge

Wanted: sharp new image for septuagenarian Mexican company with loyal following and the kind of brand recognition many companies would kill for.

It sounds like an advertising agency's dream. But the company in question is widely believed to be bloated, corrupt and inefficient. Its ability to maintain its market share in future is by no means guaranteed, and though it faces immediate challenges, it will not be able to deliver results overnight.

The company is Pemex, the state oil producer, which is facing competition for the first time since its creation in 1938, under a landmark reform pushed through by Enrique Peña Nieto, Mexico's president. Legislation that will open the sector to private investment was passed in August. Private oil companies, including foreign groups, are expected to start piling in next year.

Pemex must reinvent itself if it is to survive. The company has been dogged by a reputation for corruption, including the so-called Pemexgate election campaign finance scandal in the 2000 presidential elections. But at the same time, it is revered by many as a national asset (polls show a majority oppose the reform). Others regard the company as a relic.

How to sell its new image looks as tricky as marketing Marmite, the UK tar-coloured yeast extract loved and loathed in equal measure. "Pemex has to win the future," is the verdict of Rodolfo Milesi, head of the London-based consultancy Branding Latin America.

Under the leadership of Emilio Lozoya, a turnround specialist, Pemex is already in the process of reorganising its activities into two main units: exploration and production and industrial transformation. The latter will bring together natural gas, refining and petrochemicals.

The company has a new remit: to become a "productive state enterprise" – a kind of public company run and performing as if it were in the private sector, and competition will force it to become a meritocracy rather than a bureaucracy.

But for many Mexicans, change will not occur until Pemex's monopoly on petrol station sales ends at the start of 2016. Private companies will be limited to buying fuel from Pemex for one year, but from 2017 can source from wherever they like.

That could be a golden opportunity for rival oil companies.

Pemex fuel stations are franchised rather than owned by the state company. While Pemex-suited attendants currently fill up motorists' tanks, new operators might offer cheaper self-service. Prices are likely to be a determinant, but it remains to be seen if motorists ditch Pemex because they regard it as old-fashioned, or stick with the brand because they would rather buy from the state than a foreign supplier.

Pemex, which has recently worked with Ogilvy Public Relations on its image, expects refreshing its brand to be a gradual process. But Mr Lozoya already has plans to "relaunch the Pemex brand" and revamp the image of its franchised filling stations.

Full service: attendants fill tanks at Pemex petrol stations – Bloomberg

The company overall will target its marketing efforts carefully and hopes to boost international exposure "not as an old-style national oil company, but more like a Petronas or a Statoil", says Rolando Galindo, investor relations manager, referring to the Malaysian and Norwegian state companies. He adds that the company does not want to second-guess the market "You're not going to see thousands of Pemex adverts, it's going to be very focused.

"There has to be something to back this all up . . . or we could fall into the trap of 'What are these guys promising if they haven't done anything?'" He expects greater efficiencies and higher production that he hopes will reinvigorate the brand.

Though companies rebranding themselves often try to freshen up their logos, do not expect the Pemex emblem of an eagle and a drop of oil in Mexico's green, white and red colours to be supplanted yet, Mr Galindo says.

"The logo is the last thing I'd change," agrees Julio Madrazo, a Mexican consultant. "Branding is not just about changing the logo. A true brand becomes a culture – it's the experience.

"[They need] a whole different corporate culture. If Pemex doesn't transform itself into a productive and efficient company, it will be like an old car – one that consumes a lot of gas, is uncomfortable, and isn't so safe."

Mr Milesi of Branding Latin America fears Pemex is not proactive enough in overhauling its image. "I don't think they realise the importance of reconquering the hearts of Mexicans – or can see business opportunities," he says.

Top five Mexican brands, 2014

Rank 2014	Rank change	Brand	Category	Brand value ($m)	Brand value change (%)
1	0	Corona	Beer	8,025	21
2	0	Telcel	Communication Providers	5,308	-19
3	0	Televisa	Communication Providers	3,625	11
4	3	Modelo	Beer	3,477	51
5	1	Telmex	Communication Providers	3,097	12

Source: BrandAnalytics/Millward Brown

Nike scores from the sidelines with ambush marketing

Brazil

The US sportswear brand battled with official sponsors for World Cup supremacy. *Samantha Pearson* reports

Inhabitants of Rio de Janeiro will never forget the hours leading up to this year's World Cup final between Argentina and Germany, as thousands of Argentines descended on their city. Many hung out of the windows of coaches to taunt the Brazilians over their team's 7-1 defeat against Germany five days earlier.

