Contents
This brief report identifies some of the challenges faced when researching in Latin America and advise how these can be successfully overcome. We cover:

- Introduction: an overview of the economic challenges facing the region
- The changing retail market and developments in ecommerce
- The tech market: how does the tech market differ from other regions, and what are the implications for research?
- The impact of economic conditions on research
- Key markets: research may not be practically possible in every country, so we look at useful proxies
- Fieldwork suppliers: our experience of working with fieldwork suppliers
- Hints and Tips: how best to research across the region
- Appendix A: Population and GDP Statistics
- Appendix B: Useful Statistical Resources

Introduction
Over the past twelve months, many businesses doing business in Latin America have faced fundamental challenges as a result of economic and political instability in the region. A knock-on effect has been to threaten many existing assumptions based on market research with obsolescence and also to challenge some of the industry’s received wisdom about where and how to research.

The region as whole slipped into recession in 2015 for the first time since the economic crash, with an expected contraction of 0.3%. The most important factor in this was Brazil’s dismal economic performance, a result in large part of the collapse in demand for commodities exports to China. However, other countries were also affected with even former stars such as Chile seeing major slowdowns in their rate of growth.

However, the economic slowdown is not the only problem affecting the region. In Brazil inflation exceeded 10% for the first time since 2002, whilst in other countries such as Argentina and Venezuela inflation has become so politically sensitive that official statistics have been subject to manipulation.

The region is also currently experiencing more political instability than usual. Whilst the recent elections in Argentina and Venezuela have generated headlines, Peru also sees a Presidential election in 2016 and even if moves to impeach Dilma Rousseff in Brazil fail, the blow-back from the Petrobras scandal will add to the uncertainty in the region’s largest economy.

Despite all of this, there are significant opportunities, and data from ESOMAR suggests that market research spend in the region remains close to USD2bn per annum.

We continue to receive research briefs covering Latin American markets and we anticipate the number will increase in due course since GDP forecasts in several markets such as Mexico remain favourable and the region as a whole is expected to stabilise in 2016 before returning to growth in 2017.
The channel – responding to a growing middle class

The retail environment in Latin America has become increasingly complex and diverse; for example in Sao Paulo alone, one of Breaking Blue’s technology clients has to manage a channel which runs from roadside kiosks through to high-end retail outlets in major shipping malls, which are at least comparable to those in Europe and North America in terms of their size, footfall and facilities.

A major cause of this has been the rapid growth of the middle class since the turn of the century. A report by the World Bank in 2013 detailed the trend as follows:

More than 50 million people have worked their way up the social and income ladder in Latin America in the past decade to become members of the middle class – an increase of over 50%. Almost one third of Latin American families are now considered to be middle class, a development that has also helped shrink the region’s share of the poor to almost the exact same proportion (or 30% of the population).

Whilst some shoppers are turning to ecommerce (see below), other trends include the rise of increasingly upscale malls, the entry of global players and the gradual emergence of regional giants. A wide range of European and North American retailers have entered the region, using a combination of acquisition, joint ventures with local partners and establishing directly owned operations.

Examples include Carrefour, who has been present in Brazil since 1975, fellow French retailer Casino, who has operations in numerous markets in the region and a leading position in the Brazilian market following their purchase of a significant stake in Grupo Pao de Acucar (GPA) and US brands Office Max and Office Depot.

Unfortunately, even inwards investors who are seeing sales growth have suffered from the region’s declining exchange rates, which have meant that profits are reduced when converted into dollars or Euros.

Possibly a more interesting trend is the emergence of regional operations with a significant presence in multiple countries. A recent profile on Chilean retailer Falabella highlighted important learnings for researchers concerning fundamental differences between the retail markets in each country.

Jordi Gaju, Falabella’s chief development officer, attributes his firm’s success to its understanding of shopping habits, which can vary enormously from country to country. Gisele Bündchen, a Brazilian fashion model, is the face of Falabella department stores across the region.

But there was no point launching one in her native land, where this sort of retail format is practically non-existent and trend-conscious consumers prefer dedicated purveyors of fast fashion.

