

A TRAVEL MARKETS INSIDER SPECIAL REPORT

How Uruguay's Melancia Mall aims to change shopping on the Brazilian border *By John Gallagher*

On Thursday, November 5, 2015, the US\$70 million Melancia Mall, the largest shopping complex in Northern Uruguay, opened its doors on the outskirts of the border town of Rivera.

Originally scheduled to open in the first quarter of 2014, poor weather --including heavy spring rains that caused significant flooding on the site -- held up construction for more than a year. The precarious economic situation now in Brazil and Argentina presented additional challenges to the project, which is offering Brazilian and Argentine consumers a new and innovative shopping experience compared to the typical border stores in the region.

Developer Grupo Marchesano invested US\$42 million to develop the beautiful 33,000 sqm shopping complex and another US\$28 million was invested by retailers and food court operators to fit out their stores and restaurants.

Melancia is anchored by two major 4,000 sqm duty free flag-

ship stores -- one operated by long established border store operator Neutral and the other, located at the opposite end of the Mall, run by Panama-based Grupo Wisa under its La Riviera fascia. Grupo Wisa also operates a smaller 200 sqm express store under its Colonial fascia. The Colonial store features a selection of leading brands in key categories. Both the Neutral and Grupo Wisa operations opened on November 5.

The two duty free stores are very different in layout and style, offering the Brazilian and Argentine clientele contrasting shopping environments, brands and options. Melancia Mall has been designed as a destination in itself, and shoppers will need hours to get around both stores.

According to Uruguayan law, only non-Uruguayan citizens may shop at the duty free stores on the borders with Brazil. But the Mall will also house about 60 duty-paid stores plus an extensive food court

that can be used by local residents of Rivera and the surrounding area.

But with fewer shoppers from Brazil today, the management of Melancia Mall is doing whatever it can to increase traffic to the stores. It has been making extensive use of social media to attract both Uruguayan and Brazilian shoppers, and also heavily featuring entertainment—with programs that mix Brazilian and Uruguayan performers -- to bring visitors and residents into the shopping center.

Developer Marchesano is also working to make the Mall an immigration and transportation center. The Uruguayan Immigration office for Rivera is being relocated to the Mall from its current location in the center of town, which is sure to drive future shopping traffic, since all Argentine drivers taking road trips to the beaches in Brazil will be required to stop here.

Later next year, Rivera's Bus Terminal will also be relocated from the town center to a newly built location adjacent to the Mall -- another positive development geared to generate traffic for the shops.

Despite the challenges facing the project today, Melancia appears to be positioned well to reap the benefits of the recovering up-cycle.

TMI's John Gallagher met with the Neutral and Grupo Wisa management to discuss initial response to the groundbreaking shopping project, and his report is presented here.

CHAMBER OF FREE SHOPS' LOAIZA LAUDS PROJECT



Carlos Loaiza, the Secretary General of the Chamber of Free Shops of Uruguay-- (CEFSU), is enthusiastic about the opening of the Melancia

shopping center in Uruguay.

"The opening of the Melancia Mall will inevitably be a great boost for the city of Rivera and a great part of northern Uruguay. From my position as spokesman for the Chamber, I am particularly pleased to see the major investment from two of our member companies, Neutral and Grupo Wisa, which clearly shows a great long term commitment to Uruguay and the border duty free business," commented Loaiza.

"Obviously we are at the low point of the economic cycle and the economic uncertainty in Brazil does not allow us to forecast when things will begin to improve.

"What is clear is that with the sort of investment we have seen at Melancia by two specialist companies in the duty free business, they will beat the worst part of the cycle and both companies are well positioned to grow the business when the cycle begins to improve," he continued.

Loaiza was cautious regarding the immediate future.

"The current situation in Brazil is hard to predict; the well-documented economic problems have been joined by even bigger political problems. However, we should all realize that one of the positive things to come out of the crisis is that Brazil is showing a tremendous institutional vitality (the judicial and political processes are being carried out, people have been detained and there have been guilty verdicts when the corruption cases have been proven). This vitality allows me to be optimistic and believe that these apparently serious problems can be solved in the future," he noted.





Neutral Duty Free builds for the future and attracts a new border shopper at Melancia Mall

The opening of the 4,000 sqm anchor duty free store in the Melancia Mall is another landmark in the history of Neutral --the oldest established border shop operator in Uruguay, with stores in the six cities where duty free trading is permitted. Over the past few years the company has significantly increased the amount of retail space that it operates, culminating in the new flagship in Melancia. *TMI's* John Gallagher met with Neutral CEO Enrique Urioste to get a first-hand tour of the new store and observe how trading is going in the first few weeks following the official opening.

