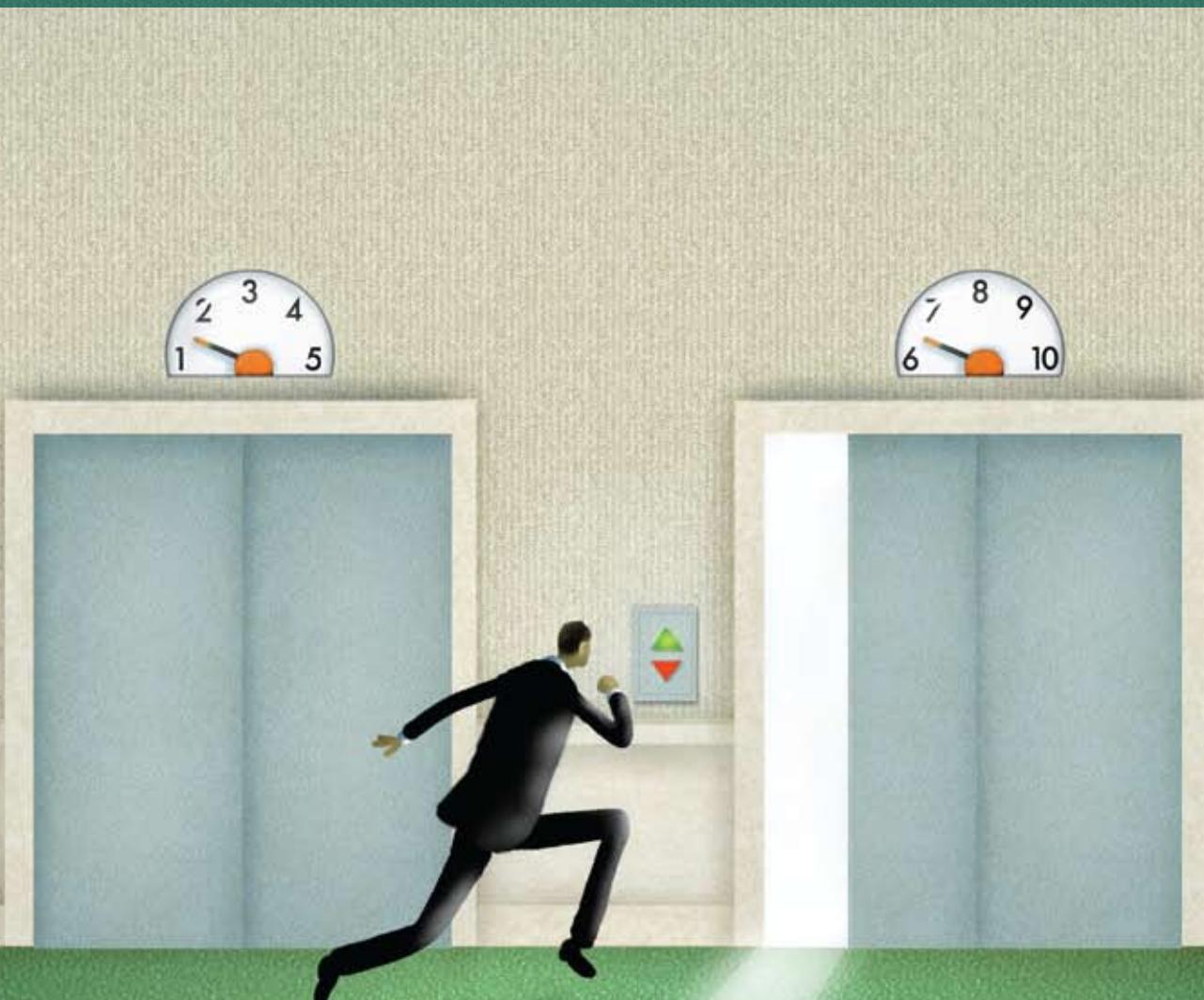


# Redefining Brazil's Emerging Middle Class

*How to Prepare for the Next Wave of Consumption Growth*



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THE BOSTON CONSULTING GROUP

# Redefining Brazil's Emerging Middle Class

*How to Prepare for the Next Wave of Consumption Growth*

**Olavo Cunha, Simon Cheng, and Rim Abida**

July 2013

## AT A GLANCE

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The most dramatic growth in Brazil's consumer market in this decade will be driven by emergent middle-class, established middle-class, and affluent households. Success in these market segments, which will account for 85 percent of incremental spending between 2010 and 2020, will require an entirely new approach by companies operating in or preparing to enter Brazil.

