

# What companies need to know about Brazil's luxury consumers



By Massimo Mazza and Fabio Stul

How do Brazilians say “Rodeo Drive?” Rua Oscar Freire.

That is the tree-lined street in Sao Paulo’s Jardins neighborhood that is home to some famous names: Dior, Armani, Luis Vuitton, Cavalli, Cartier, Bulgari, Nespresso, Marc Jacobs. Rua Oscar Freire, named after a famed forensic scientist, is today alive with the vigor that is so characteristic of Brazil these days.

The numbers tell the story: Recording 7.5% growth in 2010, Brazil is now the world’s 8th largest national economy, ahead of France and just a whisker behind the UK. GDP per capita for the country’s 195 million people is almost \$11,000; an estimated 30 million people have entered the middle class in the last decade. And unlike Europe or Japan, Brazil has an enviable demographic profile, with only 6.7% of the population over 65 and a median age under 30.

But it is the top of the pyramid that has the luxury goods industry breathless. McKinsey estimates that about 3 million Brazilians can afford luxury goods. There are 24 billionaires and some 155,000 millionaires, according the 2011 Global Wealth Report. A third of the millionaires are under 35. São Paulo has more helicopters than any other city in the world.

The sale of luxury cars has been growing 45% a year.

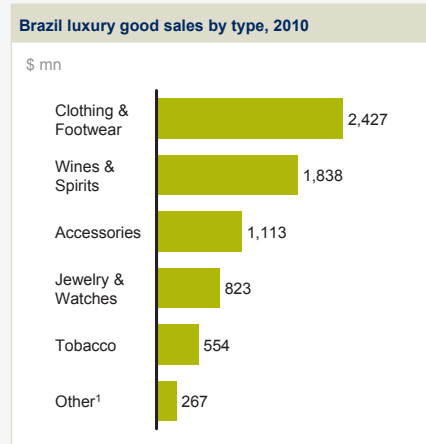
At the tip of the tip of the pyramid are the High Net Worths—the one-tenth of one percent of households (about 13,700 of them, McKinsey estimates) who make at least 46,500 reais a month (\$25,200). This group’s money is typically new and self-made. **High Net Worths** like to spend and show-off. They own two to three vehicles, usually armored. They buy the boats that make land-locked Brasilia a major yacht market.

Then there are the **AAAs** – the 182,500 households that make 20,925 to 46,500 *reals* a month (\$11,346 to \$25,200). Sophisticated and educated, they are generally new to wealth and eager to spend. They regularly travel abroad, play tennis, and go to the theater. To relieve their luxury itch, they buy apparel, jewelry, and other soft goods.

The **Aspirationals** (662,600 households, 1.2% of the population) make at least \$6,303 a month. They have good jobs in big companies, and spend a lot of money

Exhibit 1:  
What Brazilians are buying

The Brazilian luxury market focuses on apparel, alcohol, accessories, and jewelry ...



... but growth is strong in other categories too



<sup>1</sup> Other luxury goods include: beauty and personal, fine china, travel goods, writing instruments, and electronic gadgets  
<sup>2</sup> Consider Aston Martin, Ferrari, Jaguar, Bentley, Lamborghini, Maserati, Porsche, Spyker and Pagani

on cosmetics and personal care, with the very occasional splurge on, say, a Louis Vuitton purse or high-end car (bought used, on credit). They like to go to places that are famous for the people who go there rather than for the place itself.

Whatever their current level of income, luxury-loving Brazilians have three important things in common.

**1. They love credit:** Even brands that won't consider offering installment plans anywhere else do so in Brazil—consumers demand it. The interesting thing is that most of those who pay in installments have the cash to pay up front. They simply prefer to divvy up their payments in order to leave their cash invested, bringing in higher yields than the interest they pay on the installments. More than 70% of luxury-product sales are credit card installments. A banker who finances luxury cars notes, "In general, who finances these cars prefer short term, 12, 18 or 24 installments. By the time they finish paying, they are changing cars already." This is done on a case-by-case basis. For clothes and jewelry, companies have created installment plans. Armani, for example, will allow people to pay by check, in up to 10 installments. On purchases of 10,000 *reals* or more, Tiffany will allow up to 10. The corollary to liking credit is also true: Brazilians save much. Compared to the other members of the BRIC club—Russia, India, China—Brazilians save (including the government, which is running a tidy surplus) less than half as much. Why are Brazilians so different? Remember, for a start, that they have very near memories of hyperinflation,

when it didn't make sense to save. Moreover, many of the rich are newly so, with the impulses that often attend that group. They are in their 30s and 40s and they want their fun now.

**2. Price is little deterrent:** That's a good thing, because luxury in Brazil is even more costly than elsewhere. Prices for things as varied as high-end sneakers; nightclubs; shoes; purses; perfumes; and cars are at least double those in the US. Much of the difference is due to taxes and import costs. Happily for retailers, profit margins are also higher because Brazilians are simply willing to pay more. There is one wrinkle to this, though. With so many more Brazilians travelling more, they may defer some of their spending to lower-cost markets. For example, trips to Florida rose 29% in 2009 – and spending 36%. There is both risk and opportunity in this regard – risk at losing domestic spending, and opportunity to build brands.

**3. Conspicuous consumption is in:** Why are Brazilians willing to pay such huge premiums? Because being seen to be rich is an important part of *being* rich. At one nightclub, for example, when a customer buys a \$1,500 jeroboam of champagne, the house music stops and the bottle is illuminated by fireworks. Luxury is associated with exclusivity: Why own or do something exclusive if no one knows about it? Of course, \$1,500 bolts of champagne are beyond the reach of almost all the many Brazilians who yearn for the good life. So many luxury brands, both foreign and local, are developing brand portfolios – elite for the highest income; then inspirational;

## Snapshot of Brazil's luxury consumers

- 58% are women
- 53% live in Sao Paolo
- 47% have post-graduate degrees
- 33% are age 26 to 35
- 4,700 reals (\$2,545) – average ticket price of a luxury purchase

and finally accessible. So a car company might sell perfumes, leather goods, and even toys—in addition to cars—and hope to bring the more modestly-situated consumer up the ladder as they prosper.

All in, Brazil is increasingly attractive, for both local and multinational companies. Nevertheless the distinctiveness of the market requires companies to be agile and willing to adapt, particularly in terms of providing credit and attentive service. In luxury terms, Brazil is simultaneously emerging and evolving. Players need to be creative—and quick—to capture their share.

<http://csi.mckinsey.com>

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