Urioste concurs that the current economic and political situation in Brazil does not provide the optimum environment for opening a new store, and that building the business in the near-term will be challenging: "Sales during the first few weeks of operation are below our optimistic sales budget made earlier in the year, though they are in line with the reality of what is happening on the border," he explains.

But there are signs that the new store will bring in incremental business, he notes, pointing out that Neutral's downtown numbers are in line with the levels in effect prior to the opening of Melancia, so the Mall is bringing additional sales.

"So far we are mainly seeing new clients in the Mall who haven't visited Neutral stores in the past. Where we normally see between 35% and 40% of our weekend sales coming from people who carry our loyalty



Neutral Duty Free CEO Enrique Urioste at the official ribbon-cutting of Neutral's new flagship store at Melancia Mall on Nov. 5, 2015.

card, we only see 10% of loyalty customers in the Melancia store. This will obviously change as we sign up many of the new visitors for the card."

Urioste also notes a higher ticket sale and different product selection from buyers at the new store

"In Melancia we are seeing \$100 per ticket compared to about \$80 in the downtown store. In general, we are selling more high end products in almost all categories. Johnnie Walker Blue, for example, has performed exceptionally well during the first few weeks, whereas in downtown it will only sell a few bottles per month. We are also seeing high end wines doing much better than we expected."

Different brands appear to be driving sales in the Mall, and have included some surprises, he says.

"In textiles, GAP and Lacoste products are performing exceptionally well. Tommy Hilfiger, however, which does well downtown, is doing less well in Melancia. Surprisingly, sales of Ray-Ban sunglasses are doing well even though the duty free price is higher than the Brazilian domestic market price. Sometimes it seems that the temptation to buy outweighs price considerations for these new customers, especially if we have the model and style that they want. Perfumes and cosmetics continue to be strong sellers."

Neutral is particularly pleased that Melancia Mall will become the new location of the Uruguayan Immigration office for Rivera, becoming an obligatory stop for all bus and car passengers leaving Uruguay for Brazil.

"This new Immigration office is crucially important because Rivera is the main crossing border for Argentines going to or from Brazil. We are making sure that we have enough stocks of the products that sell well in Argentina," stressed Urioste.

Accommodating new Argentine & Brazilian shoppers

"We have already seen some interesting changes in purchasing as more Argentines visit the store, with brands popular in Argentina doing very well in Melancia."

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Neutral Duty Free at Melancia *continued from page 2*

Urioste points out the success of Pommery champagne, which has long been number one in Argentina's domestic market due to tenacious work from distributor Ricardo Luis. It is also selling very well in the Melancia store.

"Clearly the Mall's out-of-town location and easy parking have encouraged Argentine tourists to shop in the Mall as they drive through Uruguay to Florianopolis and other beaches in Southern Brazil," he observes.

But Urioste also believes that the Mall is attracting a new visitor from Brazil as well, shoppers who have changed their travel habits as the economic crisis negatively affected disposable income.

"We already know that many of the Brazilian shoppers in the Mall have never been to Rivera before. Although it is not very scientific, surveys we have done instore indicate that many shoppers with a fairly decent disposable income have stopped taking plane journeys and have started to take car journeys to do some shopping in Rivera that they would have done in Miami, Buenos Aires or Chile in previous years. I should stress that these are informal surveys held instore, but probably indicate a change of behavior as a result of the economic crisis."

Compelling store design

Neutral is doing everything it can to accommodate this new customer, from store layout to product offer. The store has been designed by architect Monica Ariaudo using a walk-through concept similar to some airport stores, and Urioste comments that he personally thinks the Melancia Neutral store to be one of the best layouts Ariaudo has designed.

"She has designed many stores in different countries and this is one of the finest. We do not want to force shoppers to follow a certain route, but the design helps the shopper visit every category and to pass by almost all the shop-in-shops. We have also designed the store to surprise the shopper with many options to interact with us. Women can try out treatments as they enter the store. Kids can play games in the electronics store. Shoppers can try the wines they are interested in buying before purchase.

"We also have a Diageo chill out bar where shoppers can have a relaxing

drink. Every weekend we have a professional barman teaching how to prepare different cocktails."

The Neutral store even has a nursery where parents can leave their small children under professional supervision while they shop. "This innovation has been very well received," says Urioste.

Neutral is also making sure that check out is fast and easy, and filled with attractive opportunities to persuade shoppers to make one more purchase:

"Visitors can pay at any one of the 24 cash points. And the line allows people to see a selection of specially chosen products for last minute purchase. The whole Neutral team has been especially pleased at the impulse sale in the checkout line, which has reached 7% of our total sales in the new store," says Urioste.

As in its other locations, Neutral constantly strives to give shoppers something a little different from other border stores. "Since more than 35% of our sales come from perfumes and cosmetics – this area is a very important part of offer. Dior, Lancôme, and the new brands we have just introduced in Melancia – Kérastase, Clarisonic and the nail bar -- have been doing very well and play a very big part of getting shoppers to stay in the perfumes and cosmetics sector."

