The brouhaha over Brazil
Fiona Harkin

With a raft of recent consolidations, equity investment and even an initial public offering, has the gold rush for Brazilian fashion begun? The rest of the world is looking to Brazil as an El Dorado for natural resources, Standard & Poor's has just upgraded the country to investment status and A.T. Kearney announced in its Retail Apparel Index that the country is the world's "most attractive emerging market for apparel retailers".

But contrary to appearances, Brazil's fashion frontier is having teething troubles. Registering profits of $30bn in 2007, the fashion business in Brazil is impressive, nurturing its own textile and manufacturing industries and creating an environment where many family-owned businesses can expand to cater for the country's increasingly affluent classes. Yet some of the better-known names in the country's fashion industry have begun to sell out to private backers - and not all of them have had great success.

Fluctuating notions of value and a focus on style rather than substance are the main hurdles on Brazil's fast track to fashion success.

"We're in a market that is about to change," says Gabriel Felzenswalb, chief executive of holding company InBrands, which bought 50 per cent of one of Brazil's oldest fashion brands, Ellus, in 2007, and is beginning to nurture a stable of Brazilian design talent backed by UBS-managed private fund Pactual Capital Partners.

"There are currently a lot of opportunities brought about by the growth in consumption [in Brazil] and the stabilisation of the economy, but there are also threats. Companies have a choice to either stay small and end up as niche neighbourhood players or operate faster, more creatively and more competitively in a tougher but better world."

InBrands aims to acquire fashion companies with an estab-lished presence, keep the creatives I in place and construct a more sus-tainable commercial business behind I the scenes. With plans to double denim-based lifestyle brand Ellus's turnover within two years through growth within its existing portfolios such as accessories - InBrands' latest investment with international potential is Rio de Janeiro-based de signer Isabela Capeto.

Known for her hand-worked and folk-inspired girlish looks, Capeto already has an international market, selling to the likes of Henri Bendel and Barneys in New York. She has two small stores in Brazil plus an established brand image (a doll-shaped logo), complete with a range of signature perfumes.

"We wish for Isabela to be a world-class designer, with both domestic and international expansion," says Felzenswalb. Capeto agrees: "I would like a little, little, little store in Paris, or in Japan". But, she cautions: "Constructing a brand takes time - there are no instant results."

InBrands is mooting other purchases with an eye on the international market but the challenge, says Felzenswalb, is to find companies whose owners - like Capeto -are "humble enough to see the world differently. There's a lot of sentimental value involved, which they want to translate into real value, and they are not always rational."

In April, for example, the IPO of Le Lis Blanc, the first fashion company to list on the Sao Paulo stock exchange, fell far short of expectations, with shares selling at a 40 per cent discount. Even at a retail level, those Brazilian brands that see themselves as direct competitors to international labels hike their prices up just to be considered at the same level, isolating customers in return and often failing to match cost with quality. This is particularly true of local denim retailers faced with an influx of Italian adversaries carrying duty-inflated price tags but more cachet.

"Brazil is moving fast. With an investment rating, many textile and cosmetics companies will be thinking of IPOs," says Alessandro Teixeira, president of investment promotion association

the World Association of Investment Promotion Agencies (WAIPA). "Assessing the value of a brand is a real problem. As a new economy, it's not easy to evaluate quality."

Indeed, one of the most spectacular miscalculations of value in the recent consolidation manoeuvres was HLCD Investimentos Group's shopping spree and subsequent credit hangover. Quick to be labelled the "Brazilian LVMH", the group snapped up labels such as hot young designer Alexandre Herchcovitch, the chic multi-brand store Clube Chocolate, Pause Haten and popular youth brands Zoomp and Zapping, only to fail to pay back its financiers - with disastrous results for some of the individual brands involved.

"Some movements are still immature," says Oskar Metsavaht, owner of the upscale Brazilian lifestyle brand Osklen, which has stores in Milan, Geneva and New York. "From what I can see over the past few months, it has been a rush from many investment groups to buy a variety of fashion brands offering very low multiples. Most of us [brands] did have meetings with them. Some brands were acquired or joined the investment groups swiftly in the belief that the new golden era for Brazilian fashion was about to happen."

While of the view that recent investment has opened doors and minds about the value of the fashion industry to the country, Metsavaht also believes there has been too much hype. "The Brazilian investment banks thought they had discovered an El Dorado, like they did with our commodities last year, and that it merely involved investment, imported management expertise and the bright glamour of the fashion brands. And the designers and brands thought the 'salvation' from the banks would solve their problems." He adds: "What I see now is that some groups have to really learn the business - both on the part of the investment funds and the fashion brands. Money, glamorous designers and established successful brands don't make for a pot of gold."

But it's not entirely a cautionary tale. One Brazilian fashion player successfully riding the wave is Tufi Duek, whose extensive TF Modas fashion business was bought for an undisclosed sum in March by textile company AMC, which is in turn owned by manufacturer Menegotti. Duek's main clothing line, Forum, is now stable-mates with the sassy Colcci label, currently raising its international profile with an ad campaign fronted by übermodel Gisele Bündchen.

