topitop

A Rags-to-Riches Career Highlights Latin Resurgence

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BY MATT MOFFETT

LIMA, Peru—Aquilino Flores was a ragged looking 13-year-old when he started his career hawking T-shirts in the barrios of this capital city. Today his company, Topitop, is Peru's largest apparel maker, with a chain of stores extending nationwide.

Over the past decade, as Peru transformed into one of the world's fastest growing economies, upwardly mobile consumers began snapping up Topitop polo shirts and cargo pants made of high-quality fabrics and marketed under exotic sounding labels. With stores strategically located in long-ignored barrios and provincial towns, Topitop's sales have expanded six-fold since 2001, earning it the nickname "the Andean Zara."

Shopping at a Topitop mall store in Lima recently, David Caceres, who runs a tiny car repair business here, bought a dressy pullover from the company's "New York" label and a star-emblazoned T-shirt from its edgier "Hawk" line. "I'll still have money left for movie tickets," he says.

Topitop has prospered by targeting an emerging middle class that is bringing vast economic and social changes to Latin America, a region that has historically had a handful of rich people, many poor ones, and relatively few in between.

While the U.S. and Europe grapple with stagnating middle-class wages, the story in economically resurgent Latin America is just the opposite. Over the past decade, some 69 million Latin Americans have moved up the income ladder to earn between $5,000 and $8,100 a year—a group that now accounts for 51% of the population of the region's major economies, from 41% in 2001, according to a study by Jose Juan Ruiz, a top economist for Grupo Santander SA of Spain.

While that income level is below what would be considered middle class in the U.S. or Europe, it is one way to define middle class: individuals earning between about 45% and 70% of per capita income.

A study this year by the United Nations Economic Commission for Latin America and the Caribbean concluded that tens of millions of the region's inhabitants have risen into the middle class over the past two decades. That's prompted "a notable expansion of the consumer market," thanks to growing economies, greater access to education and lower birth rates.

Millions of Latin Americans—construction workers, cooks, secretaries and micro-entrepreneurs—have punched their ticket into the consumer class over the past decade. Some eight million Brazilians took their first plane ride during the past 12 months, according to Sao Paulo's Data Popular market research firm. In Mexico, the number of credit cards in circulation has quadrupled to 24 million over the past decade.

In downtown Lima, middle-class consumers have turned a chaotic 40-block stretch of shops in the Gamarra district into a retail powerhouse, with an estimated $1.5 billion in annual revenues, says Peruvian consultant Juan Infante.

The middle class's enlargement comes as Latin America enjoys a robust expansion that has pushed per capita income to $11,900 from $7,600 over the past decade. The regional poverty rate, or the percentage of the population unable to afford basic necessities, shrank to 32% in 2010 from 44% in 2002, according to the United Nations.

The expanding middle is benefiting from a strong period of economic growth—fueled by high commodity prices in many countries—along with more aggressive social programs with a decided focus on education.

But the advances are still tenuous, and the possibility of a global recession haunts the prospects of los emergentes—the emerging ones—as marketers call the newly minted middle-class members.

In recent months, prices for Brazilian iron ore, Chilean copper, Argentine soybeans and other raw goods have weakened amid global recession fears. Already, growth in the region is slowing. During the recession in 2008-2009, persistently strong demand for commodities from China helped cushion the blow in Latin America. It's unclear whether the region will be so lucky this time around.

In Latin America, the term middle class certainly doesn't evoke images of suburbanites commuting to office parks in their Volvos. But it does apply to people like Jose Benevenuto, a 53-year-old Rio de Janeiro bus driver. Mr. Benevenuto still recalls the years in the early 1990s when Brazil's four-digit inflation forced him to rush to the supermarket as soon as he was paid so he could spend his money before it lost all value.

As Brazil has become more stable and his work hours and salary increased, Mr. Benevenuto was able to buy a color television, a washing machine and a couple of computers. Now, he's taking the biggest step yet: buying a new home in a development called "Athens" in a safer part of the city. "I honestly never imagined I'd have the money to get ahead like this," he says.

