

REPRINTED FROM:  
*THE ROBIN REPORT*



EXPANDING GLOBALLY?

FALL 2015

 @thestorewpp  
www.wpp.com

THE STORE

WPP

THE WPP GLOBAL  
RETAIL PRACTICE



By Gwen Morrison  
& David Marcotte

# Expanding Globally?

## THEN CONSIDER MEXICO

This is a challenging time for retailers to invest in global expansion. About ten years ago the industry experienced a Gold Rush of sorts, heeding calls to “Go West” (or “Head East,” depending on your perspective) to China and India. Some launched seriously misguided formats, like those of Tesco and Carrefour, that didn’t properly serve local consumer preferences or failed to come to terms with political realities. (Since then, many adjustments have been made. Retailers who had the fortitude to stick it out stayed and eventually grew to understand and manage to the local shoppers’ environment and needs.

More recently, the call was to move into Brazil, Russia and South Africa, the balance of the so-called “BRICS” countries. No longer labeled “emerging markets,” BRICS offered opportunities for fast growth from both new money and the promise of government investments in infrastructure.

However, recent political and economic developments, including unstable currency and concerns about corruption, have caused retailers to rethink where and when to expand across borders. Many have postponed moves into what otherwise might be promising expansion markets. Much of Africa fits this description of potential shaded by high risk. With the possible exception of India, so far none of these regions look very promising in the next few years.

Enter Mexico, where we’ve recently taken a deep look into what we believe are tremendous opportunities for U.S. businesses. There is a longstanding though complex set of relationships between the two countries, intensified by the mechanics of free trade (NAFTA) and

substantial migration across borders. And clearly there is the influence of each culture on the other, with Latino traditions becoming well known in the U.S., and U.S. holidays, brands and entertainment quite familiar within Mexico. All of this makes setting up shop in Mexico far easier for a U.S. retailer than moving to most other countries.

### Why the Time May Be Right for Mexico

Many positive developments and indicators make Mexico worth considering as an expansion site. First and foremost, there is a growing middle class.

Until recently, there were two economic tiers in the country, the very wealthy and the very poor, providing little promise for U.S.-style retail, which serves busy, two-income households. The poor wouldn’t have been able to afford to shop there and the rich, with their big houses and staffs of domestic help, didn’t need it. However, the rapid expansion of middle- and high-quality manufacturing in the last decade has created a growing and educated middle class comprising almost half the country. Mexico now looks quite different than it did in its bipolar past. Mexican shoppers want to shop, and they want good retail experiences.

### Suburban Sprawl

This larger middle class is driving an overall shift of the population to the suburbs, along with a move to dual incomes in most cases. Not only do they want to shop in nicer stores, they want to do so after work and on weekends, which is at odds with the traditional informal

### Q&A with Miguel Flores, American Eagle Outfitters Mexico, who gives further insight into how a U.S.-centric brand can succeed in Mexico.

**Gwen:** How did you decide to launch in Mexico?

**Miguel:** Many retailers don’t pick Mexico as they consider expansion early on. They go to Asia or they go to Europe. At American Eagle Outfitters, we fielded a global study that told us Mexico was an obvious choice. We also knew that Mexicans love our brand and were already transacting heavily in tourist destinations and border stores. Culturally it’s embedded in the lives of Mexicans to go to the U.S. to shop for better value, better service, and better quality. So they are familiar with U.S. retail brands and we knew that AEO as a brand fit right in with Mexico’s teen and young adult aspirations. “Real Clothes for Real People” really strikes a chord with them.

**Gwen:** What hurdles did you see?

**Miguel:** The challenge for us was to overcome the unfortunate percep-

*Continued on page 25*

*Continued on page 24*

Continued from page 23



retailers. Sound familiar? This is exactly where the U.S. was four decades ago, at the start of its big phase of retail sales growth.

Though malls are on a general decline in the U.S. as they age and lose out to online retailers, in Mexico about 50 malls per year, averaging a million square feet each, are being added. Since the new suburbs lack the infrastructure for large shopping areas, and the older cities have real physical constraints to being able to support these requirements, the new malls are being built on commuter routes between suburbs and cities, to give access to both.

The Palacio de Hierro and Liverpool department store chains have been remodeling and expanding their existing malls, and plan on adding five new ones each year between them. The supermarket chains Chedraui and Comercial Mexicana have similar plans.

