



2023 Trends for South America's Consumer and Retail industry

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Retailers are preparing to face a new year full of obstacles and highly complex scenarios. To that end, as shown in a recent report by KPMG International, it is essential to understand the interaction between the growing set of tensions affecting the industry and its trends, situation which could help industry entrepreneurs neutralize the “headwinds”, protect their profitability and make the most of growth opportunities.



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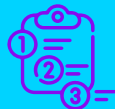
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Introduction

As a result of the extended end of the pandemic and the new geopolitical, economic and social crises in progress, global uncertainty has reached worrisome levels. High inflation rates (a bit more persistent than expected) and interest rates, which erode consumers’ purchasing power, put pressure on the companies’ profit margins and restrict investment plans in most regions around the world, converge today with shy growth rates and the perplexity of what lies ahead. In this environment, although several industries have proven to be prepared for the current circumstances, the consumer industry stands out, showing resilience and innovation and becoming decisive to tackle the health crisis, fostering the “economy resumption” and adapting to an ever-changing demand, which has spurred new habits and customs in consumers that are now the norm or “fertile land” to boost growth.

In this scenario, a recent report by **KPMG International**¹, based on the conclusions of the last meeting held by the **National Retail Federation** (NRF Big Show, 2023), which gathered more than 35,000 professionals from the industry of 75 countries in January 2023, stressed the importance of industry entrepreneurs understanding the interaction between **three forces** that are remodeling the industry: people (1); the planet (2); profit (or simply *profits*) (3); and, moreover, a **fourth one** that cannot be ignored, not only for its relevance and current importance, but also for its relationship with the previous three: the purpose (4).

These “**4Ps**”, which are presented almost in opposition to known “**4Ps of marketing**” (for example, *product, price, promotion and point of sale*), offer a new analysis situation that tries to summarize all the influences that shape the retail industry and, in general, bind corporate purposes and those of stakeholders in a more efficient manner. Additionally, it also invites retailers – and businessmen from all industries in general – to rethink their business models to enable the development of an adaptable strategy that may mitigate current risks and expand results in a context of fast transformation.

As described in the aforementioned report, these forces contain **nine pillars or topics that compete with one another to impact, in different manners, entrepreneurs and their strategies; and the main trends that are transforming the consumer industry originate in them, or can be found in them.** To that end, the pillars described above consist of: (1) employees, consumers and stakeholders; (2) sustainability, society and regulation; and (3) protecting profit margins,

growth and new business models and innovation. As an example, we could stress that **digitalization and the creation of new business models** (an always current trend, driven by constant changes in consumption habits) result from the convergence between the three above-mentioned forces, i.e., people, the planet and profit. More specifically, they result from the combination between the “consumer”, “margin protection”, “growth”, “sustainability” and “new models and innovation” pillars. Or **the cost of doing business**, a trend that arises almost entirely from the “profit” force, but is the “margin protection” pillar that shapes it.

This framework is particularly important for retailers in the South America region, given that it offers a **simple framework, allowing them to focus on the areas of greatest interest and to devise business plans and strategies more adequate for their markets**, in which certain trends may be stronger or more persistent than others. Such adaptability is decisive if we take into account, as shown by KPMG’s survey of executives from all over



the world (**KPMG 2022 CEO Outlook²**), that most of the **South American retail entrepreneurs'** concerns reside in economic factors, such as inflation, high interest rates and the effects of a possible global recession, in addition to the uncertain scenario that companies usually face in this region, whether as a result of local or global crises, which are usually more related to geopolitical changes, decisions taken in the political and economic order of developed countries that have a negative impact on the region or the mere credit shortage, situation which obliges them to constantly reshape the strategy to protect their profitability, set priorities and remain resilient.

In this new edition of KPMG's **traditional report on trends in the consumer and retail industry in South America**, the strengths framework described above is used to address the trends that KPMG's experts believe will affect the industry during 2023 and the next years. Accordingly, the following section analyzes **digitalization and new business models**, including omnichannel and the process of continuously adapting to consumer demand by means of customer-centered strategies (a trend that arises from the intersection between the forces represented by *people, the planet and profit*); the **cost of doing business**; (which derives from *profit*); **data power and their responsible use** (*people, profits and the planet*); **efficient talent management and relationship with other stakeholders** (*people*); and, ultimately, **regulation and the role of the retailer on the ESG agenda** (*people and the planet*). Similarly, although each of the aforementioned trends has an intrinsic and direct relationship with the company's *purpose*, the final considerations of this work are dedicated to the fourth "P", i.e. how the weight attributed to each of the first three "Ps" in the equation of strengths determines not only the trends that the entrepreneur will prioritize, but also the *purpose* your company will have. Similarly to previous editions, in addition to detailing those trends and relating them to the new analysis framework, **some regional reference cases are presented to** show how the consumer industry is putting them into practice to face a future which, beforehand, will be full of obstacles.



Trends in consumption and retail in South America according to the 4P framework

As suggested by KPMG’s report *Retail’s Delicate Balance*³, the structure presented by KPMG allows each retailer or entrepreneur to analyze the existing tensions and harmonies between their components – which will be unique for each company, given that they depend on how organizations position themselves towards people, the planet and profits (Figure 1) – thus seeking a balance by switching the weight of each element into the forces equation. Therefore, some retailers may direct their business model more towards people and profits, while others may value more the planet and people, and so on. Of course, these decisions will also determine which trends will be prioritized and define or shape in a certain way the fourth “P” of their combination, i.e., their purpose.

Figure N° 1:
The tension structure for the retail industry



Source: Retail’s delicate balance. KPMG International. 2023



For example, according to the results of **KPMG 2022 CEO Outlook** considering the growing uncertainty and its impact on existing economic crises, a large number of **South American retailers** is prioritizing the diversification of sources in their supply chains, reconsidering certain investments and managing costs, including increases in the prices of their products. Meanwhile, others are reducing margins, increasing productivity levels and decreasing the number of hires. However, everyone agrees that operating priorities for growth will focus on **adjusting costs and capital to high levels of inflation and to adapt to current geopolitical problems**. In general terms, those “decisions” may indicate that the South American retailer is concentrating its energies mainly in the forces represented by *People* and *Profit*, which somehow determine that certain trends, such as the new business models, their cost and the efficient management of talents, are the basis of their strategy.