Extremes of wealth and poverty have long been one of the first things that observers noticed when they traveled south of the Rio Grande. "Mexico is the country of inequality," the German traveler and naturalist Alexander von Humboldt wrote in the early 1800s. "Nowhere does there exist such a fearful difference in the distribution of fortune, civilization, cultivation of the soil, and population."

But the story of Topitop's rise in Peru illustrates how those extremes are now eroding.

Uruguayan born Estevan Daneliuc, a longtime senior Topitop executive, recalls that when he first arrived in Lima in 1965, the area around the airport was a slum.

"Now that area is worth a lot of money. People have built two or three-story houses using steel and sacks of cement without help from banks or anyone but themselves," he says. "They make miracles out of nothing."

And they buy clothes, lots of them. Topitop has sold garments to one in three Peruvian households, the company estimates.

Mr. Flores, 57, says his own experience rising from poverty has helped him understand the desires of customers who are moving up the economic ladder themselves. The Floreses—five brothers and a sister—were born to a herdsman on a rocky piece of pasture land two miles high in the impoverished region of Huancavelica.

"We'd walk three miles to school and all we'd have to eat was some toasted corn and a tiny bit of cheese," says Manuel Flores, 59, Aquilino's older brother, who alternates with him as president.

After starting their factory in Lima, the Flores brothers persisted despite attacks by Maoist "Shining Path" guerrillas, who blew up electrical pylons and placed incendiary devices in stores.

Entrepreneurs like the Floreses "were the people I said were going to get rich…and many of them are now millionaires," says Peruvian economist Hernando de Soto, an expert in capitalism among the poor.

With the Maoists now mostly out of the picture and the country enjoying a mining boom, Peru's poverty rate fell to 31% from 55% over the past decade. The middle of the spectrum—with average household monthly income of around $550—grew to 33.1% of the population this year from 28.7% in 2004, according to Lima's Apoyo consultancy.

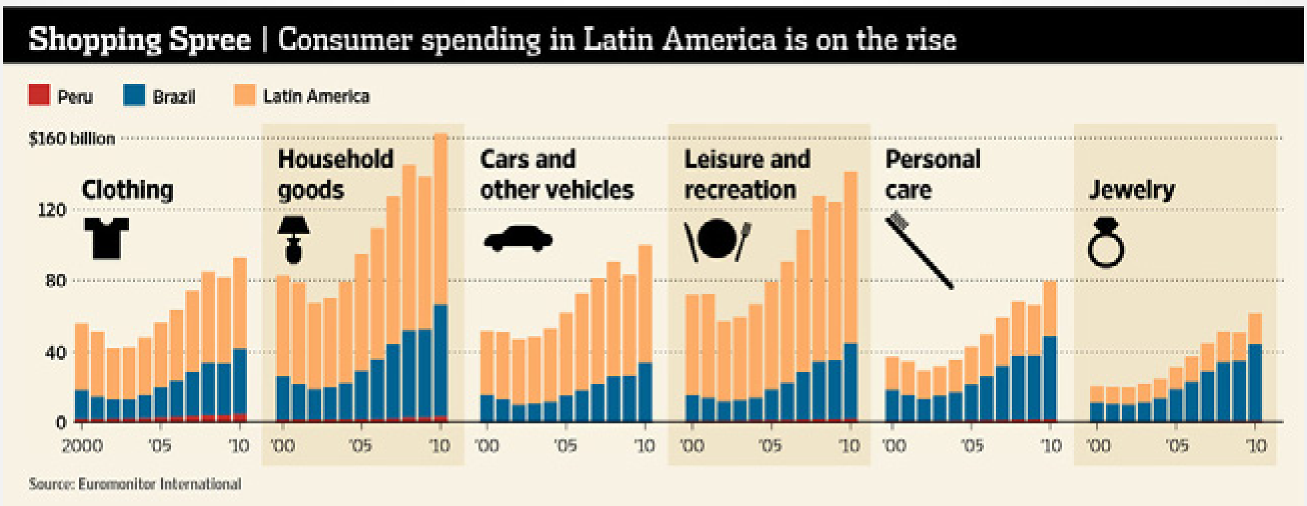
The Flores's street savvy helped them identify where the new consumers were located and what kinds of products they wanted. Topitop "broke the paradigm," says Percy Vigil, head of Lima's sprawling MegaPlaza mall. "For years the working consumer was saying, 'Why don't they give me the same product as other consumers? I'm a citizen too.'" Back in 2002, Topitop was one of the few retailers willing to risk renting space in MegaPlaza, which was being built near a shantytown on the north of town.