Mexican shoppers are tuned in to American brands. Hundreds of shopper groups each month take organized bus trips from Mexico to Southern Arizona to stock up on merchandise that is unavailable at home or that is perceived as better priced stateside.

Since the burgeoning middle class does not have household help, there are more home furnishings and kitchen stores. The department stores and malls are creating destination food courts for these time-pressed and experience oriented shoppers.

### The Wealthy Want to Shop, Too

Not to be outdone, the very wealthy are flocking to their own new malls in cities like Cancun, Xalapa, Polanco (within Mexico City), Santa Fe and Monterrey. Carlos Slim, the most successful businessman in Mexico, is committed to creating more of these mega malls and integrated shopping experiences such as those on the north side of Polanco, where he has rebuilt the entire area around the old rail yards into multiple malls, with entertainment centers that include a world-class art museum and aquarium. Crate & Barrel, Saks Fifth Avenue and Gap are now in Carlos Slim's Plaza Carso development.

### Viva American Brands

Mexican shoppers are tuned in to American brands. Hundreds of shopper groups each month take organized bus trips from Mexico to Southern Arizona to stock up on merchandise that is unavailable at home or that is perceived as better priced stateside. But overall these trips are less about pricing and more about experience. The malls, shopping centers and retailers that receive the bulk of these visitors provide a superior shopping environment. It is telling that the older shopping plazas on the south side of Tucson and in the border town of Nogales have lost much of the Mexican trade on which they were built, as

Mexican shoppers drive past them to shop at Macy's, Nordstrom Rack and the major lifestyle malls.

### Challenges Remain

This is not to say that Mexico is an automatic route to success. While we're not exactly saying "Mexico is the new China," there are several challenges to doing business in Mexico.

**Corruption** in Mexico has come more into the glare of the public eye than in the past. However, though still a reality, it is not necessarily on the increase. Key services, such as water and the building of infrastructure, continue to be distorted by 'unseen hands'—but the government has become far more active (and successful) in reducing the impact of bribes and racketeering in some other areas. The police and public security organizations continue to improve, the oil industry has been made partially public, and even the Teachers Union has been challenged. Social Media has played a large part in driving public opinion to force these changes and is providing a backdrop of "social shaming" that has had some effect.

**Infrastructure** is improving more quickly, starting with the modernization of ports on the Pacific and the Gulf, along with the land ports on the U.S.-Mexico border. Rail freight and intermodal containers have improved greatly in the last ten years, resulting in a huge increase in air freight and commercial travel, particularly at the smaller airports. And although the highway system has enjoyed the biggest improvement, it has not kept pace with the increase in passenger cars and trucking. Home delivery remains challenged, with the last 1000 meters from the transportation network to the home still a problem.

**Violence** from the drug cartels is very real, but has lessened greatly in most areas also. It can flare up quickly, however, so it needs to be monitored accordingly. Organized crime is still a concern for business and for individuals in most parts of the country, and retailers have become remarkably quick to shift to a far more nuanced and effective security network to offset this challenge.

### eCommerce Still In Relative Infancy

Although the middle class shopper in Mexico is highly engaged with online activities, including social media tools such as Facebook and Twitter, Mexico's e-commerce sector has barely gotten started. The Latin American pureplay online retailers of Linio.com and MercadoLibra.com do reasonably well, but they also experience limitations in fulfillment due to the evolving infrastructure and perceived dangers of home delivery.

Amazon has announced it will be launching a Mexico site, and is aligning with the large distributor and retailer FEMSA—which not only owns 13,000 OXXO convenience stores and close to the 1,000 drug stores, but is also the largest distributor to the small retail store in the market. Being able to deliver to every neighborhood of any size in the country on a daily basis will be crucial to establishing a stable eCommerce business in Mexico, as will the ability to provide credit to Mexican consumers. So the opportunities in Mexico are primarily in the brick-and-mortar sector, at least for now.

Any U.S. retail brand considering expansion into Mexico must first ask itself a few key questions: How does the brand translate into the Mexican culture? How does the retail and brand experience offered serve unmet shopper needs? Are the broader infrastructure issues something the retailer is willing to deal with?