### A NEW GEOGRAPHIC FOOTPRINT

Companies will need a strong presence in many more Brazilian cities in order to reach the same portion of middle-class and affluent households that they do today. Cities with fewer than 500,000 people will account for around two-thirds of incremental consumption in Brazil by 2020; nearly half of that new spending will take place in the country's interior.

### ANTICIPATE INFLECTION POINTS

Companies must be able to anticipate rapidly accelerating demand for specific goods and services and adjust their Brazilian market strategies and product portfolios accordingly. Millions of families are likely to dramatically increase their spending on private education, financial products, health care, and other services through 2020—and to trade up to higher-value products.

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**A**FTER A REMARKABLE DECADE of steady growth and economic stability, Brazil has emerged as one of the world's most important new consumer markets. Millions of families that not long ago struggled for subsistence can now afford such basics as kitchen appliances and mobile phone service. Millions more now earn enough to pay for private school and a second car. And in the years ahead, the ranks of such consumers will swell enormously. By 2020, Brazilian households will represent an annual market of around \$1.6 trillion (3.2 trillion Brazilian *reais*).

To help companies target this important market, The Boston Consulting Group's Center for Consumer and Customer Insight has developed a proprietary methodology for segmenting Brazilian households. We compared monthly income with consumption per household for more than 200 product categories.

We then identified the following five income segments on the basis of step changes, or critical shifts, in household consumption: *subsister households* (with incomes of less than \$3,000 per year, or less than 500 *reais* per month) live in poverty and make purchases only to meet their most essential needs; *restricted households* (\$3,000 to \$15,000 per year) are no longer poor and typically increase purchases of basic goods as they can afford them; *emergent households* (\$15,000 to \$30,000 per year) have entered the middle class and tend to trade up to higher-value products within those same categories of essential goods; *established households* (\$30,000 to \$45,000 per year) increase spending in new product categories; and *affluent households* (more than \$45,000 per year) dramatically increase their consumption of luxury goods.

This analysis yielded several striking insights:

- While the decade from 2000 to 2010 in Brazil was marked by the ascent of millions of households out of poverty, the current decade will be characterized by a massive shift into the ranks of the middle class and affluent. Some 5.3 million households will rise from the restricted to the emergent middle-class segment. An additional 1.6 million and 1.9 million will enjoy established middle-class and affluent lifestyles, respectively. Families in the emergent, established, and affluent segments will make up 37 percent of Brazilian households by 2020, compared with 29 percent in 2010 and just 24 percent in 2000. These households will account for more than 85 percent of incremental spending from 2010 to 2020.
- Companies will require a much larger geographic presence in Brazil than they did in the past. For example, in order to reach 75 percent of middle-class and affluent households by 2020, they will need to have a footprint in 405 cities,

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The current decade in Brazil will be characterized by a massive shift into the ranks of the middle class and affluent.

compared with 345 today. Cities with fewer than 500,000 people will account for around two-thirds of incremental consumption in Brazil by the end of this decade. We have identified five emerging consumer clusters in northern and northeastern Brazil and six in the southeast that will each represent at least \$5 billion in annual spending power by 2020.

- While such products as foods and appliances posted the strongest recent growth in Brazil, the sectors likely to experience the most rapid acceleration in consumer spending this decade are personal services, financial services, and private education. The apparel, groceries, telecommunications, transport, and leisure and entertainment sectors will also enjoy significant growth.
- Rapid shifts in consumer behavior are predicted as Brazilian incomes grow. Once a household's income exceeds \$15,000 per year, for example, the family is likely to sharply increase spending on postpaid mobile phone plans. At that point, it is also likely to start buying fewer beverage concentrates in favor of pricier, ready-to-drink juices.