But even before the kick-off, some Germans were celebrating victory – at least those working for Adidas.

The defeat in the semi-finals of the Brazilian and Dutch teams, both sponsored by Nike, the company's biggest rival, meant the final would be entirely Adidas-sponsored for the first time since 1990.

"It was every brand's dream," says Rodrigo Messias, Adidas's 2014 Fifa World Cup project director. "Having two of our biggest assets playing in the final with the World Cup ball is the perfect scenario."

Adidas and US-based Nike dominate the global market for football kits, which Reuters estimates to be worth more than $5bn a year. While Nike is the world's biggest sportswear maker by sales, Adidas has long had the upper hand in football, holding a larger share of soccer-related sales and sponsoring the World Cup since 1970.

Adidas declines to comment on how much it spent on the 2014 World Cup, but analysts estimate its sponsorship of each tournament costs $100m.

However, Nike is gaining ground and is determined to overtake the German company as the world's leading football brand. The US company reported a 21 per cent rise in football sales to $2.3bn in the financial year ending in May, while Adidas has forecast football sales of $2.7bn for the full year of 2014.

But Nike's marketing strategy is different. Rather than paying to be an official sponsor of the World Cup, Nike sponsored individual footballers and teams and pursued strategies effectively to piggyback the event.

In the advertising industry, such techniques are known as "ambush marketing", but Nike dislikes the term.

"We would say that is simply marketing – not ambush marketing," the company said in a statement.

This year, Nike kitted out the highest number of teams – providing uniforms for 10 of the 32, while Adidas provided for nine.

"Our football business has never been stronger," says Trevor Edwards, Nike brand president, adding that there were more players wearing Nike boots in the World Cup this year than all other brands combined.

Like Adidas, Nike declines to comment on the cost of its World Cup marketing campaign. However, it says total global marketing costs surged 36 per cent to $876m in the fourth quarter to May compared with the same period a year earlier, "driven by marketing support for the World Cup".

Marcello Queiroz, editor-in-chief of Jornal Propmark, a Brazilian advertising and marketing magazine, says: "Nike is not an official sponsor, but it employs a type of ambush marketing that is very successful . . . through social media and the sponsorship of individual athletes.

When Brazil first started preparing for the World Cup, it looked as though ambush marketers might win out over official sponsors. After street protests in 2013, public sentiment turned sour, with anger expressed over the amount of public money spent on new stadiums.

Corruption allegations against Fifa, football's governing body, concerning the 2022 contest in Qatar turned more Brazilians against the event.

"Companies tried to associate themselves just with football, distancing themselves from the Fifa brand," says Rafael Alcadipani of the Getulio Vargas Foundation, an academic institution.

However, as the tournament got under way and grew in popularity, the sponsors' investments began to pay off. According to McKinsey, the top 20 sponsors of the tournament in Brazil poured more than $1.4bn into the event.

It was then down to the footballers themselves to determine the fate of the main brands. The brands' sense of relief was perhaps dwarfed only by that felt by the inhabitants of Rio themselves.

After hosting the Argentines for days, they finally watched their neighbouring country's team get beaten by Germany, followed by its fans beginning their more than 30-hour bus trip back home.

Top five Brazilian brands, 2014

Rank 2014	Rank change	Brand	Category	Brand value ($m)	Brand value change (%)
1	0	Skol	Beer	7,055	8
2	1	Bradesco	Financial Institution	4,177	-24
3	2	Brahma	Beer	3,585	-6
4	0	Itaú	Financial Institution	3,376	-16
5	-3	Petrobras	Energy	3,252	-44

Source: BrandAnalytics/Millward Brown

Latin American Brands

Trade slows for retailers in contraband capital

Duty free *Rob Walker* reports from Paraguay's Ciudad del Este, where tourists in search of tax-free shopping are tempted over the border by even cheaper deals

On a busy corner of Calle Florida and Avenida Corrientes in central Buenos Aires, money changers are touting for business. "*Cambio, cambio, pago mas!*" they shout. "Change, change, I pay you more!"