The goal is to give shoppers space, service and the very best assortment in all categories though, says Urioste.

"In wines and spirits, we have a very good relationship with Diageo, as you can see with our Johnnie Walker bar. Our Chilean wine selection is very extensive and wine lovers can sample the leading brands at our special wine tasting bar. We have introduced the very latest wine dispenser, similar to the one used in Heathrow Terminal 5, to ensure that the premium wines we sell are served in optimum conditions."

In addition to whisky and wine, Neutral is selling a significant amount of beer this summer, says Urioste. "We have a very big international selection with brands such as Fuller's, Bombardier, Kaiserdom, Corona and Budweiser. Heineken is probably the biggest brand at the moment and features in many of our monthly promotions. We also have an extensive section of gourmet food, offering our sybaritic visitors options to taste and purchase a wide selection of gastronomic products."



Some categories have been affected more than others by the Brazilian downturn.

"Electrical goods along the whole border are suffering. Brazilian domestic prices have stayed stable in spite of the devaluation – and with very little price difference duty free sales have been disappointing. Brazilian customers prefer using their Brazilian credit card which comes with the artificially low prices and extended interest free payment terms in Reales. The biggest exception to this generalization is Nikon, which we have worked well for several years. The price difference is still noticeable and we offer a good selection of the best Nikon products."

On a positive note, the Uruguayan border stores can offer some unique products not found in an airport store. Neutral has the exclusive rights for BMW Motorcycle apparel and accessories, and is taking full advantage of the exclusivity and discount:

"We are selling helmets that cost US\$ 1,000 in Melancia that may cost as much as US\$ 3,000 on the Brazilian domestic market. The bike rider who buys a helmet like this will often buy clothing and high price items in other categories as well," says Urioste.

The Melancia Neutral store, open at this writing for only a few weeks, is obviously a work in progress, and a number of new brands and shops offering "affordable luxury" will debut in the months to come.

"We are always looking to bring new brands into the store. In mid-December Brooksfield apparel will open its shop-in-shop and in January we will open the first Victoria's Secret on the border. Brands like Hermès and Cartier are not ideal for the border. Instead, we must constantly offer a selection of brands that can be defined as affordable luxury and meet the shopping needs of the people who come into our stores."

Grupo Wisa brings La Riviera flagship to Melancia Mall *John Gallagher reports*

Panama-based Grupo Wisa—a leading retailer in Central America and Colombia—has been operating in the Mercosur region since November 2012, where Uruguay has been the focus of its expansion, primarily on the Uruguay – Brazil border where it operates stores in Rivera, Rio Branco and Acegua. The opening of the Melancia Mall is a major step in the company’s development in the area.

The 4,000 sqm La Riviera store in Melancia will be the group’s flagship in the southern half of South America. Following the inauguration of the Mall, Marcelo Montico, Grupo Wisa CEO for the Southern Cone, guided *Travel Markets Insider* through a tour of the new store, explaining the company’s offer and long term objectives.

While sales are below the level the company was expecting when it started planning the new store, Montico is pleased with the results of the first weeks of operation.

“Given the current state of the Brazilian economy, sales have been acceptable. The decision to invest here was for the long term, not just to take advantage of the boom we saw when we starting looking at expansion,” he says.

“Even though the crisis is lasting longer than most people expected, there are people who still want to spend. In some cases, we can benefit from the situation, attracting those who are not traveling abroad now, but still want to buy luxury goods, imported perfumes and wines and spirits.”

Grupo Wisa knows that success in the medium term at Melancia will depend on attracting the affluent middle class Brazilian consumer, and educating them about who the company is and what it can

offer them, says Montico.

Grupo Wisa’s La Riviera fascia – which is well known in Central America and Colombia – has only been operating in Rivera since 2013, and is relatively unfamiliar to Brazilians. But Montico is working hard to get the name before the target public.

“Obviously this is a slight disadvantage. But we have been interacting with Brazilian consumers since we started operating in Rivera, initially with social media. We have almost 70,000 followers on Facebook at the moment and this is a very important communication vehicle for us.

“The Melancia store is the biggest store in the Group and this gives us a unique opportunity to define the values of each category. We are confident that we can deliver the very best shopping experience to our consumers. By targeting premium shoppers, La Riviera will be successful in spite of the current downturn in demand from Brazilian shoppers,” he explains.

Grupo Wisa’s communication efforts go beyond the Facebook campaign, however.

“We will be more proactive with a radio advertising campaign in December directed at people living in the Porto Alegre area. The campaign will coincide with the launch of our Club Premium Loyalty Card during the last week of the year. The loyalty card will allow us to talk directly to the people who spend the most with us, permitting us to target promotions in a very efficient and cost effective way. Our Loyalty shoppers will benefit from additional discounts and prizes as they collect points for their purchases.”