The growth in Mexico's middle class, increasing demands on consumers' time, and expanding payment options offer a sweet spot of opportunity for many retailers today, and should not be ignored.

Don't let the challenges of Mexico scare you. The ultimate reward might be more than worth the risk. **RR**



**GWEN MORRISON**  
CEO of WPP's  
The Store

*Gwen Morrison's career has been devoted to building brands in the retail space. She is CEO of WPP's The Store, responsible for extending WPP's leadership in retail innovation and supporting global resources for WPP group companies across the Americas and Australasia. She has contributed to Harvard Business Review, Brand Week, and Journal of Brand Strategy. Based in Chicago, she is a guest lecturer at Northwestern University, University of Chicago, and University of Arizona's Terry J. Lundgren Center for Retailing..*



**DAVID MARCOTTE**  
Senior Vice  
President for  
Retail Insights,  
Kantar Retail

*David Marcotte is Kantar Retail's Senior Vice President for Retail Insights in the Americas. He has nearly 20 years working in the Latin American region, and for 20 years was a retailer in the United States and Canada, including at A&P, SuperValu, and Big Y Foods. He is seen as an expert on all the dynamics of Latin American retail infrastructure and government, along with consumer studies.*

## Q&A with Miguel Flores

*Continued from page 23*



tion that you might not get the same quality of service in Mexico as in the U.S., and that the pricing is unfavorable. Shoppers were skeptical that our pricing would be fair. We maintain the same price with currency exchange from one country to the other.

The second issue was that many brands that have a certain positioning in their home market come to Mexico pretending to be something they are not. For consumers who know the brand, they always end up saying "You know, it's not the way I expected it to be here." So we needed to deliver the same standard of experience within the store and online.

**Gwen:** How do you evaluate if particular campaigns originated in the U.S. will play well in Mexico?

**Miguel:** It's always a fine line. We are a U.S.-based brand, and we want to have the same campaigns, but occasionally they don't translate. For example, for holiday last year, the U.S. windows featured down jackets with the line "Get Down." That would not play well, so we substituted a very typical Mexican phrase that means "We're Warming Up." So we keep the brand's DNA and the essence of the promotional message while making it relevant for the local consumer.

**Gwen:** Tell us more about how the AEO brand fits within the competitive set in Mexico.

**Miguel:** The denim market is a 1.7 billion (USD) market in Mexico. We thought that was very attractive. We knew the market was being dominated by traditional players, brands launched over 20 years ago, but that a lot of new brands were also coming, like GAP, Aeropostale, Hollister and Abercrombie. But consumers told us, "I don't like to be told what to wear, I have my own style but I still need some inspiration." They also said they liked our everyday fashion and unique styling. So we loved that positioning. It gave us an amazing opportunity, and we looked at this and we said this is exactly where we want to be. We saw that we could capitalize on our brand strengths and connect with Mexican consumers' personal sense of style.

**Gwen:** Can you describe your launch? Did you have a spokesperson from Mexico?

**Miguel:** The fact that we don't use celebrities worked well for our launch. We opened 18 stores in 12 cities throughout Mexico. Again, "Real Clothes for Real People" allows us to showcase great lifestyle and fun people in everyday life. The trick was to create buzz in social media before we were ready to launch an eCommerce site.

We did this by taking a pop-up experience to universities and malls around the country. We invited people to try on the jeans and share their love of the great fit with their friends. We gave them coupons to redeem at a physical store.

We started with 817,000 people that were already following us on a corporate Facebook page before opening in Mexico. In only two years, we've been able to grow that base to over 2 million people. And then we opened our Twitter organically and already we are at almost 100K people.

**Gwen:** Any advice you would like to share?

**Miguel:** First, we invested the time required to really understand the brand in the context of the Mexican market and our core shopper. We did not rush, in and this was key. Second, we capitalized on our brand's strengths relative to the lifestyle our consumer in Mexico aspires to. Third, we showed respect for the community. We started a campaign to fund public spaces where our consumers go to meet and have fun.

So we heard them, we asked them, we looked at them, and we followed them. We decided on how to approach our customers. We engaged them, we got them to go to the stores, and now the big challenge is to keep it going, to continually exceed our metrics for traffic and conversion.

*Note: At the time of article publishing Miguel Flores has moved on to other endeavors and is no longer Country Leader for AEO.*