They are known locally as *arbolitos*, or little trees, because of the green US dollar notes they flutter at passersby. Dollars can be swapped for Argentine pesos at much better rates than official levels. And as the cheap money seeps out, it is starting to have an impact on Argentina's retail landscape.

"I really don't get how an illegal activity can happen so openly in the main streets of the capital city," says Andrés Teszkiewicz, a local web designer. "They're the visible face of one of the biggest problems we've got in this country – no confidence in the peso."

That lack of confidence has grown since the government defaulted on its debt at the end of July, and is pushing up the unofficial exchange rate and with it the flow of black-market goods. Pesos exchanged at unofficial rate are known as "blue dollars".

Nowhere is that more manifest than 850 miles north of Buenos Aires on the border where Argentina, Brazil and Paraguay meet, close to the giant Iguazú Falls – one of the region's most popular tourist attractions.

The main city, Ciudad del Este, is on the Paraguayan side. It was carved out of the jungle in the 1950s as an eastern outpost to link Paraguay with Brazil, and the area was declared a tax-free shopping zone.

Over the years, it has morphed into the contraband capital of Latin America, as everything from electronics goods, clothes and toys to alcohol and drugs are funnelled across the border, mostly into Brazil.

The goods are openly carried, driven, pushed and wheeled across the 500m-long "friendship bridge" that links Paraguay to Brazil. There, sophisticated contraband networks are in place to siphon them out.

By some estimates, sales generated in Ciudad del Este constitute, more than half of Paraguay's GDP, which stood at $29.95bn in 2013. But recently, with the growth of the blue dollar, Paraguay has started to lose out to retailers on the formerly low-profile Argentine side.

The biggest is Duty Free Puerto Iguazú, a huge department store owned by Buenos Aires-based London Supply. Staff bend over backwards to lure spenders away from Paraguay.

Big-name brands that have driven Brazil's consumer culture in recent years are on show, from Carolina Herrera perfume, Samsung and Apple smartphones, to Barbie dolls, Nike trainers and Johnnie Walker whisky.

The goods are priced in Argentine pesos at the official exchange rate. But with blue dollar pesos, shoppers – and smugglers – get a much better deal.

Last year, sales of duty-free goods at London Supply rose by 40 per cent, Magdalena Duco, the company's commercial director, told Americas Duty Free & Travel Retailing, a local trade magazine.

"These guys [on the Argentine side] are really organised," says Daniel Mettyear, an analyst with the International Wine and Spirits Record (IWSR), who monitors South American drink consumption.

Taxi drivers in Ciudad del Este are rumoured to be quietly paid by some of the retailers to sweet-talk shoppers and ferry them over the border to the Argentine side. And shoppers staying in hotels in Foz de Iguazú, on the Brazilian side, are offered free same-day delivery.

The ferrying is often a way for tourists to dodge the duty-free allowance that, in theory, puts a cap on the amount any individual can buy tax-free.

Mr Mettyear estimates that competition from the Argentine border has cut alcohol sales in Ciudad del Este by as much as 30 per cent. "They're killing it with all the big brands" he says.

Such tactics are not new. They are the lifeblood of border sales across Latin America, and they help drive up the profile of big brands.

Company executives become cagey when contraband is mentioned – conscious of the billions of dollars governments are losing in tax revenue. But the market is where most border sales end up.

A decade ago, marketing executives talked more openly about contraband. It was, they said, a way to shore up brand volume during periods when exchange rates and tariffs were unfavourable. It was not unusual, even, for the bigger scale contraband "operators" to be wined and dined, according to one person familiar with the matter.

"Contraband is part of the business. It's part of distribution strategy – but companies do not like to talk about it. It's a shady area," says one insider, who asked not to be named.

Latin America's contraband flows have eased over the past decade, reflecting tighter government controls. But it is still big business.

About 9m litres of wine and spirits crossed tax-free from Paraguay to Brazil last year, according to one industry expert. The Brazilian government recently intercepted an aircraft carrying some R$1m ($423,000) worth of undeclared electronics, phones and tablets.

"Contraband and embezzlement definitely cause big losses to the national treasury and to companies as a whole," a representative of the Brazilian Revenue Service said in an emailed statement.

In the first half of this year, it seized nearly R$900m in merchandise, from cigarettes to sunglasses.