Thanks to the expanded middle class, MegaPlaza defied skeptics, drawing almost three million monthly customers and making lots of money for Topitop. Around half of Topitop's $275 million in sales comes from its chain of more than 30 stores in Peru, plus outlets in Venezuela. The other half comes from exports to the U.S., Europe and Brazil, some of which are sold under labels of retailers like Old Navy, Hugo Boss and Under Armour Inc.

Trend-conscious consumers appreciate the company's capacity to get new collections from the drawing board to shop racks in just 45 days. Topitop produces relatively small volumes of each style and rotates them relentlessly. The clothes are also affordable. A surf shirt from Topitop's "Maui" line costs the equivalent of about $10, half or less than a comparable import from Billabong.

"Working people are interested in looking good just as much as rich people are," Aquilino Flores says.

The wave of upward mobility isn't confined to Peru. In Brazil, the



middle class—defined as making the equivalent of about $690 to $2,970 a month—has expanded to 55% of the population from 38% in 2001, according to Marcelo Neri, an economist at the Getulio Vargas Foundation, a Rio de Janeiro think tank.

Besides enjoying the fruits of economic growth and job creation, Brazil and other Latin countries have benefited from well-designed social policies that ensure wealth trickles down. In the 1990s, Brazil launched a pioneering program to pay cash stipends to low-income families provided they kept their kids in school. Largely as a result of this program, the percentage of children between the ages of seven and 14 who are out of school has fallen to 2%, from 16% in 1990, says Mr. Neri. The work force's improved education level has helped foster upward mobility and greater equality, analysts say.

Twenty-three-year-old Roberto Aguiar says he probably wouldn't have landed a good-paying job as an assistant restaurant manager in Rio de Janeiro if his family hadn't had access to government stipends to help him through elementary and high school. As of 2008, the U.N. says, 17 countries throughout Latin America were offering programs similar to Brazil's, benefiting 100 million people, or close to one-fifth of the region's entire population.

The impact that growth and sound social policies are having on Latin America's middle class is evident in looking at how national income is distributed across the economic spectrum.

In Argentina, households between the 40th and 60th percentiles of income earners saw their share of the economic pie rise to 14.5% last year from 11.8% in 2003, according to the National University of La Plata and the World Bank. Poorer Argentines' income share grew even faster, while the share of the richest

10% declined to 32.5% from 41.5%. The changes in Argentina were dramatic in part because the country was recovering from a financial collapse.

In more stable Chile, the middle's income share edged up to 11.7% in 2009 from 10.9% in 2000, the same data show. The share of the richest 10% slipped to 42.7% from 45.3%.

Still, the gulf between a middle class's aspirations and its means can lead to social tensions. In Chile, tens of thousands of largely middle-class college students, most of them the first in their family to attend a university, have recently staged the country's biggest street demonstrations in 20 years to protest high tuition and heavy student loan debts.

"The middle class has the tastes of the wealthy and the salary of the poor," says Nuria Susmel, an Argentine economist.

In some countries, like Mexico, there is debate about how much progress is being made. The Mexican middle class has expanded, though not a lot, to 31.2% from 29.7% since 2002, in the view of the Mexican Association of Marketing Research and Public Opinion Agencies, which crunches out an index based on households' income, consumer goods and other metrics.

But indexes simply don't capture the effervescence in the middle, argues Luis de la Calle, a Mexican economist who recently co-authored the book, "Middle-Classer: Poor No More, Not Yet Developed." Mr. de la Calle sees signs of a middle-class renaissance in the 40% increase in Mexico's meat consumption over the past 15 years, or the 30% increase in higher education enrollment in the past eight years.