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RESEARCH

Brazil, Chile offer more luxury growth opportunities than US, Europe: study

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By RACHEL LAMB

Developing countries including Brazil, Chile, Uruguay, Georgia, China and India are positioning themselves as valuable global retail markets for luxury brands looking to expand in these areas, according to research from A.T. Kearney.

Brazil, Chile, China, Uruguay and India closed out the top five spots. Luxury goods sales in the U.S. and Europe are not growing as fast as these markets, per the study.

“Luxury is not only a large countries business,” said Hana Ben-Shabat, London-based partner for retail practice at A.T. Kearney and co-lead on the study. “There are small countries like Azerbaijan and Mongolia where there is enough wealth to justify entry of a luxury brand."

The Global Retail Development Index publishes a ranking of the top 30 developing countries for global retail expansion.

Emerging talents

There is huge growth potential for luxury brands in the upcoming years in these markets. There is a host of new destinations opening up as countries’ economies are developed, Ms. Ben-Shabat said.

Brazil held the No. 1 spot for the second year in a row.

"Brazil luxury is booming with both local players investing in luxury malls and more foreign luxury brands eyeing the market if they are not already there," Ms. Ben-Shabat said.

Retail sales per capita in Brazil have grown 12 percent per year for the past four years. Furthermore, the retail market size increased 15 percent last year and consumers spending increased 9 percent from 2007.

In addition, 70 percent of 2011 consumer spending was in retail sales.

New luxury retailer C&A in Brazil

Meanwhile, Chile has the second most-sophisticated and competitive retail markets in the region, per A.T. Kearney. In addition to its low inflation and country risk, Chile's expected GDP growth is 6.2 percent in 2012.

China has the No. 3 ranking on the list. Although its retail growth future remains positive, inflationary pressures are driving up rent 30 percent per year and labor costs are growing 15 percent per year.

Benefit Cosmetics in China

In addition, there are more than 100 luxury goods marketers active in China.

“China will continue to be a key market for luxury as it is becoming the largest luxury market globally," Ms. Ben-Shabat said.

At No. 4, Uruguay’s economy is progressing. Its high urbanization and strong consumption levels make it an attractive locale for luxury brands. Its annual GDP growth is 6 percent since 2007.

India is the fifth country with the most potential. It has an accelerated retail market growth of 15-20 percent expected over the next five years. It has a GDP growth of 6-7 percent.

BRIC and mortar
Luxury marketers looking to tap into emerging markets could go about them a few different ways.

Ecommerce is probably the most viable entry mode.

“You can test a market via ecommerce before investing in stores, or you can have local department stores distribute your products while you use digital media to communicate with consumers,” Ms. Ben-Shabat said. “Digital and ecommerce also offer great opportunities to test new markets before opening stores.”

Hugo Boss' site in China

However, brands should also consider opening stores and multichannel marketing, in addition to ecommerce, Ms. Ben-Shabat said.

Emerging markets have the most potential for increasing growth. In fact, luxury good sales in the U.S. and Europe are not growing as fast as these markets.

In addition, as the markets mature, they will likely produce more affluent consumers and those interested in spending money on quality goods.

Brands including Neiman Marcus, Harrods, Louis Vuitton, Benefit Cosmetics and Hugo Boss have already set up shop in emerging markets, and not just the ever-popular China.

"Emerging markets is where the growth is going to come from in the future," Ms. Ben-Shabat said.

"There is extraordinary growth opportunity," she said. "There are a growing number of middle class consumers who are interested in and can invest in luxury."

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York