The remainder of this section is dedicated to describing the development of the **trends described** in the introduction and **how they relate to the components that determine this framework of strengths and to the purpose that they seek to follow**. Additionally, **some reference cases valid for South America are presented**, aiming at showing, in addition to the “theory,” the impact they are making in our region, particularly on the **South American consumer and retail industry**.

Operating priorities for growth will focus on adjusting costs and capital to high levels of inflation and to adapt to current geopolitical problems.

I. Digitalization and new business models. The centrality on the client, the pressure on profit margins and new ideas backed by people, the planet and profits in times of crisis.

Another point that stands out in **KPMG’s 2022 CEO Outlook** survey is that most South American leaders in the consumer and retail industry say they are implementing an **aggressive digital investment strategy** to position themselves as “innovative” or “immediate follower” and, at the same time, collaborate **with other companies**. From now on, continuing to grow will be crucial, and this implies not only direct collaboration with but also merger and acquisition strategies of other companies. Several experts and industry and general reports have confirmed, over the past three years, the great progress of digital business transformation as a result of the pandemic and global restrictions implemented to contain the movement of population and allow the world to continue in activity. Some specialized engagements such as the **CIO Survey⁴ conducted by KPMG and Harvey Nash**, highlighted the unprecedented expansion of technology expenditures that companies have been experiencing since 2020. The

study highlights that expenses on technology increased about US\$15 billion per week globally during the first part of the pandemic, when it was imperative to make **remote work feasible, reinforce cyber security and promote new sales channels**.

However, the **following years would show that this event would not be an isolated fact**, but rather a turning point, and the beginning of a trend in corporate investments made in technology, to a large degree due to the long duration of the pandemic, and especially in response to the radical change in the social habit, work and people consumption paradigms. To that end, as from 2020, companies from all segments have allocated a significant part of their budgets to technological and digital transformation, and the retail industry is one of the main ones, in particular with respect to **e-commerce** and the creation of (own) **platforms** (such as services and marketplaces) and **new digital environments**, such as the incipient metaverse.



The **Metaverse**, which, according to expert analyses, may represent a market worth almost US\$800 billion by 2024, not only offers opportunities for retail expansion, by also allows the virtual re-creation of experiences and activities lived in the real world – including the simulation of a traditional purchase – but also establishes the basis for the business future, such as the one of the *Non-fungible tokens* (NFTs), which are unique digital items protected by a unique digital signature in blockchain technology, and whose demand is growing rapidly within what we could call the market of “exotic assets”; or cryptocurrencies, which have endured some fall in their market value in the last few months, no one questions that they will become one of the main means of payment used in future transactions. In addition, the most recent survey on *Consumer Pulse* performed by **KPMG** in 2022⁵ showed that there is an increasing and solid adherence to this virtual world, especially among new generations, with 86% of the Generation Z interviewees and 81% of the Generation Y respondents (*Millennials*) stating that they are familiar with this new environment. **The potential of this universe is unlimited and retailers can’t ignore the opportunities.**

Last year’s report already highlighted some examples of companies that were starting to explore this “universe” for commercial and, at the same time, sustainable purposes. This year, the *L’Oreal* case has been one of the most important globally. After becoming the first make-up and hair care brand to venture into the virtual world in 2022, through its *Maybelline New York* and *L’Oreal Professionnel divisions*, the company teamed up with creative agency *Wunderman Thompson* to become the first consumer goods brand to launch products (different hair styles) with the purpose of offering more opportunities to metaverse players to express themselves fully⁶. But this was not the only case, especially if we focus on the region. Recently, a report prepared by **Ipsos** for the **World Economic Forum**⁷ highlighted that many Latin American countries such as **Argentina, Colombia, Mexico, and Brazil** are among the most enthusiastic. The latter four pose the best prospects of success for the metaverse, including better ones than their peers in developed regions. In **Brazil**, for example, the *Carrefour Brasil Group* is taking its first steps in the metaverse. In 2022, the company acquired a piece of land in the metaverse *The Sandbox* to actively participate, together with other countries, in

the video game release *The Last Beehive* and *Save the Bees*, whose purpose is to raise awareness about the importance of bees and to raise funds to save them by selling NFBees, the Carrefour

Latin America’s e-commerce market reached US\$125 billion in retail sales (a 34% increase when compared with 2020). That amount is expected to double by 2027, reaching US\$243 billion.

NFTs created to that end⁸. Another company, the producer of Lacta chocolates, in a partnership with *Super Muffato*, offered its Brazilian customers the possibility of acquiring chocolate eggs at a virtual store last Easter, and the *Muffato*⁹ network was in

charge of their delivery. Similarly, in **Argentina**, the company *Go2Future* already has a shopping mall called *Metaverse Mall*, where customers can buy beverages, food and other products in a fully virtual environment that replicates 100% of the physical experience in a store or market.

Related to what has been described above, Statista’s digital market prospects division **recently estimated that, in 2022**¹⁰, Latin America’s e-commerce market **reached US\$125 billion in retail sales (a 34% increase when compared with 2020). That amount is expected to double by 2027, reaching US\$243 billion.** In this scenario, the same source forecasts that Brazil, **Argentina and Mexico**, which have Latin America’s largest e-commerce markets, will duplicate retail sales by 2027, while **Peru**, with a forecast growth of 78%, could catch up **Chile’s** or **Colombia’s** turnover by this year. This e-commerce boost was supported both by the increase in sales using existing platforms and by those sales generated by the digital sales platforms that were emerging at the time. As from 2020, they have not only been the most efficient way to sustain retail activity in response to the lockdowns imposed by the health



crisis, but also an integral part of the **customer-centered omnichannel** strategies that companies are currently implementing to remain relevant and resilient. Although there are many examples to that end, three cases can be highlighted in the region: *Rappi* and *CornerShop* in Colombia and *Mercadolibre* in Peru, **which, in a certain manner, illustrate how retailers are taking advantage of those trends in our region.**

Since its foundation in 2015, *Rappi* has become present in the daily lives of millions of South Americans. In addition to becoming the first Colombian unicorn, the startup, which is already a benchmark among home delivery platforms, is present in nine Latin American countries, has more than 30 million users and continues to take solid steps towards the next stage of its evolution. That's why the company recently put into practice *Rappi Turbo*¹¹, an initiative whose promise is to deliver dishes and menus at home or at the office in just 10 to 15 minutes, and which has experienced significant growth in Colombia since its launch. To make this possible, the company uses the so-called ghost stores or dark stores, which enable the functionality of this model due to the fact they

are located at strategic points, thus speeding up logistics for deliveries. Similarly, CornerShop's online shopping and delivery platform *has* been taking advantage of digitalization to connect consumers to a wide range of establishments by simultaneously offering fast deliveries of goods from supermarkets and local stores. **Comfort and fast purchases are the aspects that stand out in both cases.** Concept to which *Mercadolibre* also adhered, in Peru, with its *Cyber Wow* event, one of the most important e-commerce events in Brazil and in which major offers are made, payment facilities are offered and deliveries are performed in less than 48 hours¹².