"I don't have the skills to manage and create at the same time," admits Duek, who sold the rights to his name, along with brands such as Forum, but retains a creative role in the business. "The AMC Group respects the brands and their styles and I'm doing what I've always done with the same enthusiasm."

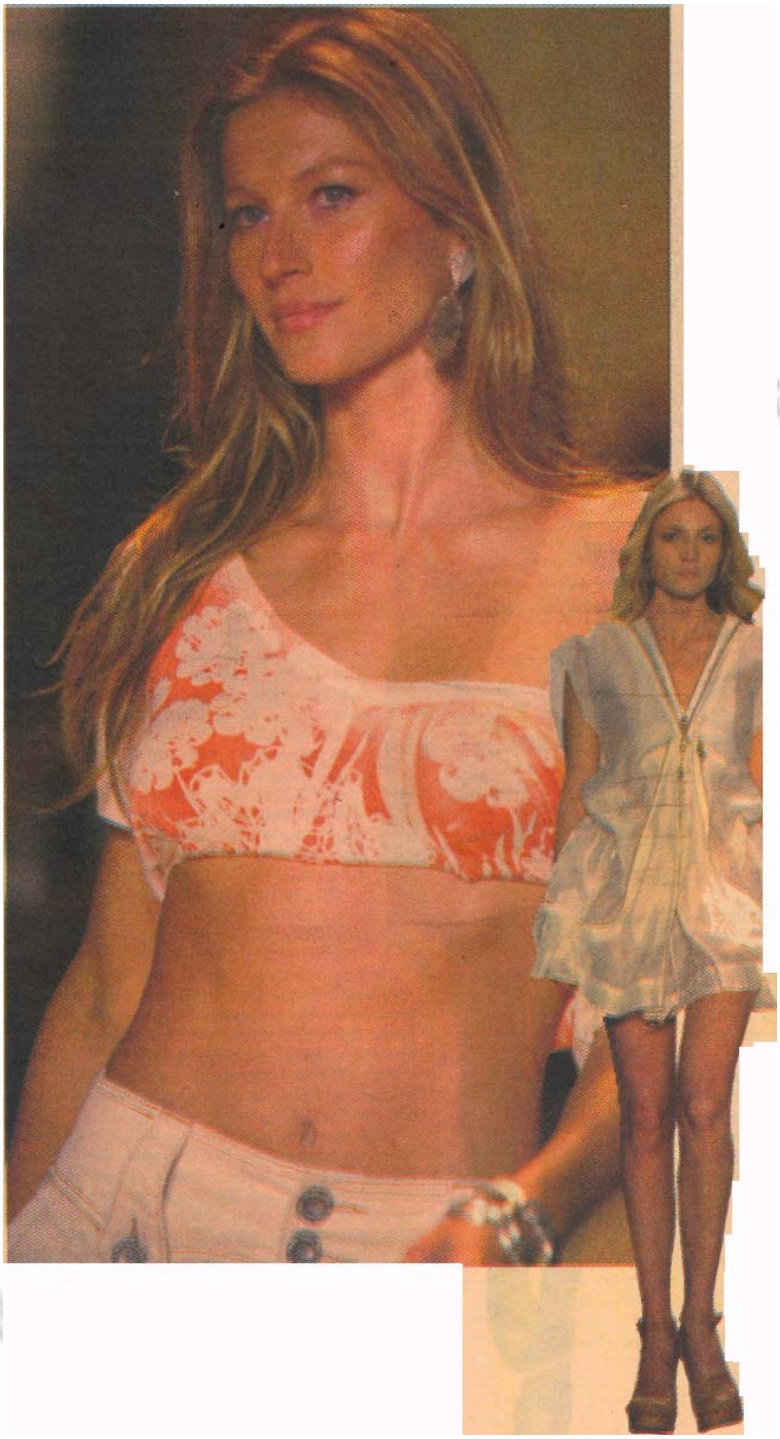
There is little doubt these investments are helping to change domestic attitudes to Brazilian fashion, where foreign brands have traditionally been held in far higher esteem by consumers than local ones. "Our competition is from airports and people who are now travelling twice a year and buying abroad so that they don't have to pay the huge mark-ups from duty," says Felzenswalb of InBrands.

"Because of globalisation, one of the best ways to secure the internal market is to become international," says WAIPA's Teixeira. "We need to keep the Brazilian soul in the fashion industry, but make it competitive internally and internationally. Brazil has a fashion appeal other countries don't have." However, with foreign investment held back by the Common External Tariff (a recently increased import tariff of 35 per cent), fashion businesses are already grabbing the opportunity and expanding into foreign markets.

"We have just signed a deal with a partner who has 2,500 stores in China," says 36-year-old Alexandre Birman of upscale footwear brand Schutz, which recently linked with his family's footwear company Arezzo, and received investment last October from hedge fund Tarpol. Supplying shoes to the likes of Canadian company Aldo, Arezzo had a turnover of $75m last year.

Fresh from opening a store in Shanghai, and with a second to follow, Birman has identified a niche in the market for imported goods among China's rising middle class. "With the reality of

the euro/dollar exchange rate, many European brands are unaffordable. So we're exporting our shoes at $40-$150 - which is a nice price for a good fashion item," says Birman.



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