The Paraguayan border towns of Pedro Juan Caballero and Salto de Guairá are fast becoming popular black market routes in to Brazil.

Smugglers are no longer just interested in prestige brands. Humdrum products, such as washing powder, cooking oil and staple foods, bought in Argentina with blue dollars, are starting to seep into Paraguay.

Retail businesses in Asunción, Paraguay's capital, complain that this wave of contraband has led to a fall in sales over the first half of the year. Many report contractions of more than 30 per cent.

Most also believe that the worst is yet to come, as the gap between Argentina's official and blue dollar rate gets wider.

Loaded: shoppers head to the border carrying goods bought in Ciudad del Este on the Paraguayan side – Getty

Golden cola makes for an improbable source of national pride

Peru

Inca Kola is among a few privileged beverages more popular in their home markets than Coca-Cola. *Andres Schipani* reports

Reina Huamán, a 52-year-old housewife and occasional cook, returned to her home town of Trujillo this year a heroine, after a trip to Lima.

She had won a television cooking contest sponsored by Inca Kola, the country's favourite soft drink. "This is our national drink, it is something we share at every table in Peru," she says. Despite the whiff of product placement, she is not exaggerating the brand's appeal.

Inca Kola is consumed across all social classes in Peru. It is very sweet, with flavours hard to discern. First-timers might find its colour and taste unpleasant. Jorge Luis Borges, the Argentine writer, was supposed to have described it as "an implausible drink".

And since the yellow-gold beverage was introduced 80 years ago by the drinks company of a British family called Lindley, who had settled in Peru, it has been a source of national pride.

The brand's success has even been highlighted by a leading business school. *Branding Lessons from Inca Kola, the Peruvian Soda That Bested Coca-Cola*, an essay published by the Wharton School of Management at the University of Pennsylvania, says: "The success of Inca Kola also reflects the uniqueness of Peruvian consumers, who tend to have very strong ties to products that they associate with personal and national identity."

Choice: the drink is an acquired taste

Inca Kola is, experts point out, among a few privileged beverages more popular at home than Coca-Cola. Others include Irn-Bru, the best-selling fizzy drink in Scotland.

In 1999, Coca-Cola purchased 38.5 per cent of Inca Kola shares with voting rights from the Lindley Corporation for an undisclosed sum, reported by Wharton to have been $200m, and creating what Coca-Cola's executives now call a "strategic alliance".

The US group has subsequently bought a further 10 per cent of shares without voting rights.

But 15 years on, Inca Kola still outsells Coca-Cola in Peru, with 30 per cent of the market against just over 20 per cent for Coke, says Alfredo Quiñones, Inca Kola brand manager at Coca-Cola in Lima.

Peru's decade-long surge in domestic demand has helped the business grow. About 90 per cent of Inca Kola is sold at small, independent shops and economists believe the continuing success of the beverage lies largely in the hands of housewives, such as Ms Huamán

But Hajime Kasuga, a Peruvian chef who teaches at Le Cordon Bleu school in Lima and was a juror on *The Inca Kola Seasoning*, the television cooking contest that elevated Ms Huamán to a heroine, goes further.

"Inca Kola runs through the veins of Peruvian babies – and that is not an exaggeration."

Kola Real
Cheap and tasteful

Residents in the slums of Armatambo on the outskirts of Lima are not given to enthusiasm. But turn the conversation to Kola Real, a fizzy drink produced by Peru's AJE Group, and all that changes, **writes Andres Schipani**.

"Not only is it cheaper than Coca-Cola, but people love its taste," says Uri, a store owner in a rickety local market.

In Uri's shop, a three-litre bottle of Kola Real costs the local equivalent of $1.75; a same-sized bottle of Coca-Cola costs $3.

For impoverished Peruvians who have migrated to the capital from rural areas, the brand represents good value.

Thanks to a strategy that combines low prices with a focus on fast-growing emerging markets, family-owned AJE is one of the Peru's biggest international corporate successes, having developed a strong presence in Latin America and Asia.

The fifth-biggest soft drinks company in Latin America, AJE last year ranked 21st of soft drinks makers globally, according to market researcher Euromonitor, with sales of about $2bn.

AJE's global sales grew at an average of 22 per cent a year from 2000 to 2013, but its share of the global market is just 0.4 per cent, compared with Coke's 25 per cent and 10.7 per cent for Pepsi.