However, the companies' investment in technology is not limited only to it: the retail industry has also been allocating significant portions of their budgets to **cyber security**, which has become decisive for success, given the companies' current high dependence on online purchases and the need to ensure that transactions with customers are able to make the latter loyal to the brand, in addition to working as a tool to create a competitive advantage. According to KPMG's most recent global CEOs survey, more than half of South American respondents (52%) said they would be prepared

to face a cyberattack thanks to investments made in this area. This percentage is particularly relevant considering that, according to the last **survey** on cyber security carried out by IBM (IBM, 2022)¹³, retail was the most affected segment by those attacks in Latin America, in 2022.

Furthermore, as highlighted in a report last year, investments aimed at reducing carbon footprint, automating processes within the supply chain or connecting the business ecosystem more efficiently through **emerging technologies**. A significant example is that of the dairy company *Danone*, which has incorporated the care for the planet into its DNA and, in Brazil, it is **starting to use electric trucks JAC iEV1200T to make deliveries in the state of São Paulo**¹⁴. Those means of transportation have a capacity of up to 8.5 tonnes in gross weight and 200 km of autonomy when fully loaded. According to the company, the idea is to use those trucks in the distribution centers of Guarulhos (refrigerated) and Jundiaí (liquids), with the purpose of speeding up the company's path to decarbonization, fighting climate change and offering a higher level of client satisfaction.





Another example is *Mercado Livre*, which has recently announced that it will increase its investments in sustainable mobility to expand its electric vehicle fleet in **Brazil**, Chile and Mexico¹⁵. Accordingly, the region's main e-commerce company plans to add about 400 electric vehicles to its logistics operations in Brazil, increasing the total fleet to 700; at the same time, it will seek to add 400 more vehicles in its fleets in Chile and Mexico. If this project is carried out, *Mercado Livre* will have a total of 1,000 EVs in operation across Latin America. A substantial contribution to fighting climate change and helping with the decarbonization process.

At the same time, we can mention *São Martinho*, one of Brazil's largest bioenergy groups, which, since 2015, has been investing in different initiatives that seek to optimize its business operations by implementing an investment plan in technology – for example, the implementation of a 4G network between 2015 and 2018, the development of a *Center for Agricultural Operations* and its subsequent expansion (between 2018 and 2021), the implementation of *SAP S4 Hana* (SMTO 4.0) in 2021, and the development of the *Digital Platform* and the agro-industrial *Datalake SM* in 2022 – whose last stage was the inauguration of an Innovation Center dedicated to the development of technological solutions that can benefit not only the company, but also the whole agribusiness ecosystem by means of alliances with startups, companies and universities, and for which the implementation of a 5G network was required as well.

This new way of doing business has boosted the **omnichannel** strategy and the **restructuring of the retail value chain around the client**, in an environment marked by prolonged economic crises and ever-changing social demands (particularly in terms of sustainability, diversity, equity and inclusion), which put great pressure on **profit margins**, thus requiring new ideas and, above all, a lot of creativity. Therefore, both the manufacturer and the distributor, as well as the wholesaler and the retailer, are implementing ways to reach the client and win their loyalty, therefore making terms such as D2C (*direct to the consumer*), BOPIS (*buy online, pickup in-store*), BORIS (*buy online, return in-store*), BOPAC (*buy online, pickup curbside*), the so-called “*dark stores*”, hybrid stores, insurance retail, resale of products, second hand products rehab, circular economy and sustainability are all integrated with the business jargon, as well as with the models and strategies that retailers seek to maintain to grow in this new environment.

This is how **manufacturers** are investing in D2C strategies to make their offerings and prices (more attractive) directly to the consumer. This model enables brands to have more control over their business and manage their inventories, storage, sales and transportation more efficiently, given that they will not have to be subject to the demand of intermediaries within the value chain (distributors, wholesalers and retailers), who will seek to maximize their profits by selecting a mix of products that will not always



benefit the manufacturer. However, implementing the D2C model also implies that the manufacturer should always be close to consumers, situation which could mean higher costs when carrying out tasks that are more typical of retailers, such as positioning the brand in all possible sales channels, investing in online sales platforms, analyzing customer data, flagship and pop-up stores and/or managing collaboration initiatives with retailers to display their products to customers. A good example of this category is that of *Electrolux*¹⁶, which, in a partnership with real estate development company *GT Building*, is creating, in **Brazil**, a business model and experience for its clients in the metaverse. The initiative consists of an immersive experience using virtual reality glasses, in which people can go through a 280-sq.m apartment and test the different devices of the renowned brand. Or of the beverage company *Ambev*¹⁷, which also launched *Zé Express*, a beverage distribution system that consists of a smart refrigerator including self-service designed for buildings and locations with a great flow of people. The launch is a bet of the brand on offering clients a combination of convenience and improvement in the purchasing experience, through new consumer opportunities. The project will start to be established in buildings

in São Paulo, working in the same way as free-standing markets, which are already common in buildings, do. **Two innovative manners of reaching clients directly without depending on the conventional distribution chain.**

In addition, while **wholesale** and **retail** companies continue to dedicate resources and efforts to developing and implementing their digital platforms, sharing the purpose of reaching the customer directly, speeding up delivery deadlines and seeking to optimize product flow throughout the supply chain, the **bricks-and-mortar stores**, which are part of the retail strategy, are progressing in the same type of initiatives, by multiplying their aims and changing from simple points of sale to “facilitation” centers. This includes enhancing the customer experience by devising strategies supported by initiatives such as BOPIS, BORIS, BOPAC and dark stores; or fostering collaboration with other companies to offer clients a safe and attractive environment (known as “safe retail sale”), until the loyalty rates increase, providing customers with the physical contact they need to obtain guidance, solve problems, facilitate payments and/or test products (showrooms). This last point is crucial because, contrary to all estimates about its