Grupo Wisa is confident it can make its La Riviera fascia in Melancia as well known in Uruguay as it is in Colombia and Central America.



Until the opening of the Melancia Mall store, Grupo Wisa’s biggest store in Uruguay was an 800 sqm shop in the historical center of Rivera on Avenida Sarandi. The downtown store has felt the impact of the Brazilian crisis.

“Sales in the Rivera store so far this year have been lower, in line with the general market,” comments Montico. “We are down on last year and until we see some stability in Brazil, a huge recovery is unlikely. The good point is that the opening of the Mall store has not cannibalized sales from the downtown store. We are seeing that the public visiting downtown is different from those visiting the Mall.”

Montico is also optimistic about the upcoming opening of the Uruguayan Immigrations Office at the Mall.

“We are hearing reports that 2 million Argentines will travel to Brazil this summer – it’s hard to ascertain how many will pass through Rivera but Argentine travelers who go by road to the beaches in Southern Brazil must stop at Uruguayan immigration in the Mall. Clearly they will come into the complex, have something to eat and do some shopping. We will make sure that we have the right inventories to accommodate them – from popular brands like Fernet Branca liqueur to leading international brands. Traditionally, Rivera has been the least seasonal of all border towns but this may change this year. The Immigration office will bring additional traffic that didn’t shop in the town before.”

The duty paid stores in the shopping center will also help bring in additional traffic, notes Montico.

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Wisa's La Riviera flagship comes to Melancia Mall

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"The Mall offers something for everyone. Our selection of the best brands from the international duty free business is good for the Mall. The other stores will also attract shoppers, and those permitted to purchase in the duty free stores will come and buy brands that are not easily available in their own towns and cities."

Grupo Wisa is focusing significant attention on making sure it is offering the right brands for this clientele.

"We have a great variety of premium whiskies including some very good single malts that are sought after by knowledgeable Brazilian consumers. We also have a great selection of wines and staff who know how to explain the characteristics of each winery and the selection of products offered. These sales people are shopping advisors and must have the right training to explain and recommend different wines to the shoppers. We know that when the right wines are recommended the shopper will come back and buy again."

The layout of the Melancia La Riviera store has also been carefully designed so that shoppers can move easily from one category to the other, explains Montico.

"The objective in Melancia was to recreate one of the typical airport stores we operate in other countries. The open style is part of the DNA of our company. We feel the shopper likes to move freely about the store looking for products he might wish to buy. While he is in the store we are able to communicate about product launches, marketing initiatives and promotions via our LED screens."

We have two giant screens at

different ends of the store and three video walls, each made up of 18 x 50 inch screens.

Unique offers

La Riviera also plans to build sales by offering shoppers brands and services not available at other stores.

"We are offering some great Lancôme treatments using the latest technology. And in early 2016 we will be adding the M.A.C shop-in-shop. M.A.C is a huge brand in Brazil and we will put some of what we have learned from our downtown store into operation in Melancia," says Montico.

The Melancia La Riviera store dedicated 650 sqm of space to perfumes and cosmetics, with dedicated areas for sports, sunglasses and watches, electronics and technology nearby.

"Rounding off the main part of the store we have nearly 350 sqm given over to wines, spirits, beer and foodstuffs," he says.

The Melancia offer will differ from downtown and Grupo Wisa will continue to source iconic brands like Michael Kors and Under Armour that will bring people into the store, insists Montico.

"Michael Kors is huge in Brazil, and we have the only boutique for this brand in the region. Kate Spade is also one of the novelties we have opened in the Mall, along with the new concept Montblanc store.

"Under Armour sportswear – a brand that is totally new on the border --is also growing quickly. Last year Under Armour signed a deal with the Sao Paulo FC soccer club and we are convinced this will be a big seller in Melancia."

Retail-tainment

The key for the future, and the secret to developing sales given the economic uncertainty, is to plan events inside and outside the store, says Montico.

"The potential here is huge but we need to offer something else. Every weekend we have something special at our tasting bar in the drinks section, featuring different brands each week. We also have ongoing activities in the perfumes and cosmetics section.

"Along with the local authorities and other store operators, we are also supporting and promoting special events for tourists. Next month we will join forces to promote a gastronomic fair in the

town square, and we are holding an event for motorcycle riders – a segment well-known as high spenders."

While Montico admits that the macroeconomic and political situation in Brazil today is not conducive to forward planning, he believes the fact that Melancia Mall is targeting a defined middle class with disposable income makes it less vulnerable to variations in the economic outlook.

"The Melancia store marks a major change in how duty free consumers look at the level of service offered by duty free shops on the Brazilian border," he concluded.

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