For Carlos Añaños, a founder of the company and now a member of the board, "AJE's secret of success" is based "on the democratisation of consumption – offering products with an optimal quality/price relationship".

Additional reporting by Ben Bland

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'No one wants to give up their smartphone'

Consumers Shoppers in countries with cooling economies are switching to budget lines – but only if their friends are unlikely to find out, says *Rob Walker*

From Pampers to Panasonic, Latin America's consumers have gorged on big-name global brands for more than a decade. Spurred on by rising prosperity, easier access to credit, and the emergence of glitzy shopping malls, the good times have rolled.

And they have continued to roll even as economies have cooled. Spending in shops across the region topped $1tn last year – up 11 per cent on the year before, according to Euromonitor, the research company. The squeeze on spending power, especially in Brazil and Mexico, barely registered.

"No one wants to give up their smartphones and favourite fashion brands," says Gustavo Koniszczer, the Latin American manager of FutureBrand, a consultancy. "For the middle classes, it's all about aspiration and inclusion."

This is the key, perhaps, to the resilience of sectors such as perfume, electronics, fashion and luxury goods. Brazil for example, has just become the biggest market in the world for Johnnie Walker Scotch whisky, despite the hefty $40 price tag for a bottle.

Brands are badges of social mobility in Latin America, and no one wants to be moving in the wrong direction.

But something has to give. According to the latest consumer survey from LatAm Confidential, an FT research service, more Latin Americans opted for cheaper brands than traded up over the past 12 months. This shift was most pronounced in consumer staples such as shampoo, deodorant and toothpaste – and strongest in Mexico and Argentina.

> 'Trading down on basics is one way to hold on to status brands, such as Apple, Nike and Omega, for longer'

Inconspicuous brands are the most vulnerable to penny-pinching shoppers. No one notices if you switch from a pricey brand of toothpaste such as Oral B to an economy brand such as Sorriso, after all. And the big supermarket chains are realising this, expanding their cheap, own-label ranges – most visibly in Argentina.

It is a telling trend in its own right. The old middle class in Latin America – pre-2000 – would have turned its nose up at supermarket-branded loo rolls. The new middle class is more practical: trading down on the basics is one way to hold on to status brands, such as Apple, Nike and Omega, for longer.

But if confidence continues to fall, particularly in Brazil and Mexico, it is likely to be only a matter of time before sales of status brands begin to suffer too.

To compensate, FutureBrand's Mr Koniszczer believes the next frontier could be Latin America's smaller towns and cities, where spending power is typically lower but consumers are increasingly brand-conscious, thanks to the rapid growth of the internet and cable television. According to Euromonitor, 35 per cent of Latin American households now have broadband, compared with 12 per cent five years ago. A quarter of households have cable television.

"In the hyper-connected Latin America that's emerging, consumers in the provinces and smaller cities are more engaged with what's happening in the world and want to be integrated," says Mr Koniszczer.

Shopping malls could be the best option for companies wanting to penetrate untapped regions. These are the new retail destinations in Latin America and look likely to have a big impact on consumer demand for some time.

Start-ups find growth in Brazil, where young consumers are hungry for novelty

Latin America's 600m population is an irresistible attraction for consumer goods companies. Flourishing emerging markets in the past decade have helped develop local businesses – and Brazil has been no exception.

But the recent slowdown in some of these economies brings new challenges for young brands: they must maintain their domestic appeal while exploring new markets beyond the continent.

Despite their differences, these four newcomers have the same goal: to plug in to Brazil's consumer potential, and to expand beyond Latin America.

Farm Rio
The hip clothing store from Rio de Janeiro has won over young Brazilians with its riotous prints, despite its premium prices. The brand started as a stall at a clothes fair in 1997 and two years later opened its first store in Rio's lively Copacabana neighbourhood. Farm Rio now has 54 stores across Brazil. Along the way, it has expanded its range to include home decor, sports equipment such as surfboards and a children's line called Fábula.

Adidas Originals has collaborated with the brand, launching a sportswear collection this year, featuring floral prints and bright colours.

Amazonia Beverages
A small brand with mighty ambitions, the US-Brazilian drinks venture started in Miami in 2011 and expanded to Brazil a year later. It received an initial investment of $30m from private investors based in Brazil. Revenues to date are $20m. Brand philosophy is all about health, with drinks made from fruits that are believed locally to be potent sources of energy.