We believe that redefining Brazil's middle class based on step changes in consumption can lead to more-effective strategies for penetrating one of the world's most important growth markets. Companies can better anticipate when and where sales of their goods and services are likely to take off—and when they should adjust their product portfolios as households begin to trade up within categories.

## Mapping Brazil's Consumer Boom

The broad expansion of Brazil's consumer class has been enabled by a decade of impressive economic progress.<sup>1</sup> Following years of booming growth through much of the 1960s and 1970s, Brazil's economy was roiled repeatedly by fiscal problems and financial shocks. But sound macroeconomic management put Brazil back on track. For more than 15 years, the nation's budget deficit and public debt as a percentage of GDP shrank sharply. Inflation has been kept in the middle single digits, while private investment and consumer credit have surged. Unemployment levels declined to a historic low of just 5.5 percent in 2012. Public health, education, and antipoverty programs, meanwhile, have helped Brazil enjoy some of the world's strongest improvements in living standards relative to per capita income.<sup>2</sup>

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The sectors likely to experience the most rapid acceleration in consumer spending are personal and financial services and private education.

The resulting growth in household income has made Brazil one of the world's most important markets for global industries. Between 2000 and 2010, the number of middle-class and affluent households increased by around 6 million. They now account for around 29 percent of households. Families living at the subsistence level declined from around 23 percent to less than 12 percent. Brazil is now the world's eighth-largest market for automobiles, its fourth-largest for personal computers, and its third-largest for cosmetics, after only Japan and the United States. In 2012, Brazil was Fiat's largest market and Unilever's second-largest market.

We used a combination of methods to construct a portrait of Brazil's consumer market. First and foremost, we created and analyzed consumption curves, which compare monthly income with consumption per household. (This is a methodology

that BCG has used to analyze market trends in other emerging markets.<sup>3)</sup> We validated our findings by interviewing families in various income segments in five Brazilian cities. In addition, we projected the growth of each household-income segment through 2020 for over 5,500 Brazilian municipalities. Using these data, we developed consumption forecasts for all major product categories, as well as for more than 200 specific goods and services, including food and beverages, financial services, electronics, household appliances, and housing.

**Consumer Behavior.** One of the first challenges for companies seeking a leadership position in this enormous market is to understand which segments of Brazil's 60 million households to target. Companies operating in Brazil, as in other nations, have access to data that define broad segments of the population based on income level. Typically, households are grouped into categories such as A, B, C, D, and E.

But such classifications often do not provide companies with enough intelligence to act on. For example, as Brazilian families ascend the income pyramid, at precisely which points do they typically cross the threshold where they can afford to increase their purchases of certain goods and services? When are they likely to trade up to higher-end mobile phone plans or buy a second car? When can they afford to travel by plane or invest in mutual funds? Divining when and where to anticipate such step changes in consumer behavior is strategically important to any company operating in or preparing to enter Brazil.

We mapped the behavior of Brazilian consumers on the basis of consumption curves for more than 200 product categories. By comparing consumption with growth in income, these curves help identify the income levels at which purchases of goods dramatically increase or begin to slow. We used data from the most recent Consumer Expenditure Survey of nearly 60,000 households conducted by the Brazilian Institute of Geography and Statistics (IBGE).