In Chile, the group’s Sodimac hardware stores are aimed at middle-class DIYers. Their counterparts in Brazil would not dream of lifting a hammer, so branches there are designed to appeal more to builders, plumbers and the like.
When Falabella does expand, it never rushes in. Sometimes, after entering a country and getting a feel for it, it will buy a local firm and combine it with its own branches, to cut costs and tease better deals from suppliers. Last year, for example, Sodimac’s Peruvian business was merged with Maestro, a local DIY chain.

As a result researchers working in this sector need to ensure that they have a thorough understanding of local conditions before commencing work. Even something as apparently simple as a code frame for types of retailer may well need localisation in each market.

The tech market

Latin America has become a very large tech market over the last decade. Mobile phone penetration is equal to Western European and North American levels, and in many countries home computer penetration is also widespread. Despite the recent economic conditions, IT vendors remain committed to the region as evidenced by Apple’s decision to open its first store in Brazil in 2014 and its recent decision to open four new stores in Mexico.

Data from the International Telecommunications Union illustrates the levels of ICT penetration, although readers should be aware that the source data is sometimes limited to urban households and so may overstate penetration at national level:

<table>
<thead>
<tr>
<th>Country</th>
<th>Mobile phone penetration</th>
<th>Home computer penetration</th>
<th>Home landline penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>86%</td>
<td>51%</td>
<td>56%</td>
</tr>
<tr>
<td>Brazil</td>
<td>92%</td>
<td>45%</td>
<td>35%</td>
</tr>
<tr>
<td>Colombia</td>
<td>95%</td>
<td>45%</td>
<td>34%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>82%</td>
<td>36%</td>
<td>42%</td>
</tr>
<tr>
<td>Mexico</td>
<td>78%</td>
<td>38%</td>
<td>42%</td>
</tr>
<tr>
<td>Peru</td>
<td>82%</td>
<td>31%</td>
<td>29%</td>
</tr>
</tbody>
</table>


This has major implications for research design in the region. Any consumer research design that does not involve reaching mobile-only homes is completely unrepresentative of the population, and there is a strong case for saying that internet samples are more representative of the middle class population than landline samples, although both are still clearly biased towards urban areas and middle- and higher-income groups.
ecommerce, a USD50bn market, but with unique challenges

Breaking Blue has been tracking the proportion of ecommerce sales for a leading consumer tech client since 2009 and these have now risen to 5%, with the highest proportion in Brazil.

This is consistent with results published by ecommerce specialists showing that the proportion of all retail sales accounted for by ecommerce is now approximately 2.5% with IT products being among the most commonly purchased online.

While this may seem a small percentage, there are two reasons why this market should not be ignored. Firstly, the size of the region means that a 2.5% share implies an ecommerce market of some USD50bn. In the case of Brazil this means it is one of the ten largest ecommerce markets globally. Secondly, the low starting point means that even an increase to 3.5% would result in that total growing by USD20bn per annum.

Feedback from Breaking Blue clients, confirmed by research from specialist Forester, shows that ecommerce sites need a different fulfilment model in the region. Delivery is problematic, meaning that vendors need to offer payment on delivery (in common with markets like China this is reinforced by concerns about counterfeit products).

Historically, this meant using cumbersome systems such as Boleto, allowing customers to either visit a bank or retail outlet to make the cash payment. However the situation is improving with the adoption of solutions such as EBANX allowing electronic payment.

Obviously for researchers this means paying attention to the concepts you are testing in this space and your questionnaire design.

Exchange rates, a crucial factor to understanding market trends and advising clients

Businesses importing into the region have been faced with a further challenge over the past two years, which has been the steady appreciation of the dollar against most of the local currencies.

This has left importers facing the unenviable choice of leaving prices unchanged in local currency to protect sales and accepting reduced revenue or increasing prices to maintain revenue and facing declining sales. This effect is compounded where the competition is priced in local currency.

Analysis conducted by Breaking Blue for one of its clients in Mexico, looking at the effects of the last two currency devaluations, showed a stronger relationship between their market share and the exchange rate than with any other economic variable.
Whilst this issue does not directly impact on research design, analysts reporting on market sizing and share data must absolutely understand the client’s pricing model to be able to offer informed commentary.