The brand has 4,000 points of sale in Brazil. In the US, it is stocked at 7,000 points of sale, including Albertsons, the western grocery chain, and New York's Duane Reade drugstore chain. Amazonia Beverages says it expects to grow 280 per cent in Brazil in 2014, and plans to enter the Middle East.

Bony Açaí
From the Amazon forest to wrestling rings, Bony Açaí has taken the drinks market by storm. The company started in 2006 with the production of the pulp of açaí – a purple indigenous berry – and its derivatives, such as juices, powders and mixes. In 2014, it expects revenues to reach R$45m ($19.6m). Bony Açaí's most innovative move was to extend the shelf life of the product by using Tetra Pak packaging to attract new buyers.

Diletto
Like many Brazilians, the Diletto brand can trace its history to Italy. The ice cream company founded in 2008 owes its secret recipe to Vittorio Scabin, an Italian who arrived in Brazil in the 1940s. His grandson, Leandro Scabin, turned the family recipe into a Brazilian business, known for its high-quality ingredients. In 2013 Diletto's revenue reached R$50m ($21m). In the same year, Innova, a fund owned by the billionaire Jorge Paulo Lemann, acquired a 20 per cent stake for R$100m. The brand now has plans to expand overseas.

Thalita Carrico

Brazil's energetic start-ups (clockwise from top left): a model shows off Farm Rio's collection in collaboration with Adidas; Diletto ice cream; an advertising campaign for Amazonia Beverages; Bony Açaí, made with the pulp of the indigenous berry

Local dynamos gain ground on the world's biggest names

continued from page 1

companies that remain a feature of the region's corporate landscape.

The last reason for the importance of branding is more of the moment. As the region's economies slow with the ebbing of the commodity price boom, companies have had to work their brands harder in order to keep old customers and capture new ones.

"Branding is something that has to be won every day," says Mr Johnson. "It represents trust, and in difficult times people don't want to risk money on a product that does not work. At the same time, if people trust a brand, that allows you to innovate, which is important for value creation."

"De-premiumisation" is the buzz word here. According to a June survey by LatAm Confidential, an FT research service, more Latin American consumers are now trading down when it comes to buying foods and cosmetics brands than are trading up.

One company that spotted and then capitalised on this trend, notes Eduardo Tomiya of São Paulo-based BrandAnalytics, is Brahma with its budget-priced beer, Brahma Fresh. Another is Peru's Kola Real (*see page 3*), which has exported its cheap fizzy drink range to Asia, where it has tapped into a similar emerging consumer class.

$5.7tn	**600m**
Total value of GDP of Latin American economies in 2013, according to the World Bank	Total population of the Latin American region in 2013, according to the World Bank

Still, despite its rising importance, brand value requires a dose of scepticism, especially when comparing Latin American rankings to those ranked globally.

Although brand value is theoretically measurable, it is only possible in a rough-and-ready way. Furthermore, by deriving brand value from market information, the rankings cannot include the many unquoted family-owned Latin American companies.

And Latin American brands remain far smaller than their global counterparts. Corona, the Mexican beer that has Latin America's largest brand value, worth an estimated $8bn, does not make the top 100 global list. (Aldi, the budget retailer, comes last, with a brand value of $9.6bn, while Google comes first with $159bn of brand value.)

Nonetheless, the changes in this year's brand rankings tell interesting stories – and suggest some plausible winners for the coming year.

The biggest corporate fallers were again commodity producers as the China-fuelled commodity price boom continues to come off the boil. Banks also declined, as Latin America's consumer credit boom matures.

Against that, the brand value of retailers and consumer goods companies has continued to rise, which speaks to the region's still-strong consumer demand.

Perhaps the biggest rebranding exercise of the year was Mexico's, following President Enrique Peña Nieto's reform drive. One sign it is gaining traction is how the brand value of Mexican companies has overtaken those of Brazil.

What of the winners and losers in the coming year? Mr Tomiya of BrandAnalytics ventures some informed guesses.

Sectors likely to fare less well include telecoms companies, such as Claro, which are struggling to penetrate more deeply into the region's increasingly value-conscious middle classes.

By contrast, companies likely to do well are those that can consolidate their brand across the region, such as Avianca, the Colombian airline.