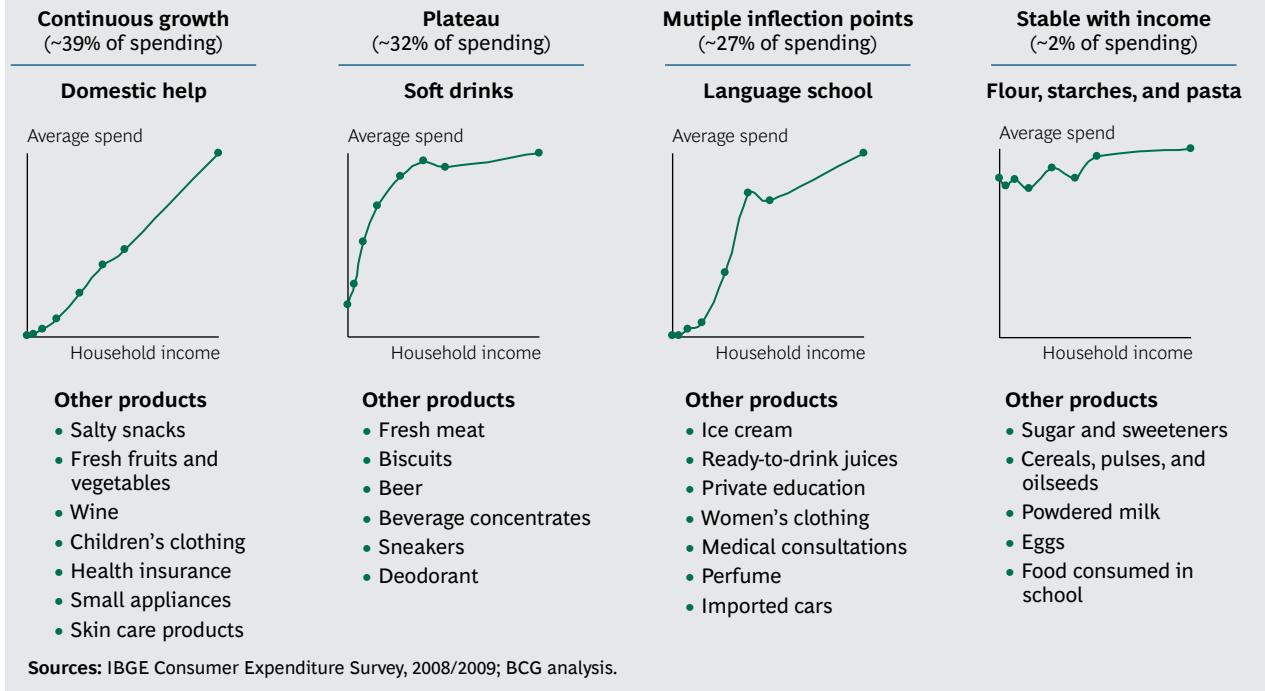
**Consumption Patterns.** Consumption patterns can vary sharply from one product to the next. Knowing the basic shape of a consumption curve is important to understanding whether sales in a particular category are likely to take off or remain fairly stable in the decade ahead. Several distinct patterns emerged in our analysis. (See Exhibit 1.)

- Nearly 40 percent of consumer spending in Brazil is on goods and services that follow a pattern of *continuous growth*. That is, purchases increase at roughly the same rate as income. Examples of such products and services include domestic help, salty snacks, children's clothing, small appliances, and health insurance.
- Roughly one-third of consumer spending is on products whose consumption curves describe a *plateau*, meaning that purchases essentially level off when monthly income reaches a certain point. Soft drinks, fresh meat, biscuits, beer, deodorant, and sneakers are in this category.
- Around one-quarter of consumer spending is on products whose curves have *multiple inflection points*. Consumption may sharply increase, then stall, and then take off again as incomes continue to rise. This type of curve may indicate that

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Consumption patterns can vary sharply, and knowing the shape of a curve is important to understanding whether sales of a product are likely to take off or remain fairly stable.

## EXHIBIT 1 | Brazilian Consumption Curves Follow Four Distinct Patterns



consumers will keep buying a product until their basic needs are met and then, when they can afford it, suddenly increase their spending by trading up. Women's clothing, language schools, ice cream, perfume, and imported automobiles all fall into this category.

- Around 2 percent of spending is on products whose consumption follows a pattern that is *stable with income*. Purchases of these products stay roughly the same regardless of changes in income. This group typically includes basic food staples like flour, sugar, cereals, and eggs.

**Regional Differences.** Comparing the consumption curves of similar products in different parts of Brazil can reveal regional idiosyncrasies. With some goods, such as skin care products, consumption patterns in the well-developed southeast are nearly identical to those in the less-developed northeast. When it comes to perfume, however, the average household in the northeast purchases more than its counterpart in the southeast regardless of income level. Northeastern Brazilians' spending on beer is on par with that of southerners until annual household income exceeds \$15,000. After that point, northerners continue to increase their spending, while consumption of beer plateaus at that income level in the southeast.

