

Counterfeits And Credit In Latin American Apparel

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At US\$108 billion, the Latin American apparel market accounts for just 7% of the global market in 2010.

However, it registered 10% value growth, the highest of any region globally. Driving this growth is growing brand awareness and an increased consumption culture. However, these factors are also driving a thriving counterfeit goods market that, if continues unchecked, could prove a stumbling block to the region's ongoing growth.

An ingrained counterfeit culture

While the purchase of low-cost product imitations is a global trend with consumers who want the kudos of owning and wearing a brand without the high-end price tag to match, in Latin America, the problem is perhaps the most serious in the world. According to the World Trade Organization, brand falsifications represent around US\$500 billion a year in sales in Latin America, equating to 8-10% of all commerce. In addition, Latin America hosts two of the world's five largest fake merchandise markets, Ciudad del Este in Paraguay and La Salada in Argentina. The latter attracts approximately 50,000 visitors daily. And these are by no means the only examples; in the vast majority of key Latin American cities, there are well-known markets or neighbourhoods that attract a large number of people looking for and finding cheaper alternatives to the products seen at legal stores.

In Chile, Mercados Persas, similar to flea markets, offer abundant counterfeit clothing at low prices. Meanwhile in Mexico, the size of the illegal apparel market has increased considerably over recent years, and it was reported that, in 2010, it was bigger than the formal market. According to trade sources, the illegal distribution of apparel in Mexico causes losses of about US\$10 billion annually, and was the principal reason for more than 500 companies closing between 2005 and 2010 in the thread-textile-apparel production chain.

In counterfeit markets such as Argentina's La Salada, the mix of merchandise ranges from illegally sold branded clothes, supplied by un reputable sources at much discounted prices, to poor-quality fake garments simply labelled as those of famous brands. Latin American shoppers know the latter goods are fake and of questionable quality, and, to at least a certain extent, know the impact of fake goods on the economy and trading. However, for many, purchasing decisions are not based on quality or the latest trends, but on brand logo, which supersedes all other aspects in terms of importance.

Combating fakes presents a challenge

While the huge counterfeit goods market in Latin America is acknowledged as a problem and there is strong pressure from apparel producers placed on governments in the region to combat these illegal sales, in practice the task is not an easy one. The importing and distributing of counterfeit goods, more often than not manufactured in Asia, in particular China, as well as Peru, is a complex and sophisticated operation that is difficult to combat. When one importing gang is discovered and dismantled, many more remain. Although work into tackling the problem is ongoing, for the foreseeable future, legitimate retailers and the manufacturers of branded apparel must develop their own strategies.

Apparel benefits from a craze for credit

Illegal imports not only impact on the bottom line of retailers and branded product manufacturers, they also risk the long-term health of brands by damaging quality perceptions and impacting on consumer loyalty as a result. It is therefore vital that branded manufacturers tackle the counterfeit problem proactively.

Faced with low interest rates and high levels of inflation in Argentina as well as Brazil, which serves to quickly deflate the relative value of salaries, consumers across the region are spending instead of saving. Credit and store cards have become a key tool behind this expanding consumption and, to date, one of the most important measures attracting clients to legal shopping channels, allowing branded clothing purchases to be covered by installments over several months.

Through credit agreements, consumers can acquire clothing and footwear up to their limit, and then establish fixed payments that can be weekly, fortnightly or monthly. This scheme has proven to be successful in many industries across Latin America, particularly in the case of apparel, where many store cards have essentially become credit cards as they can be used at various retail outlets. In addition, these store cards offer discounts, loyalty programmes, insurance and other complementary services. As a result of Latin Americans' increased brand awareness, a growing number of people are willing to spend large sums of money through loans on apparel, in exchange for the feeling of status they get from wearing high-end brands.

In Argentina, the number of credit cards reached 41 million in 2011, and store cards four million – up from 15 million credit cards and two million store cards in 2006 – in a country with a population of around 40 million people. By utilising credit agreements, Mexico's Coppel, a leading apparel retailer, has evolved from a local business in the northern state of Sinaloa to a nationwide store that has also expanded to Latin America.

Credit will continue to drive apparel sales

Credit offers a win-win solution in tackling counterfeit goods for the foreseeable future at least – consumers can afford real versions of the branded goods they desire, while legitimate apparel manufacturers and retailers keep consumers that may otherwise have been lost to illegal trade. Sales of clothing and footwear are likely to be strongly supported by credit over the forecast period, with large-scale chained retailers continuing as they are and smaller retailers likely to adopt the practice, forging joint agreements with banks if they cannot afford to finance the operation themselves.

In addition to these credit agreements instigated by retailers, going forward, branded apparel manufacturers can also look to designing and manufacturing more remarkable products, which will be more difficult to replicate and will help preserve brand originality. In addition, new designs at lower prices can serve to close the price gap between fakes and originals, making the originals accessible to a wider audience.

Opportunity for brands also brings risks

The Latin America apparel market is predicted to record 5% CAGR constant value increase between 2010 and 2015, which is much higher than in developed markets in the West. Given this growth potential, growing middle classes, rising consumer brand awareness, and relatively low international brand penetration, there is certainly opportunity for global apparel brands to capitalise in the region. However, with the prevalence of counterfeit markets and the reliance on access to credit, plus an unpredictable long-term economic scenario in some of the region's markets, any investment is not without potential risks.

Analyst Insight by Sergio Hidalgo and Magdalena Kondej

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