"Next year, I think we will see a lot more local icons in the top 50," Mr Tomiya says.

If so, that would spell good news for local brand enthusiasts but tougher times for the multinationals, which may have to buy their way into the region. M&A anyone?

Top 50 Latin American brands, 2014

Rank 2013	Brand	Brand value 2014 ($m)	Brand value 2013 ($m)	Brand value change 2014 versus 2013 (%)	BC Index **	Category	Country
1	Corona	8,025	6,620	21	4	Beer	México
2	Skol	7,055	6,520	8	4	Beer	Brazil
3	Falabella	6,084	5,611	8	4	Retail	Chile
4	Telcel	5,308	6,577	-19	2	Communication Providers	México
5	Bradesco	4,177	5,492	-24	2	Financial Institution	Brazil
6	Sodimac	4,107	3,537	16	5	Retail	Chile
7	Televisa	3,625	3,281	11	2	Communication Providers	México
8	Brahma	3,585	3,803	-6	3	Beer	Brazil
9	Aguila	3,565	3,903	-9	5	Beer	Colombia
10	Modelo	3,477	2,301	51	4	Beer	México
11	Ecopetrol	3,446	5,137	-33	1	Energy	Colombia
12	Claro	3,426	4,454	-23	1	Communication Providers	Latam Brand
13	Itaú	3,376	4,006	-16	2	Financial Institution	Brazil
14	Petrobras	3,252	5,762	-44	1	Energy	Brazil
15	Copec	3,181	3,204	-1	4	Energy	Chile
16	Banco de Chile	3,175	3,632	-13	3	Financial Intitutions	Chile
17	Telmex	3,097	2,768	12	2	Communication Providers	México
18	LAN	3,058	3,274	-7	4	Airlines	Chile
19	Bancolombia	3,006	3,009	0	4	Financial Institution	Colombia
20	Bodega Aurrera	2,804	2,992	-6	2	Retail	México
21	Cemex	2,748	2,034	35	1	Industrial	México
22	Liverpool	2,687	2,066	30	3	Retail	México
23	Bimbo	2,608	2,976	-12	3	Food	México
24	Banorte	2,494	1,567	59	2	Financial Institutions	México
25	Lider	2,486	1,932	29	4	Retail	Chile
26	Sadia	2,466	1,993	24	2	Food	Brazil
27	Banco de Bogota	2,457	2,466	0	3	Financial Institution	Colombia
28	Poker	2,365	2,487	-5	4	Beer	Colombia
29	Natura	2,236	3,707	-40	4	Cosmetics	Brazil
30	Banco Popular	2,084	2,094	-1	3	Financial Institution	Colombia
31	Inbursa	1,759	2,091	-16	1	Financial Institutions	México
32	Cristal	1,630	1,401	16	5	Beer	Perú
33	YPF	1,545	1,272	21	2	Energy	Argentina
34	BCP	1,540	1,636	-6	3	Financial Institution	Perú
35	Davivienda	1,379	1,281	8	4	Financial Institution	Colombia
36	Almacenes Paris	1,262	1,558	-19	4	Retail	Chile
37	Marinela	1,182		n.a.	2	Food	México
38	Antarctica	1,145	1,284	-11	3	Beer	Brazil
39	Soriana	1,109	1,187	-7	2	Retail	México
40	Ipiranga	1,103	972	13	3	Retail	Brazil
41	Bohemia	1,094	1,010	8	4	Beer	Brazil
42	Pilsen Callao	1,076	899	20	5	Beer	Perú
43	Sanborns	1,058	1,465	-28	2	Retail	México
44	Interbank	1,037	1,095	-5	3	Financial Institution	Perú
45	Perdigão	1,005	1,036	-3	2	Food	Brazil
46	Banco Occidente	988	-	n.a.	3	Financial Institution	Colombia
47	Tottus	987	-	n.a.	4	Retail	Chile
48	Banamex	969		n.a.	2	Financial Institutions	México
49	Jumbo	932	1,248	-25	4	Retail	Chile
50	Une	931	-	n.a.	3	Communication Providers	Colombia

* Claro is based in Mexico, but has no operations there
** The Brand Contribution Index runs from 1 (low) up to 5 (high)

Source: BrandAnalytics/Millward Brown