“inevitable end”, the bricks-and-mortar store has become a crucial asset in the current retail strategy, not only because, with the end of the COVID-19 pandemic, consumers decided to go back to the stores, but also because, in doing so, their demand for a superior purchase experience than the one they were used to have online increased the need for the retailer to train its team, thus making the latter a key resource again and transforming it into a brand ambassador. Now, if consumers had to go to a store, the purchasing experience should highly justify this cost and be worth in comparison with online shopping, which can be made comfortably at home. Under this new model, retailers can invest in automation technologies, releasing employees from routine tasks and allocating resources to their training, so that they are always close to the customer, offering quality experience regardless of whether they choose to buy at a bricks-and-mortar store or online. Additionally, the training integrates employees with the corporate culture, making them more confident and allowing them to align corporate purposes with those of the workforce, thus preventing friction. **This is a model in which all those involved win** and that, according to the results of the most recent **KPMG 2022 CEO Outlook**¹⁸ survey, is being acknowledged

by businessmen themselves, particularly in **South America**, where 55% of respondents said they prioritized their employees’ training, instead of investing in technology (45%). And retailers have also been experiencing the success of the dark store format as a means of speeding up deliveries of products acquired online. Unlike a traditional bricks-and-mortar store, the dark store operates as a mini-center for the distribution of an e-commerce platform, enjoys a strategic location and is fully closed to the public, situation which eliminates the need to build partnerships with other suppliers to be able to make deliveries in very short deadlines. Although this format is not yet popular in **South America**, various brands are investing in this new category, in particular after the pandemic. Companies such as *Rappi* or *Daki* are some of the companies that operate in this segment, with the purpose of fulfilling their promise of “fast deliveries” to their clients.

At last, it is essential that there is **collaboration with, and merger and/or acquisition** of other companies. As highlighted in the 2022 consumer trends report¹⁹, during 2023 and in the following years, those strategies will also have importance in the struggle of companies to remain profitable and gain more market share. In the previous paragraphs, it was stressed that retail stores will bet again on the cooperation with other companies to create a better purchasing experience; as for manufacturers, they may use the resource of collaborating with retailers to **reduce the length of their supply chain** and reach customers faster by placing their products on their “shelves”, including some preferred arrangement. However, the scope of this microtrend does not end there. Many brands trust other companies to create safe, affordable, and appropriate customer shopping experiences; others are merging or acquiring more companies to enhance their operations or merely acquire skills and knowledge, particularly in digital skills, data analyses and data capture (see section **III**), e-commerce and new products. Everything is done to converge on the demands of their consumers, at an even faster pace than the one of the changes that these demands cause. In **South America**, the impact of inflation levels, interest rates and international trade difficulties could reduce or limit companies’ appetite for those development strategies. However, it is no less true that retail, as well as technology and finance industries, is one of the industries that mostly stood out in this investment channel since the pandemic started, not only as a means of surviving the

crisis, but also in order to meet its development goals in the medium and long terms. In **Argentina**, for example, in 2022, the food company *Georgalos* re-acquired a number of trademarks that it had gotten rid of a few years before. Among the recovered goods we could cite the renowned *Mantecol* product line and its processing plant, which had been sold to the *Mondelez Group* in 2001. Likewise, other recent cases that can be highlighted - and which, show, in a certain way, how the retail industry relies on this non-organic development instrument - are the frozen potato producer *Lamb Weston International*, of the United States, which acquired, for US\$42 million, 40% of the joint venture that it has had since 2019 with the **Argentinian** company *Sociedad Comercial del Plata*; and the software developing company focused on the banking industry *Technisys (Argentina)*, which was acquired in 2022 by the US company *SoFi Technologies Inc.*, thus enabling them to achieve the “unicorn” classification.

As highlighted in the 2022 consumer trends report, during 2023 and in the following years, those strategies will also have importance in the struggle of companies to remain profitable and gain more market share



II. The cost of doing business in a highly complex environment. Profit margin as an adjustment variable.

According to a survey conducted by KPMG²⁰, retail profitability has dropped by 50% over the past 10 years in many major markets, putting pressure on profit margins as costs associated with the production of goods, labor, capital, operations and other selling expenses increased. In view of this reality, **retailers cannot simply pass on higher costs to consumers by increasing prices** (although some simply do so), not only due to competitive reasons, but also because they feel a social obligation in relation to the communities where they operate. In such scenario, which limits the initiatives of retailers and, at the same time, causes them to keep investing resources to adapt to trends and fulfill sustainability promises made to their clients and other stakeholders, **creativity to optimize costs is, in general, the only option available to preserve profit margins and continue as a going concern**. Therefore, while some of the industry's companies will follow more radical paths and will not have the alternative but to increase their prices or reduce their margins, others will seek to reduce costs, postpone the hiring of professionals, increase productivity levels and diversify the supply chain by multiplying input sources, shortening the supply chain (to get the supply from the production plant or from the supply center closer), whether by integrating stages, through collaboration with, and merger and/or acquisition of other companies (a strategy learned during the pandemic).

This is particularly true in markets where inflation is a structural problem, as it happens in several **South American** countries. In Brazil, as well as in other developing regions, retailers have turned into expert benchmarks that can offer several lessons on how to thrive in conditions like those faced by the world today, particularly in view of the rise in inflation rates, interest rates reaching record highs, high levels of uncertainty and an increasingly “volatile” consumer, who, because of scarcity, or conviction, constantly adjust their budget by looking for products that combine better prices, quality and purpose. The number of examples – that range from companies that offer premium products at higher prices, so that they are

able cut prices in other more economic and higher demand lines, to those that decide to adapt or reduce their offerings according to the payment capacity of the market they serve – is not small. This is the case of *Coca-Cola FEMSA* do Brasil, Brazil's²¹ largest bottling company and distributor of the *Coca-Cola Company* products, which since 2022 has been selling the original soda line without sugar in totally-recycled 200 ml and 600 ml bottles (i.e. made from other bottles), with the purpose of aligning itself with the circular economy and the new sustainability requirements of its clients, and benefiting from production cost cuts. A concept that is also being adopted by *Nestlé*²², which, in its commitment to contributing to a more sustainable future, is adapting its production processes to that end. Accordingly, the company in **Argentina** reached a 100% neutrality in terms of plastics in 2022, thus obtaining a “Neutral Plastic” verification statement. This means that during the year the company was able to collect and recycle the same quantity and type of plastic as the amount and type of plastic distributed by the company in the market through the packaging of its products; in **Brazil**, the company has recently opened to the public the doors of its recycling center located in the city of Osasco (state of São Paulo), where, since 2019, the company recycles capsules of its *coffee Dolce Gusto*. Consequently, in addition to reducing production costs by using recycled materials, the organization encourages consumers to properly discard waste, strengthening a sustainable [supply] chain and contributing towards a greener future.