Likewise agencies advising clients on NDP and market entry would be well advised to extensively stress test their results well beyond the bounds normally allowed in price trade-off exercises in Conjoint. For example, the Brazilian Real has moved from 2.7/USD to 3.9/USD in twelve months, meaning that a client seeking to maintain their revenue in US dollars would need to have increased their prices by 45%.

Key markets

Given that most clients will be unable to commit to a comprehensive survey of the region, it becomes necessary to decide which markets to use as a proxy.

This is a similar challenge to the one clients face when commissioning research in Asia or Africa, however, in Latin America is it easy to be lured into a false sense of security due to the dominance of the key largest markets when GDP and population are considered.

Data from ESOMAR in 2014 showed that Brazil alone accounted for nearly 40% of research spend in the region, which broadly reflects its share of GDP, but implies that many clients may well only be researching one or two markets in the region. This can lead to researchers ending up with an incomplete or unrepresentative view of the whole of region, especially since the two largest markets are atypical in many regards.

Conversely, relative to the size of its economy, research spend in Argentina is limited and it will be interesting to see if this starts to change as the new Government seeks to normalise the economy.

The most common countries chosen as proxies for these regions are:

- **Brazil** – the largest market in the region, accounting for approximately 40% of GDP and the leading ecommerce market. But Brazil is atypical in some aspects: its retail market is hugely fragmented, labour force participation rate is unusually high and employment is more formalised than elsewhere.

- **Mexico** – the second largest economy and research market, and the leading luxury goods market in the region. However, it is atypical in some key aspects, often due to its membership of NAFTA. As a retail market it is relatively consolidated, and major US retail brands have a strong presence. Its industrial base is tied much more closely to the US and less dependent on commodities.

- **Colombia** – the third largest research market in the region according to ESOMAR, and a potential proxy for the lower income markets with less formalised employment in the region such as Ecuador and Peru (which provides an alternative proxy for this segment).

- **Chile** – the fourth largest research market in the region, ahead of Argentina despite the latter’s much larger economy. A strong economy and best public sector governance; most open for foreign trade and investment, but GDP and formalisation of labour force is atypically high for the region.
Fieldwork suppliers

Many challenges involved in purchasing fieldwork are similar to those found in Asia and Africa. These include a lack of agencies able to service the whole region, variable standards of project management and quality control, and issues building representative samples. If you are commissioning a significant study we recommend paying particular attention to the capacity of the agencies you are commissioning.

The widespread use of Spanish and the availability of cheap international telecoms deals means many agencies claim to be able to offer multi-country quotes, but they will often lack the infrastructure to handle large projects simultaneously.

All of the major global web panel providers are present in the region and most have panels of some sort in the key research markets. However, our experience is that in many cases the panel sizes are limited and they will need to partner with local providers such as Livra.

Hints and Tips

There are major cultural differences in how people answer questions. Here’s some practical advice:

- Even within countries, there are major regional differences, which means that attention should be paid to ensuring that you either have a nationally representative sample or that you have a good mix of cities and regions covered.

- Although internet penetration is now significant and there are panels of a considerable size in most markets, these panels still contain important biases. In general panellists are younger, better educated, and more metropolitan and have higher income standards than the general population. Particular attention should be paid to quotas unless your client is likely to have a similar customer base (as a tech client might).

- Weighting and grossing up of sample data is a task of considerable complexity. Besides the aforementioned challenges in obtaining a representative samples, government statistics are of variable quality and the informal economy can hugely impact on B2B market sizing.

- If undertaking fieldwork ensure that you have discussed local conditions with your clients and fieldwork partners. There are areas (Ciudad Juarez for example) where you shouldn’t recommend face-to-face research for example.

- Translations should be undertaken by local teams or ex-pats; in particular “European” versions of Spanish or Portuguese questionnaires should not be used without localisation.
## Appendix A: Population and GDP Statistics

