

Getting to know you: How to reach Brazil's burgeoning middle class



Europe is in crisis; the US is in the doldrums; China is worried about a property bubble; India has hit a rough patch. The world economy is not a pretty sight these days.

By Julia Broide, Fernanda Hoefel and Fabio Stul

Then there's Brazil, whose 195 million people have never had it so good. Not only is the country growing briskly (7.5% in 2010), it is also growing widely. Even in the northeast, traditionally one of Brazil's poorest regions, and far from the economic center of gravity, the broad middle class (known officially as "Class C" and unofficially as the "belly of the market") is swelling fast. More than half of households in the northeast are now Class C, compared to a third in 2006.

Look at it this way: There are now as many middle- and upper-class Brazilians as there are people in France and Britain *combined*. That is a remarkable economic achievement—and a big opportunity for business. Crucially, Brazil also has favorable demographics going for it. In 2030, about two-thirds of its population will be between 18 and 64 years old, a few percentage points more than now. While the percentage of over-65s will double, the country will still be relatively young and economically active—a considerable advantage over an aging China, Russia, Japan, Europe and US.

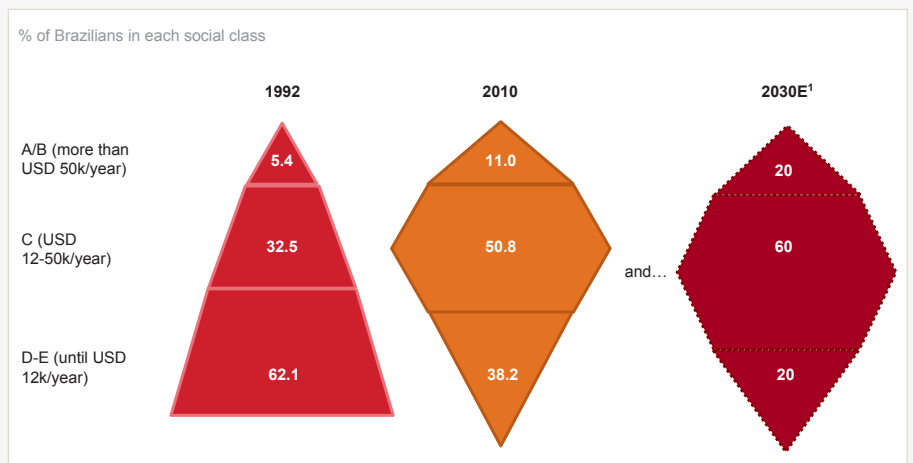
In short, for retailers and makers of everything from luxury goods to deodorant, Brazil is an important market that is on its way to becoming a crucial one. Consumption already accounts for 61% of GDP; in China, by comparison, the figure is 37%. And it is the middle class (known as Class "C" in the country's official statistics) that is driving consumption; it accounts for

more than half (52%) of consumption, as well as the majority of e-commerce sales.

So what characterizes Class C? And how can companies reach them?

One key is that Brazilians are proud, an attribute that shows up in several ways. For example, they take their personal

Exhibit 1:
The bulging pyramid



¹ Estimated
SOURCE: FGV, MCM, McKinsey

appearance seriously. Brazil is the fifth-biggest country in the world by population, but it is first in liposuction, second in plastic surgery (600,000 procedures a year) and fourth in the number of gyms.

Fashion and beauty is not an indulgence, but very nearly a necessity for every demographic and income group in Brazil. As one woman told McKinsey, “I work as a nanny and earn [the equivalent of] \$1,000 per month but my jeans for going out cost \$100.” She is not alone. Brazilian consumers seek out distinctive products and trade up for special occasions. One woman told us, for example, that her family has one body lotion for regular use, and she treats herself to a more expensive one for big nights out. That’s important because such habits hint there may be a broader market for branded, higher-end goods than income might suggest. And the pickings are rich. Since 2005, hair care revenues have risen an average of 8.9% a year; fragrances, 15.1%; and make-up, 19.1%.

Brazilian pride goes with consumers to the store. One theme that comes up repeatedly is that they demand to be treated well—and often feel that is not the case. More than half of those surveyed said that they believe some stores make them feel poor and not respected; 59% of middle-class Brazilians surveyed said they had stopped going to a specific store due to lack of service.

Another important attribute is that Brazilians are social, and they see shopping, particularly with their family, as a great day out. Almost 60% of those surveyed agreed that they buy most of their clothes to use for going out. Even a trip to

the grocery can be seen as a good time. “If I could, I would spend the entire day in the supermarket,” one C-class consumer told McKinsey. While we suspect that this is not a universal opinion, the comment does express a common attitude.

Brazilian sociability has transferred readily to the digital world. Brazil is the world leader in Twitter penetration and second in the use of social networks. Interestingly, members of the C class are particularly attached to social networks, using them much more often than their richer peers in the A and B classes. At an Internet focus group for Class C consumers, one person told us, “I know that being connected allows me to find all the content I need. Just as I post anything that might interest the people I know, my friends are also doing it.” Such familiarity is breeding engagement; on their decision journeys, consumers move seamlessly between on- and off-line. Magazine Luiza, for example, a large retailer, is allowing customers to set their own stores on Facebook so they can sell Magazine Luiza’s products directly to their Facebook friends. shows the power of social in Brazil.

Third, like their richer countrymen, middle-class Brazilians value credit. Almost 40% said that they shop more in stores that extend credit—almost twice the percentage of China (20%) and six times that of the US (7%). Brazilians will buy almost anything on installment—from large-ticket items like cars and, yes, plastic surgery, to something as mundane as bras. On an informal basis, Brazilian women form groups to buy quotas of cosmetics; every month they draw to see who is going to take the cosmetics home. Making consumption more affordable to

the masses, through the wise extension of credit and other means, is clearly a key to success. And retailers have begun to seize the opportunity. Most offer credit through partnerships with banks or simply through credit card issuers, and some C-class retailers make more money with financial services (offering credit to consumers) than with their own retail revenues.

At the moment, many Brazilian firms are out-performing their major overseas competitors in fields as diverse as cosmetics (Natura), groceries (Grupo Pao de Acucar) banking (Itau) and even food and meat (BRF). But multinationals are learning fast. Unilever has launched localized brands to cater to the needs of the emerging middle class in the northeast of the country, for example, while Nestle and Kraft are offering products with different pack sizes to cater to the size of the pocket of the emerging middle class.

Building a winning value proposition for Brazil’s middle class requires more than low prices and a “no-frills” approach because the C-class is sophisticated and getting more so. To succeed, then, retailers and consumer-products companies need to understand these consumers’ desires. The belly of the market is hungry—but it won’t absorb just anything.

<http://csi.mckinsey.com>

Julia Broide is a junior specialist in McKinsey’s Sao Paulo office, where Fernanda Hoefel is an associate principal and Fabio Stul is a director.