SELLING HIGH END TO THE HIGH END

With no experience in retail, two businessmen from São Paulo established the largest high-end supermarket chain in Brazil, where a tray of tomatoes costs $6.

By Ana Luiza Leal and Vicente Vilardaga

Entrepreneurs Victor Leal Jr., from São Paulo, and Bernardo Ouro Preto, from Rio de Janeiro, are unlikely retailers with an unlikely success. For decades, selling food and beverage to wealthy Brazilians was a thing for people who aimed small. The country's two most traditional high-end food markets, São Paulo's Casa Santa Luzia and Rio's Lidador, were established in the 1920s and have always kept their feet firmly on the ground.

The risk of expansion was always too great: As the country's currency has never been the most stable, prices could change to the point of making a big business deal impossible. Thus, it can be said that Leal Jr. and Ouro Preto, two executives with no experience in retail, achieved an unprecedented feat—embracing the rich, but not aiming small. The result was the largest high-end supermarket of Brazil in the number of stores: St Marche. As is usual in such stories, the whole thing happened by chance. Just over a decade ago, they were introduced by a mutual friend and heard about a high-end food market in the Morumbi neighborhood of São Paulo that was in bad shape. The foodie duo, interested in retail, invested their own money and requested help from friends and family. They collected about $294,000 to buy the food market and turn it into a supermarket, which was reopened in 2002.

The idea was to sell everything from French wines and artisanal ice cream to detergents and fresh fruit, prioritizing the most popular brands among the rich. In its first year, the store made a profit. Today, with 16 stores, St Marche makes $155.4 million and is undergoing its most ambitious expansion project yet—to reach $420 mil-

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SYNDICATION/EXAME

lion in revenue in 2018, with 40 stores. Since 2007, the two men have also been the owners of Empório Santa Maria, another high-end supermarket in São Paulo.

Such rapid growth is the result of the right model at the right time. No retailer captured the last decade's so-called Brazilian foodie zeitgeist—above all São Paulo's—as well as St Marche. It was the decade of—some say exaggerated—sophistication of everything: Buying beer, coffee, olive oil, meat, and even salt got a bit more complicated. By selling tomato trays at $6, coffee packages at $18, and olive oil at $63, St Marche has become a kind of symbol of this trend. Its marketing embraces this idea shamelessly; St Marche even has a manifesto that defines itself as the supermarket "of the people who want curatorship and less nonsense." Think it's too much? Wonder who would want to go to a curated supermarket? Well, it's been working...

Cases like St Marche's are rare worldwide. In most countries, there are small high-end markets that sell sophisticated products, but everyday grocery shopping is done in supermarkets. A famous exception is the Whole Foods chain, with its posh organic approach, which grew wildly in the United States, and because it is so expensive, is called "whole paycheck." Another successful example is the Italian chain Eataly that has 27 giant stores with restaurants and spaces for events and cooking classes in five countries.

"We want to debunk the myth that the bigger and uglier the market, the cheaper it is."
—St Marche owners

There's a reason owners of high-end markets fear growing too much: it is much more difficult to organize the logistics to supply sophisticated products than for everyday items such as rice, beans, washing powder and canned tuna. Some are craft-produced by a single company while others come through importers and are subject to exchange rate variations and delays at ports (remember, it's Brazil). St Marche's strategy to handle this is to have products with guaranteed exclusivity and long-term contracts for the most critical segments.

Supermarket Myth

Moreover, there are products that may be placed and removed from the shelves whenever necessary. Every month the company changes about 300 of the 10,000 items sold in its stores. The owners of St Marche did not wish to be interviewed, but replied by e-mail that they want to grow in their current scheme, keeping control of operations. "We want to debunk the myth that the bigger and uglier the market, the cheaper it is," they wrote. "We have a dedicated team researching our competitors to ensure our basic and special products are always offered at a competitive price."

According to estimates by industry executives, St Marche's profit margin is around 5%, whereas competitors like Pão de Açúcar— that sell almost everything—have a 3% profit margin. Growing from zero to more than $155 million in 12 years was a great achievement, and with 16 stores in the fanciest neighborhoods of São Paulo, the company still has a size that enables it to bypass the difficulties of the premium market. But to more than double that number will be much more complicated.

First, investment must be increased. The company has no distribution center, which means suppliers have to deliver the products from store to store. To do this, they currently charge an average of 5% of the total amount of the order, but this figure may grow depending on the number of stores. St Marche says it is planning to build a distribution center in 2015.

Another problem is the increasing rent of real estate in affluent neighborhoods where its stores are located. Rent has increased an average of 50% since 2009 and there are no signs they will decrease anytime soon. Because of these difficulties, the owners have postponed plans for expansion. In

THE PLAN IS TO DOUBLE IN SIZE

The company profits more than its main competitors.

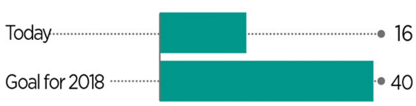
Revenue

$155.4 Million

Profit Margin

5% Larger Than The Main Supermarket Chanins.[1]

Number of Stores



There are two main obstacles to St Marche's growth plans, according to market experts:

LOGISTICS

The company has no distribution center. Suppliers have to deliver the products from store to store.

REAL ESTATE

Price of real estate in upper-class neighborhoods, where their stores are located, makes it difficult to open new stores.

(1) estimate **source:** St Marche, Food Retailers

St Marche partners have postponed the opening of an Eataly store in São Paulo.

2008, they announced they planned to achieve profits of $420 million by the end of this year but this goal has been postponed to 2018.

Long Road Ahead

The most noticeable stumble came with their most ambitious action: the attempt to take Eataly to Brazil. St Marche has already rented a space of over 43,000 square feet in the Itaim neighborhood in São Paulo, and planned to open the store in November of this year but has pushed it off until 2015. The owners say the opening will be in the first quarter of the year and that the delay is due to the need of detailing the project and training staff. Industry executives, however, expect the opening will be later in 2015 because of problems with importing the products.

Another problem is the increasing rent of real estate in affluent neighborhoods where its stores are located.

St Marche sells olive oil $63, coffee at $18 and tomatoes at $6; but the owners say they offer "competitive" prices

Life is likely to get tougher since no pioneer is left alone for long. The so-called gourmet wave that explains the success of St Marche is making room for several neighborhood stores that sell special kinds of meat, cheese from Minas Gerais, tea, bread and so on. They are direct competitors. And finally, the large supermarket chains have decided to invest heavily in neighborhood stores. Pão de Açúcar, for example, began investing in the "Minuto Pão" model: small, sophisticated stores in neighborhoods with high purchasing power. Therefore, competition will come from everywhere. Those seeking curatorship will need even more help to make choices.