

South of the Border



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MONTERREY, MEXICO, in late July feels like a blast furnace. The dry heat is amplified by the jagged mountains to the south and the desert plains tilting north to the Texas badlands border some 150 miles away. Mexico City may be the cultural and political capital, but Monterrey holds it own as a center of Latin American business. The one daily direct flight from New York is always full.

Despite current political controversy over our southern border, Mexico remains one of the incubators of emerging market retail innovation and worthy of our inspection and respect.

How does the Mexican retail landscape differ? The first major difference is vertical integration. Many of the major retail chains are part of broader holding companies. Some were started by manufacturers with a direct interest in developing and controlling their retail points of sale—finance and consumer credit agencies interested in expansion. They brought not just deals, but intellectual capital and distribution expertise to the table. With winning formulas, they have been able to expand quickly. Imagine the difference when merchants, marketers and brand managers are on the same side of the fence, rather than sitting across the bargaining table. In the United States, we have retail and manufacturing giants, but vertical integration is still in its infancy. Vertical integration is exciting to young, ambitious employees, because the possibilities and pieces of the puzzle are so much more complex. Mexican retail organizations attract well-trained, globally aware executives knowing that success gives them upward career momentum.

Oxxo, the convenience store chain with some



14,000 points of service, is owned by FEMSA, the same group that owns the largest independent bottler of Coca-Cola in the world and the second largest shareholder in Heineken. It doesn't hurt that they also own a popular first division soccer team (Club de Fútbol Monterrey). Oxxo blankets the market. You can stand on a street corner in many Mexican cities and see three locations. The stores are segmented by income and neighborhood, with variations both in presentation and food offerings. They are opportunistic in picking locations, whether across the street from a factory or an office building. Thus, in some markets, they compete with street vendors; in others, corporate food service operations. As anyone in the c-store world knows, what drives traffic is thirst. Having partners in the beverage business lets you experiment and vary the offerings. Innovating at the cold case is at the core of the business. Examples of cold-case innovations I have only seen in Mexico and Brazil are the new beer chillers,

where (thanks to the alcohol content) beer can be kept below freezing. Think of the difference of 4 to 6 degrees colder than pulling that can of beer out of an ice chest. In the heat of summer, how much premium would be paid for that temperature difference? The second example is just creative, which is the photo extension of the POS and billboard campaign at the freezer case.

Elektra, the consumer electronics chain with 3,200 points of sale, is owned by Grupo Salinas. The roots of the company are a consumer finance organization that started opening their own stores and went on to open their own retail bank to service those stores. Azteca Bank is now the sixth largest bank in Mexico and the fourth largest in profitability. Their offering is a cross between

a bank and consumer electronics store. The product in the store is marked with the price based on a weekly payment cycle. So a big screen TV isn't listed at the \$700 full price, but is instead marked at \$26 per week. The bank lends the money to make the purchase. Many C/D market families spend 20 years making a weekly trip to Azteca/Elektra to make cash payments for refrigerators, TVs, computers, motorbikes, bedroom furniture, etc. They have some 12 million customers. The Mexican banking culture, in my experience, is the only one that has done a good job figuring out how to make money from the working class.

If you go south of the border, I suggest you go shopping to experience some of Mexico's retail innovations.

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