GDP and GDP per capita of selected markets

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP est. (USD millions)</th>
<th>GDP per capita (USD)</th>
<th>GDP forecast 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2,346,076</td>
<td>11,384</td>
<td>(-2.8%)</td>
</tr>
<tr>
<td>Mexico</td>
<td>1,294,000</td>
<td>10,326</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Argentina</td>
<td>537,660</td>
<td>12,510</td>
<td>+0.2%</td>
</tr>
<tr>
<td>Colombia</td>
<td>377,740</td>
<td>7,904</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Chile</td>
<td>258,062</td>
<td>14,528</td>
<td>+2.3%</td>
</tr>
<tr>
<td>Peru</td>
<td>202,596</td>
<td>6,541</td>
<td>+3.4%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>100,917</td>
<td>6,326</td>
<td>(-0.8%)</td>
</tr>
<tr>
<td>Venezuela</td>
<td>N/A</td>
<td>N/A</td>
<td>(-4.8%)</td>
</tr>
<tr>
<td>Guatemala</td>
<td>58,827</td>
<td>3,673</td>
<td>+3.5%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>57,471</td>
<td>16,807</td>
<td>+1.6%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>49,553</td>
<td>10,415</td>
<td>+3.6%</td>
</tr>
<tr>
<td>Panama</td>
<td>46,213</td>
<td>11,949</td>
<td>+6.3%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>32,996</td>
<td>3,124</td>
<td>+3.7%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>30,881</td>
<td>4,713</td>
<td>+3.7%</td>
</tr>
</tbody>
</table>

Population and employment data of selected markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Labour Force (as a percentage of population)</th>
<th>Unemployment</th>
<th>Informal employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>206,077,898</td>
<td>109,842,906 (53%)</td>
<td>6.8%</td>
<td>37%</td>
</tr>
<tr>
<td>Mexico</td>
<td>125,385,833</td>
<td>55,561,477 (44%)</td>
<td>4.9%</td>
<td>54%</td>
</tr>
<tr>
<td>Argentina</td>
<td>42,980,026</td>
<td>19,540,451 (45%)</td>
<td>8.2%</td>
<td>57%</td>
</tr>
<tr>
<td>Colombia</td>
<td>47,791,393</td>
<td>24,290,685 (51%)</td>
<td>10.1%</td>
<td>55%</td>
</tr>
<tr>
<td>Chile</td>
<td>17,762,647</td>
<td>8,745,002 (49%)</td>
<td>6.4%</td>
<td>36% (Est)</td>
</tr>
<tr>
<td>Peru</td>
<td>30,973,148</td>
<td>16,973,529 (55%)</td>
<td>4.2%</td>
<td>64%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>15,902,916</td>
<td>7,720,071 (49%)</td>
<td>4.6%</td>
<td>49%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>30,693,827</td>
<td>14,304,546 (47%)</td>
<td>8.6%</td>
<td>62% (Est)</td>
</tr>
<tr>
<td>Guatemala</td>
<td>16,015,494</td>
<td>6,827,724 (43%)</td>
<td>2.9%</td>
<td>74%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>3,419,516</td>
<td>1,763,727 (52%)</td>
<td>7.0%</td>
<td>33%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4,757,606</td>
<td>2,316,957 (49%)</td>
<td>8.3%</td>
<td>31%</td>
</tr>
<tr>
<td>Panama</td>
<td>3,867,535</td>
<td>1,837,203 (48%)</td>
<td>4.3%</td>
<td>44% (Est)</td>
</tr>
<tr>
<td>Bolivia</td>
<td>10,561,887</td>
<td>5,145,858 (48%)</td>
<td>2.7%</td>
<td>40%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>6,552,518</td>
<td>3,202,754 (49%)</td>
<td>4.5%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Appendix B: Useful Statistical Resources

International Telecommunications Union: *data on consumer access to ICT (especially mobile comms)*

Statistical Sites on the World Wide Web: *US Bureau of Labour Statistics page with links to the official statistics bodies in almost every country.*
http://www.bls.gov/bls/other.htm

International Labour Organization: *statistics on population, labour force and employment.*

OECD Statistics: *mainly economic data; contains some good data on the business population, limited coverage of the region since many stats only reported for OECD members.*
http://stats.oecd.org/

Focus Economics: *attractively presented (and free) commentary on economic trends in the region. More up to date than the equivalent OECD data.*
http://www.focus-economics.com/regions/latin-america

CIA World Factbook: *pen portraits, maps and summary statistics for every country.*

UN Statistical Division: *economic and social data, although much of the economic content is actually held on other organisation’s web sites (e.g. ILO).*

World Bank Statistics: *very good source for time series economic data (e.g. GDP per capita).*
http://data.worldbank.org/
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