At other latitudes of the region, some cases may also be mentioned. For example, the **Colombian** supermarket chains *Ara*, *Éxito* and *Olímpica*, which are reducing the final prices of some of their products in the food basket to help fight the country's inflation, which in April reached 0.78% (monthly percentage) and at an annual rate of almost 13%. Of those three chains, the *Éxito Group* has been the one that best seized the opportunity offered by this situation, launching a line called *Insuperables*, which included more than 500 staples such as rice, oil, eggs, sugar and chicken. This way, the company created a savings alternative and



a relief for Colombian families which has already been implemented in all of its stores, including e-commerce channels. This is a way of staying “close” to its clients and generating customer loyalty.

However, as the aforementioned **KPMG** document suggests, although retailers have a wide variety of short-term tools to maintain or adjust profit margins in times of crisis – or when consumer demand decreases – they usually decide **to reduce investments associated with long-term benefits such as technology acquisition and sustainability improvements**, temporarily releasing budget funds but compromising, in several ways, their future competitiveness. And, in addition to short-term strategies designed to overcome momentary crises or to make adjustments, the retail company’s full strategy (and the full strategy of any part of the value chain in this segment) should be rethought considering not only the management of the risks inherent in the environment (for example, the risks related to talent, the environment, regulations and/or the supply chain), but also mainly a long-term vision, i.e. with a strong investment component in technology, training and, logically, respect for the sustainability requirements of its

clients and other stakeholders. **That is where the success of the company resides.**

And although it seems like a complex purpose for companies, there are already several cases that can be considered examples, in the next few pages, in **South America**. This is the case of *Bancolombia*, one of **Colombia’s main banks**, which encourages measures to promote the financial inclusion of **low-income communities** in their country, offering products and services targeted at that audience. The Bank is also recognized for adopting sustainable practices in its transactions, situation which allowed it to integrate social and environmental aspects with its business model and offer a very attractive mix of products to its clients. Another example is *the Nutresa Group*, a Leading Colombian food company, which committed itself to its communities by using local ingredients, thus reducing the length of the supply chain and the costs involved, as well as the environmental impact and food waste in its operations.

But these are not the only examples. We could also cite the **Chilean multinational Falabella**, which,

in this difficult environment, seeks new means to continue being profitable²³. The sharp fall in consumption, current inflation and global logistics problems caused by the pandemic significantly affected the company’s results during 2022, leading it to take several measures to optimize its costs and speed up the internal transformation aiming at improving its profit margins and maintaining its market leadership. To that end, in addition to investing in a quicker, more simple and more efficient framework, the Company is focusing its efforts on its omnichannel strategy, which seeks to unify all the company’s interaction channels with the client, mainly by developing its digital marketplace, which is already available in **Peru, Chile** and, more recently, in **Colombia**.

In all cases, there is one constant: without failing to implement the short-term solutions required by the context, companies do not give up a business view that helps them keep their clients’ loyalty, pave the way for profitability and not to compromise their long-term competitiveness.



III. The data power and its responsible use as a result of a successful combination of people and the planet

Among the tools that are available to retailers for them to fulfill the complex objectives set in those business models, those for **capturing and analyzing client , vendor and supply chain data are some of the most decisive ones**. Through *big data*, the industry's companies may analyze a massive amount of data to optimize the movement of inputs and products across the supply chain (purchase of inputs and merchandise for resale, inventory management, logistics and distribution, required personnel and operating costs), determine prices and enhance the customer experience and loyalty. In addition, it also allows it to identify behavioral standards, market trends and correlations between different variables that can help the retailer improve its product mix and customer acquisition strategy. In general terms, it can be said that, within the set of elements that allows the optimization of data analysis (*Data Analytics*), we can find the essence of the company's ability to offer clients a **superior purchasing experience**.

As described in the previous section, **the post-pandemic customer has become a more demanding and volatile version of the one that retailers knew before the health crisis**. Today, they demand greater customization of the products they acquire and an excellent experience in doing so. This requires that products for sale be created according to the needs and desires of an increasingly diverse consumer, that input be of quality and arrive timely for manufacturing and that, no matter where they are acquired, the customer's purchasing experience is simple, fast and very satisfactory. In order to meet those requirements, **capturing and analyzing data is essential**.

Retailers are currently able to collect data from their customers through loyalty programs, point of sale terminals (*POS*), track record of purchases, desired and searched products, comments on social networks and online platforms; or through resource planning (*ERP*), inventories and order management

(*OMS*) systems, to optimize the supply channel and their relationship with vendors. Therefore, by using big data and other analytical tools, which can range from descriptive and inferent statistics to algorithms, machine learning (ML), artificial intelligence (AI) and simulations, the captured data can be used to make descriptive analyses (that use historical data series to understand the company's performance, past trends, strengths and weaknesses, etc.), Advanced analyses (which seek to explain the results obtained from the descriptive analysis through data mining, correlation analysis, econometrics and other more advanced methodologies, such as algorithms and Machine Learning (ML), predictive analyses (which take advantage of historical data to calculate the probability and potential impact on certain results in the future, thus allowing entrepreneurs to anticipate and make data-oriented decisions) and prescriptive analyses (which use the results of previous analyses to propose actions), therefore answering questions that help the retailer decide how to act and which is the best strategy to follow. As an example, retailers can use this series of analyses to create smart inventories that automatically detect the lack of products,

or to propose products that fit each customer's tastes by establishing smart signage in their stores. In addition, companies in the industry may use the predictive analysis to determine the potential impact of certain risks on the supply chain or problem situations, by providing solutions to address, mitigate or prevent them. It is also useful for forecasting the average level of customer expenses, customizing their purchasing experience, forecasting retail demand, and analyzing a customer's "journey" to know "where to find them", at any time.