Consumption can also vary by city. In the southeast, Brazilians tend to purchase much more health insurance as their incomes improve than do residents of cities in the interior. Households in capital cities likewise dramatically increase spending on fixed-line Internet and broadband services once their annual incomes surpass around \$30,000.

**Trading Up.** Consumption curves provide an indication of when households are likely to trade up from one product within a category to another. Take the example of wireless telecom service cited above. Among low-income households, spending on prepaid mobile telephony increases sharply until annual income exceeds around \$15,000. At about that point, these households begin switching to relatively more expensive postpaid monthly plans. Consumption of beverage concentrates plateaus at similar income levels, as families begin to spend more on pricier, ready-to-drink juices. (See Exhibit 2.)

Knowing when such tradeoffs are likely to occur can help companies adapt their product portfolios to hot-growth segments while deemphasizing products with slower growth prospects.

## What Brazil's Consumers Buy

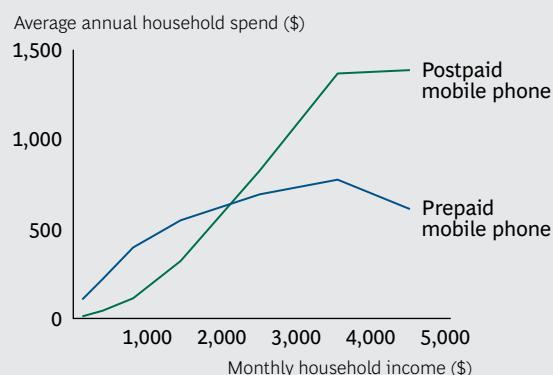
Several distinct waves in household consumption form the basis of the income segments that we identified. (See Exhibit 3.) In the first wave, families living in poverty (subsister households) and families that have recently crossed the poverty line (restricted households) tend to focus consumption on consumer durables and to gradually purchase more food and beverages as their incomes rise. In the second wave, the typical emergent middle-class household trades up to higher-value products within those same categories of basic goods. In the third wave, established middle-class families begin to spend in new product categories. In the fourth and final wave, affluent families accumulate assets and dramatically increase their purchases of luxury items.

We supplemented our analysis of IBGE consumer data with a survey of 1,440 Brazilian households, which resulted in these specific observations:

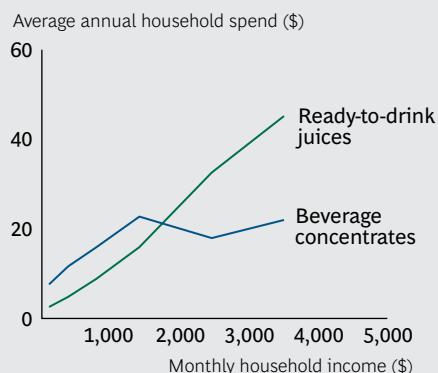
- Subsister households (which account for 12 percent of Brazilian households) can afford to purchase little more than necessities. Only 7 percent own an oven, 5 percent a one-door refrigerator, and 1 percent a motorcycle.

