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# Emerging Markets: The Future Is Now



By L. Felipe Monteiro , INSEAD Assistant Professor of Strategy

**Brazil is far from becoming a developed economy. Those making money there know this and they aren't waiting around for it to happen.**

Great expectations have been set for Brazil. Even before the acronym BRIC was created, Brazil was widely considered “the country of the future”. After it became a “BRIC” country, it was considered almost fate that Brazil was first in line for its natural ascent to economic colossus. Economists, analysts and the media have had many a field day. In 2009, The Economist ran a cover of Christ the Redeemer blasting into the sky like a rocket, followed last year by the cover scene of its plummeting back to earth, asking “Has Brazil blown it?”

This just about sums up the expectations that many outsiders pump into Brazil and then seem deflated when those expectations aren't met. There's no doubt that Brazil still needs fundamental reforms. It has a brutal tax structure for companies, infrastructure investment is well below comparable global averages, education is lacking and a protectionist mindset over business and industry is holding it back from its full potential.

But one need only to take a look at BMW for evidence that opportunities await, despite the challenges. The company just announced the construction of its own Brazilian plant, expected to come on stream this fall. This came just days after Jaguar Land Rover said it would start building vehicles in Brazil in 2016. BMW deems Brazil worthy of its strategic principle of “production follows the market”.

### **Not for beginners**

On a recent study trip to the country for the December 2013 executive MBA cohort we came across other examples of those tapping the market for what it is and reaping massive rewards.

Magazine Luiza, a household and electrical goods retailer, is busy making the best out of Brazil, just the way it is. While the country has successfully lifted millions out of poverty under *Bolsa Familia* policy, there are still 12 million people living in slums. This is a long-term problem that takes a long time to change. But instead of waiting for the perfect conditions, Magazine Luiza is betting on the new additions to the lower middle classes who are purchasing their first fridges and televisions from the slums.

Last year, they expanded their store network into slums where a high and rising amount of family consumption is taking place. The company reported record breaking sales last year. With household penetration of essential products still low, there is room for further growth and they’re tapping into this by lowering the barrier to consumption.

We also heard from Natura, now a global cosmetics company that has gone global by thinking local. The company has blazed the Brazilian trail, so to speak, by using indigenous natural ingredients in its products and holding to its natural positioning in its beauty and personal care products, almost unthinkable for emerging market multinationals from India or China. It is also the founding member of the Union for Ethical BioTrade. It was also number two on the Forbes “World’s Most Sustainable Companies” list, 2013.

Natura promotes conservation and respects local knowledge in its ingredients and its supply chain. This brand has let it stand out among foreign competitors and driven it to international levels. It now has a small presence in France and has over 1 million direct resellers around the world.

### **Brazilian passion**

Those making inroads have also learned that these emerging middle classes are full of promise and in search of status.

Drinks maker, Diageo, is riding a wave of increasing demand for its aspirational brands such as Red Label whiskey. But last year, the company doubled its size in the country by acquiring Agroindustrial Limitada's Ypioca cachaça brand for US\$470 million to further penetrate the rapidly growing consumer wallet.

They also know how to play on the Brazilian need for fun, social status and the different consumption habits of the country. Shedding its Western image, their ad for Ypioca features John Travolta walking the Copacabana beach, embracing the locals and playing football with them. Instead of waiting for the middle class to become established, they're capturing the climbers with aspirational brands as they emerge.

This is further reflected in Brazil's position as the third largest market for perfumes and cosmetics and the second largest market for L'Oréal's luxury brand Lancôme.

### **Diversity and pride**

One of the executives who discussed doing business in Brazil with us was Didier Tisserand, chief executive of L'Oréal Brasil. The company has established eight regions in the world and only one of them is a country, Brazil, a testament to the diversity and scope of its market. Interestingly, thanks to decades of immigrants joining its indigenous peoples, Brazil has more types of human hair than any other country, which explains L'Oréal's significant presence and illustrates the country's diverse demographic dividends for global giants.

Common to all of these success stories is a bet on the Brazil of today. Harinda Katugaha, one of the executive MBA participants very nicely summarised what lies beneath these highly localised and integrated approaches to doing business in Brazil: "Countries like Brazil are proud. They want to see local successes, not the international cookie-cutter coming in and collecting all the chips."

### **The future is here already**

Much is said about Brazil's future. But the build-up of expectations also causes frustration when those expectations aren't met. I would venture to

say that Brazil has so much potential now. It has a huge internal market, a sophisticated business community, a strong democracy, rich culture and unparalleled diversity in its population which all makes for broader opportunities. But don't expect an easy ride. Emergence looks much more like a Brazilian road full of bumps here and there than a beautifully paved upward road to a Swiss mountain resort.

While stronger domestic growth in previous years has masked the significant problems I have outlined, such as infrastructure, red tape and education, now they are more evident than ever and require deep reforms. But I believe there is no point in waiting for these to be fixed. There are significant opportunities beneath the surface that are emerging every day. Is it going to be easy? Leonard Rodrigues, another EMBA class participant answers that question: "It's like driving in the fog. Whatever you do, you cannot know what is coming. A key success factor in emergence is flexibility and adaptability."

Believing in a quick and smooth emergence of Brazil is only cause for disappointment. The future, with its ups and downs, is already here, so what are you waiting for?

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