In **Colombia**, for example, the company *S4 AGTECH* uses data analytics to improve productivity and sustainability in agriculture, offering data-oriented solutions (such as sensors and software) which help farmers make balanced decisions about the use of resources, therefore optimizing crop yields and reducing their environmental impact. Something similar happens to the company *Rota N*, located in the city of Medellín, which boosts innovation and technological development by using data to identify economic growth opportunities and improve the quality of life in the city, promoting responsible use of data and ensuring information



security. Following the same trend, the company *Prisma Retail* has recently made an alliance with *Napse*, an omnichannel solutions company with head office located in **Argentina** to help retailers in Latin America increase their profitability by automating processes using artificial intelligence. This way, companies may supplement their product offerings in an application programming interface (API), which integrates the solutions offered by both companies in a native manner, in addition to adapting to different business formats and simultaneously integrating physical and virtual channels. Accordingly, business processes are significantly streamlined to facilitate digital transformation under a 100% omnichannel model²⁴.

However, as highlighted in previous issues of this report, data collection and use, in particular regarding data of clients, should have well established limits to protect their privacy and oblige those in charge of the treatment of such data to obtain the express consent of their holders, explaining how and for which purpose they will be used, in addition to guaranteeing the right of owners to review, ratify and update data, among other requirements. To that end, there are laws or **general data protection regulations** (GDPR) that, in the region of **South America**, as well as in the rest of the world, present several subtleties of the existing normative body depth in the their countries. The cases of **Argentina, Brazil, Colombia, Peru** and **Venezuela** are the most interesting ones in terms of GDPR, since those countries not only recognize the right to privacy, but also recognize *Habeas Date appeals*, which

represent the right itself to personal data protection (ADC, 2016)²⁵. It can be said that **Argentina** has pioneered this field, relying on a more complete regulatory agency (which includes article 43 of Argentina’s Constitution, Act No. 25,326 on Personal Data Protection, Regulatory Decree No. 1558/2001 and the standards issued by *Agency for Access to Public Information*, in addition to adhering to Convention No. 108+ of the European Council, which is a “leading practice” in this field)²⁶. **Brazil**, in turn, has progressed significantly through the creation of the National Data Protection Authority (ANPD) and Acts No. 12,965 on Internet Civil Rights (2014), No. 12,527 on Access to Information (2011) and No. 13,709/2018, known as the General Data Protection Act (LGPD)²⁷.

Meanwhile, other countries such as **Bolivia, Chile, Ecuador and Uruguay**, are also on the right path, discussing bills to regulate the protection of personal data and/or update existing regulatory frameworks. In fact, while **Ecuador** has had an Organic Law on Personal Data Protection since 2021, **Chile** proceeded with, during 2022, its internal debate to decide on whether to replace Act No. 19,628 for Personal Data Protection (1999) with a new standard that would take into consideration international standards, among which the creation of an Independent Data Protection Agency. Clearly, **South America** is taking consistent steps in this area and ensuring a prominent place among regions with the best data protection practices.

I.4 The efficient management of talent and the relationship with other stakeholders: people as drivers of the purpose.

If there are a number of concerns that retail companies have repeatedly highlighted throughout the last issues of KPMG’s **CEO Outlook** survey, those are the impact of reputational risk on consumers and other stakeholders, the inability to improve the employee value proposition (EVP) and the need to retain talents through appropriate salaries in a context of global inflationary pressure. Historically, and in most developed countries, retail has been one of the industries with the highest demand for labor and one of the most important in offering “entry-level jobs”. However, it has also been one of the industries that most resorted, from time to time, to reduce its workforce in critical economic situations, such as the COVID-19 pandemic, underestimating somehow the importance of human resources and their implications in the future. Currently, as a result of the shortage of professionals and the issue of attraction and retention of “talents” emerging as one of the operational risks highlighted by the leaders of almost all economic segments, and the inability to offer appropriate salaries or a proposition of convincing value, together with volatile consumer demand and increasing pressures by interest groups (shareholders, regulatory authorities, investors, etc.), the retail industry should face these problems (which threaten to have an impact on the retailers’ profit margins) using other tools, among which a radical change in the management of employees and stakeholders stands out, and above all, in building a **coherent purpose**.

This shift towards “people” has solid fundamentals in almost all respects that the retailer should take into consideration, from the need to attract qualified employees and train them in order to continue the progress of bricks-and-mortar stores and digital sales platforms – employees who have ceased to be simply sellers to become “ambassadors” of the brand – to attracting and retaining talents, which is necessary to make sense of technological investments and data analysis initiatives, in addition to responding to environmental, social and governance (ESG) demands of consumers and other

stakeholders. Those demands are mainly focused on social issues such as diversity, inclusion, equity, fair compensation, work ethics, individual respect

Historically, and in most developed countries, retail has been one of the industries with the highest demand for labor and one of the most important in offering “entry-level jobs”.

and human rights, among others, and on corporate governance issues, such as transparency, social responsibility and strategic vision. All of this is particularly relevant considering that retailers are

currently recognized as change agents and as an important part of the communities where they operate. The guiding idea behind those changes is, in summary, **building a purpose that meets the needs and demands of an evolving society**. This is a commitment that several companies are already assuming both globally and regionally.

In **Colombia**, for example, the *Sura Group*, a financial services company, has implemented talent development and retention policies, as well as training programs for its employees, at the same time it has been encouraging collaboration with its clients and other stakeholders, and promoting transparency and responsibility in its operations. Likewise, there is a diversified group of regional companies which has been recently awarded for their commitment to attracting and retaining talents. This is the case of *Mercado Libre*, which was recognized in the ninth edition of *Merco Talento’s* ranking as the company with the best talent attraction and retention programs in **Argentina**, closely followed by *Cervecería y Maltería Quilmes* and by *BBVA*, *Santander* and *Galicia*. There are many examples. *General Motors*, which operates in several countries in **South**

America, aims at becoming the most inclusive company in the world. To that end, it has focused on creating an environment in which all current and potential employees can feel comfortable, welcome and valued. The idea is to set up multidisciplinary and diversified teams in which each person is valued and can reach their maximum potential. In other words, a culture based on respect, integrity, responsibility and equality, in which all its members can express themselves and grow. This approach is shared by the well-known Argentinian digital portfolio **MODO**, which is promoting its brand as employer by means of two elements: i) the impact on people, which is decisive for each employee to know how their work contributes towards final results; and ii) a work system that is fully collaborative and multidisciplinary, which helps each employee power their growth.