### EXHIBIT 2 | Trading Up in Telecommunications and Beverages Occurs When Yearly Income Exceeds \$15,000

#### Prepaid versus postpaid mobile telephony



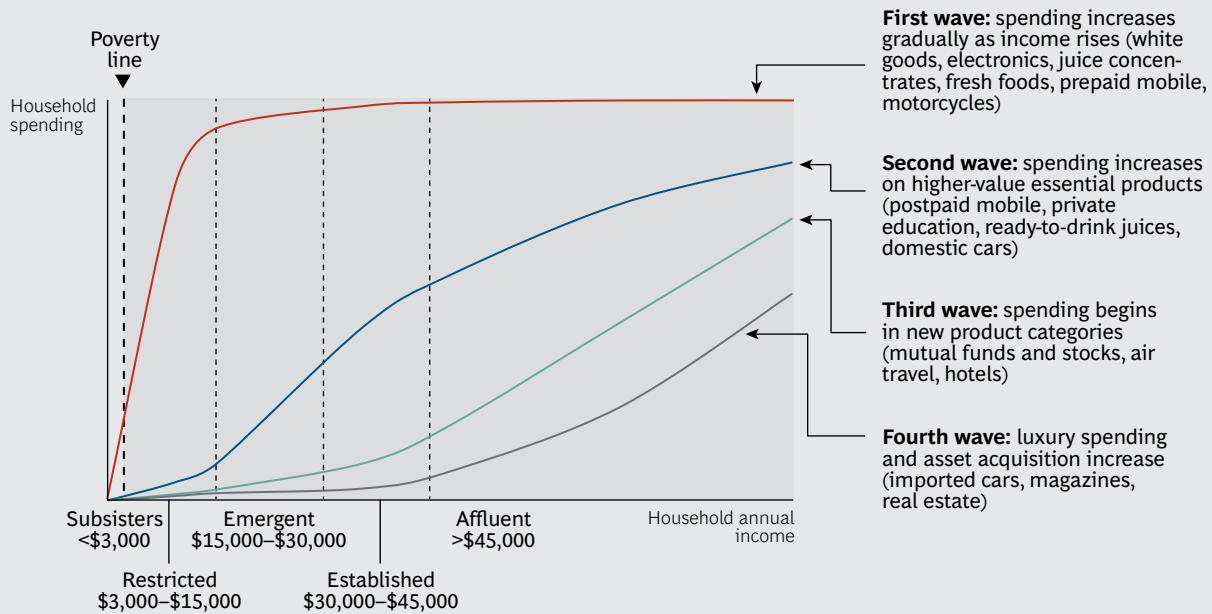
#### Concentrates versus ready-to-drink juices



Sources: IBGE Consumer Expenditure Survey, 2008/2009; BCG analysis.

Note: Exchange rate as of January 2012 (R\$2.00/US\$).

### EXHIBIT 3 | When Households Enter New Income Segments, Spending on Certain Products Surges



Source: BCG analysis.

Note: The lines are not at scale and are only intended to illustrate the shape of the consumption curves.

- Restricted households (59 percent of households) increase their consumption of basic goods, such as fresh fruits and meats, soft drinks, baked goods, prepaid mobile plans, and vocational courses, as their incomes permit. They dramatically increase purchases of durables. Sixty-six percent of households in this segment own an oven and 63 percent a color TV. These families also begin to trade up to higher-value products, especially electronics, large home appliances, and perfume. Seven percent own a motorcycle; around 40 percent own at least a used car.
- Emergent households (18 percent) have entered the middle class. Essentials still account for around 70 percent of their purchases, but these families earn enough to improve the quality of what they buy in these categories. They dramatically increase purchases of such products and services as domestically made automobiles and private education. Nearly 60 percent of emergent families say they trade up on cars. Some even purchase a second vehicle.
- Established households (5 percent) increase their spending in new categories, such as air travel and hotels. They also begin to invest in stocks and mutual funds. In our survey, the majority of these consumers said that they trade up on sunscreen, wine, coffee, clothing, and entertainment.
- Affluent households (6 percent) devote around 40 percent of their incomes to discretionary consumption. They dramatically increase spending on travel and vacations, magazines, and such luxury goods as imported cars. As they pay down

loans, the affluent invest much more in real estate and financial assets. Of the households we surveyed in this segment, 80 percent reported that they had upgraded their housing.

## How Brazil's Consumers Behave

While income is a starting point for targeting Brazilian consumers, attitudes toward spending are also critical for companies to understand. In-depth interviews in five cities revealed significant behavioral differences among families within the same income segments regarding saving, the use of credit, and the extent to which they trade up and down. (See the sidebar, “A Look Inside Two Middle-Class Households.”)

### A LOOK INSIDE TWO MIDDLE-CLASS HOUSEHOLDS

To get a deeper sense of what drives the spending choices of Brazil's rapidly growing consumer class, we interviewed dozens of families in their homes. The two families described below illustrate how households are deciding where to trade up and trade down as their incomes rise.