In short, retail companies are acknowledging their social role and understanding that, in order to focus on customers, **they need to rely on their employees**. According to the results of **Mercer's** most recent survey on human resources trends (Mercer, 2022)²⁸, which counted on the participation of more than 2,400 Human Resources professionals from all over the world, including 186 in **Latin America**, the region's companies are adopting a set of initiatives to foster this transformation, from improving well-being and focusing on developing organizational culture, allowing new ways to work (remote, hybrid and/or independent), to organizing itself based on capabilities to promote collaboration and support diversity, equity and inclusion among employees. Similarly, a survey carried out on human capital priorities in **Argentina by** the international consultancy **PAE** (in 2022)²⁹, which collected the opinions of 121 leading companies in that country in different industries, revealed that human resources priorities are talent retention, competitive compensation granted and employees' emotional well-being, in the **industry and in retail business in particular**.

Those initiatives are of key importance for keeping competitiveness in a market where there is a shortage of talents, especially considering that workers from new generations no longer consider salaries as the only consideration for work, but expect a much more comprehensive "benefit package". It consists of building a

good relationship with the employer and other employees, seeking common interests and having a shared purpose; creating spaces for employees to grow and develop; and to build a culture under which workers feel connected to the brand they work for.

V. Regulation and the role played by the retailer in the ESG agenda. Focus on people and the planet.

According to what was described in the previous section, **retailers should pay attention to the regulatory and government changes in the markets where they operate** and be able to detect the business opportunities these changes generate, in particular with respect to ESG guidelines. Those issues are gaining more importance on the agenda of regulatory agencies, investors, employees and consumers, and deserve special attention if the company seeks to keep and grow in this new scenario. This point is even more relevant if the retailer takes into account that disclosure requirements change all the time, that environmental regulations are increasingly local, challenging global retailers to adapt to very different (and often incompatible) realities, that the risks and opportunities are also specific for each market and, ultimately, the **weight that consumers attach to sustainability in their decision-making may also vary** from one market to the other.

Regardless of what has been said above, retailers should not only see a growing set of sustainability-oriented regulations as a threat, but also should understand that the health of the planet and corporations is interconnected. As a report by **KPMG International suggests**³⁰, "*climate-driven events have the potential to affect everything, from fixed assets and employee safety to the ability to operate together*".

And the retailer plays a key role in preserving the environment and biodiversity, as its actions can significantly contribute to reducing the negative effects of production, packaging and distribution in its value chain. In particular in the current environment, where a significant portion of consumers seek to reward the companies that commit themselves to the planet and ESG factors, and in which stakeholders demand evidence that promises are being fulfilled.

However, there are several initiatives in which retailers follow to adapt and align themselves with demands. In this scenario, two microtrends are gaining ground, thanks to the influence of new generations, **which emphasize the importance of social responsibility, the circular economy and the reduction in the waste and carbon footprint of companies**, are the **resale of second-hand products** (which are gradually stopping to be seen as a second-hand store activity to integrate online sales platforms) and **integration of the retailer with local communities and their interests**. These two initiatives allow retailers to reduce some of the tensions they face and pave the way for higher profitability in a safer and more conducive environment for all those involved in their consumption relationships.

On the one hand, many of the propositions that retailers have been implementing in this new environment seek to meet **the growing demand for sustainability**, which is a priority both for consumers and other stakeholders (shareholders, investors, regulatory agencies and society in general), but, on the other hand, this situation affects both costs and the profitability of companies. A recent survey conducted by KPMG (KPMG International, 2022),³¹ which collected the opinion of 30,000 consumers in 11 countries, showed that 69% of respondents said they were willing **to pay more for sustainable products**, while 87% believe that companies are responsible for producing lasting, easy-to-repair and, above all, **reusable** goods. In addition, 76% agree that protecting the environment is even more important than economic growth. Showing similar results, **ThredUP's annual report** (ThredUP, 2022),³² which monitors the progress of the second-hand market, has forecast that this industry will grow by 127% up to 2026 – a pace three times faster than the one expected for the global clothing market – supported largely by the consumer habits of Generation Z and the millennials, who usually seek to buy second hand items and usually resell before making new purchases. In **Brazil**, for example, a circular economy survey prepared by the online clothing sales platform *Enjoei* (*"Got tired of it"*)³³, and disclosed in mid-June 2023, revealed that, by 2025, about 20% of Brazilians' wardrobes will be made up of second-hand clothes and accessories (in 2021, only 12% of them consisted of pieces of this type). The reasons for this movement are numerous, but the main highlights of the study are the convenience of the lower price, the quality of the pieces of clothing, and, to



a certain extent, the smaller environmental impact this practice represents. The report also noted that three out of every five pieces of clothing produced annually in different parts of the world end up in landfills or are incinerated, situation which has serious effects on the environment. In such scenario, circular economy emerges as a concrete alternative, not only to increase the life cycle of clothes and promote responsible consumption, but also as a means of generating income for those who sell and saving money for those who buy. As an example, *Pernambucanas* has recently launched “Voltei” (“I’ve come back”), a platform for buying and selling second-hand clothes that promotes circular economy and whereby clients can receive up to 50% of the value of each item sold or donate those clothes to *Gerando Falcões* (“*Raising Falcons*”), a social development ecosystem that operates in underprivileged communities across Brazil.

These results clearly show that sustainability is gaining importance in the consumer decision-making. In this sense, **Latin America** is one of the regions that has been enjoying one of the highest increases, in recent years, in the number of users who choose and demand sustainable products, situation which, in a certain manner, facilitated and strengthened the adoption of environmental, social and corporate governance (ESG) criteria in its business ecosystem. A survey conducted by **KPMG in Brazil** and by the **Brazilian Association of Supermarkets (ABRAS)**³⁴, with 354 Brazilian companies, found that **sustainability** is a defining element, given that almost all respondents (91%) said that they took the ESG criteria into consideration in discussions about growth and business continuity, while other 56% said that they had goals to contribute towards the development of regions in which they operate. Similar conclusions can be drawn from KPMG’s annual survey of executives (**KPMG 2022 CEO Outlook**³⁵), in which retail businessmen in the region emphasize the importance of fulfilling the ESG commitments made to clients and other stakeholders, primarily with respect to social (salaries, rights, inclusion, equity, diversity, etc.) and corporate governance aspects, considering the great pressure these groups exert, not only to ensure that these objectives are added to the retailer’s business model, but also to make their progress and results public through ESG reports. Several companies in the industry are already facing these demands in order *not* to run after consumers.

They include from *Colgate*, which, in 2021, launched in Latin America a 100% recyclable toothpaste under the *Colgate Natural Extracts* line, with the purpose of showing a brand committed to the environment and aligned with the demands of its clients and stakeholders³⁶, to the Argentine giant e-commerce *Mercado Libre*, which, in 2022, reported a 29% increase in the consumption levels of sustainable products in its study of online consumer trends³⁷. Similarly, in Colombia, the supermarket chain the *Éxito Group* has implemented development and well-being programs for its employees, including training, social benefits and measures to reconcile work to personal life, in addition to entering into alliances with local suppliers and worked together with the communities where it operates, making a positive impact on society. In addition to its focus on talent management and relationships with stakeholders, the *Éxito Group* assumed a commitment to sustainability and social responsibility by implementing measures to reduce its environmental footprint, promote ethical business practices and contribute to the development of sustainable communities across **Colombia**. In parallel, the Company maintains a program that promotes

entrepreneurship and the creation of jobs in vulnerable communities across the country, known as *Business Éxito (Éxito Empresarial)*. Through this program, the Company offers support and training to local entrepreneurs, thus fostering their economic development and contributing to the well-being of society. A clear example of how a retail company may associate with its communities, attests a purpose with social responsibility and ensures the loyalty of its customers.

In summary, it is worth stressing once more a concept that those reports have used in previous years, not only because it is still significant, but also because it has never been as important as now. **The idea of placing the client at the center of business strategy also means placing communities, employees and other stakeholders’ privileges in such privileged position.** This decision, in addition to offering a clear corporate purpose consistent with social demands related to its environment and other ESG criteria, also seeks to put aside businessmen’s concerns about regulatory frameworks, given that they are created and evolve with consumers and society as references.





This way of doing business has been widely recognized by the business leaders of all industries. The significance of the ESG criteria and the company’s agenda to that end is defining for business, because they can have a direct impact on the companies’ growth and financial performance, in particular because most private and public investors are flowing exclusively to green and/or socially responsible initiatives. In this sense, in KPMG’s most recent survey of executive leaders³⁸, 45% of CEOs said that ESG initiatives significantly improve the financial performance of companies, a vision shared by approximately 50% of the leaders of the consumer industry, both globally and regionally (**South America**). Leaders are starting to understand that companies that adopt ESG factors are the most adequate to ensure talent, keep employees engaged, attract consumers, maintain the audience loyal to the brand and capture investments. **ESG factors ceased to be accessory elements and became a latent necessity to achieve long-term success. Regulations should pave the way for that purpose.**

The significance of the ESG criteria and the company’s agenda to that end is defining for business, because they can have a direct impact on the companies’ growth and financial performance

Final considerations: *purpose* as a result of the equation of forces.

According to **KPMG's** report, based on the results of the last **NRF**, *corporate purpose consists of a construction that aims at prioritizing goals, and first setting the reason for the company's existence*. Although in the past those purposes sought to be aligned with the sole purpose of maximizing the profit of the company and its shareholders, currently, it is about addressing the needs of *people* and the *planet* at the same time. Therefore, the ability to identify and manage tensions and harmonies between those forces is crucial for retailers to make significant decisions in relation to their cultures, markets and industries, and be consistent with the purpose chosen and ensure long-term business success.



With this scenario in mind, retailers can direct their efforts to build an omnichannel business model that has the purpose focused on the customer. In some cases, the focus will be on other stakeholders and/or employees, since those companies believe that, in doing so, they will also be able to make clients loyal. Other retailers will invest in new technologies and capabilities to capture and analyze data in a comprehensive manner, aiming at offering more suitable products. However, there will also be those retailers that will focus on improving the sustainability of their products and anticipating possible regulatory changes, because they understand that this will allow them to achieve more significant market share and ensure their long-term survival. And the ones who will seek to protect their profit margins by cutting costs and adjusting prices, busy in remaining relevant in an increasingly bustling market, will not be just a few. In all cases, **the corporate purpose will be defined according to the weight that the retailer assigns to each of the components within the proposed framework.** That is, the resulting purpose of an equation that includes, at different levels, each of the at-risk forces: people, the planet and profit.

In **South America**, considering the high levels of uncertainty, inflation and low growth that countries (almost) experience in a chronic manner, some retailers will probably channel their efforts to palliative measures aimed at reducing the impact of high costs, periodically adjusting prices and margins, limiting the hiring of professionals, improving productivity levels and allocating resources to diversify their supply chains in a very turbulent international scenario. Those measures clearly bring retailers closer to a purpose more related to short-term survival than long-term prosperity. However, over this work, we have also seen examples of companies that are going far beyond and building a purpose rooted in social responsibility, collaboration and sustainability.

As examples, we can highlight the *Carrefour Group* and the companies *Lacta* and *Electrolux*, which are taking their first steps towards the metaverse, and offering a new channel of contact with their clients in **Brazil**. Or Colombia's initiative of **Rappi Turbo**³⁹, which deploys dark stores to deliver home orders in only 10-15 minutes, and has already experienced a significant growth since its launch. Moreover, in the sustainability scope, the giants *Mercado Livre* and *Danone* are expanding their sustainable transportation fleets in **Brazil** and other countries of the region, such as Chile and Mexico; meanwhile *Coca-Cola FEMSA*, also in **Brazil**, has

been selling, since 2022, the original sugar-free line of the well-known beverage in fully recycled 200-ml and 600-ml bottles. Or *Colombia's Ara, Éxito* and *Olympica* supermarket chains, which are cutting the final prices of some of staples to fight inflation and meet the needs of its customers, thus ensuring their loyalty in the process. All of those contributions are ultimately substantial for boosting business, fighting climate change and helping with decarbonization, in addition to showing **a clear purpose behind business goals.**

In all cases, the combination of forces and the importance that each retailer gives to each element leads to a result which, although different in terms of conception or definition of a purpose, tends to converge to the same point: **the centrality of people. And that should be the way to follow.**



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