#### Fildo, Ilza, and Carolina's Emerging Middle-Class Family

Brazil's offshore oil boom has lifted Fildo, Ilza, and their 12-year-old daughter, Carolina, into the consumer class. Thanks to new jobs—Fildo, 48, paints drilling platforms and Ilza, 37, is an administrative assistant at a logistics company—the family's monthly income has reached \$1,500 (*3,100 reais*).

The family owns a cramped but well-organized 40-square-meter home in Cajueiro, a low-income neighborhood in the southern coastal city of Macaé. It has used its rising income to trade up on basic appliances: a Brastemp refrigerator and Consul washing machine (both brands owned by Whirlpool), a Semp Toshiba 32-inch LED TV, and an Electrolux microwave oven. The family recently purchased

an Acer notebook PC, a Philips stereo, and a better bicycle for Carolina. Fildo and Ilza have traded up on leisure as well. They travel more frequently—but economically—by bus and rented car. And while they have Internet service, they regard cable TV and video games as superfluous.

Cautious about debt and fraud, Fildo and Ilza don't use a credit card. They also have little money in the bank. So the ongoing project of adding another story to their house is proceeding gradually. Fildo and Ilza plan to save as their income grows, but they also have other goals—like owning an Apple iPad and traveling even more frequently.

#### Carlos, Sandra, and Giovana's Established Middle-Class Family

With a monthly income of around \$3,000 (*6,000 reais*), Carlos and Sandra are members of Brazil's upper-middle class. But life has changed since the birth of their daughter, Giovana, now two. Although Carlos, 43, has become the sole breadwinner, he has been able to maintain the family's income by taking a higher-paying job as a sales representative for a steelmaker. To

## A LOOK INSIDE TWO MIDDLE-CLASS HOUSEHOLDS (continued)

balance the budget, the couple has cut back on travel and dining out. And they are saving more money in order to someday afford a 70 percent down payment on their own home in exchange for their rented apartment in São Paulo's Saúde district. But given the city's hot property market, that will be a challenge.

Carlos and Sandra trade up in some product categories—such as anything for Giovana—and trade down in others. They prefer brands like Nestlé, Pampers, and Johnson & Johnson for their daughter; the “playground” in their apartment is fully equipped. They prefer Levi’s jeans and Nike, adidas, or Puma sneakers but have traded down on all other apparel. Private-label foods fill

their pantry, and the medicine cabinet is stocked with generics. The couple plans to put Giovana through private elementary school so that she can learn English and focus on extracurricular activities.

Carlos and Sandra pay for private health plans for the family. Carlos has taken out life insurance. The couple is selective about trading up in electronics. They still own a 29-inch tube television—but also an Apple iPad and two Sony mobile phones with postpaid Nextel plans. The Internet has displaced print media in their home; they have eliminated magazine and newspaper subscriptions. The couple has a used Citroën C4 that they purchased with cash.

Some emergent middle-class households, for example, still pinch pennies and avoid credit, valuing financial security over immediate gratification. Other emergent families are less stringent. They indulge by trading up in products that are important to them but keep a close eye on the budget. We visited one household, in the southeastern coastal city of Macaé, headed by Junior, 28, who supports a family of five on the \$2,500 he earns each month delivering goods and taxiing passengers on his motorcycle. Over the past five years, the family has purchased a Motorola smartphone, a 42-inch LG flat-screen TV, and a Sony PlayStation 3 game console. Junior traded up from an old Chevrolet Chevette to a used Fiat Uno, paying \$3,000 in cash. But the household’s PC is unbranded, and the stove and furniture are badly worn. The family saves half its income for emergencies.

At the other extreme are “full-steam ahead” emergent households that save nothing, spend all their income with little regard to budget, and take on debt. One such couple that we visited in Salvador, for instance, has two children and spends more than its \$2,000 monthly income, using credit cards and overdrafts to dine out frequently. They own a house and two cars, prefer high-end apparel, and pay for private schooling. And then there are emergent households that could be described as “controlled spenders.” Driven by a desire to belong and to reward themselves, these families spend what they have and save little, but they are cautious about credit.

## The Next Decade of Consumer Growth

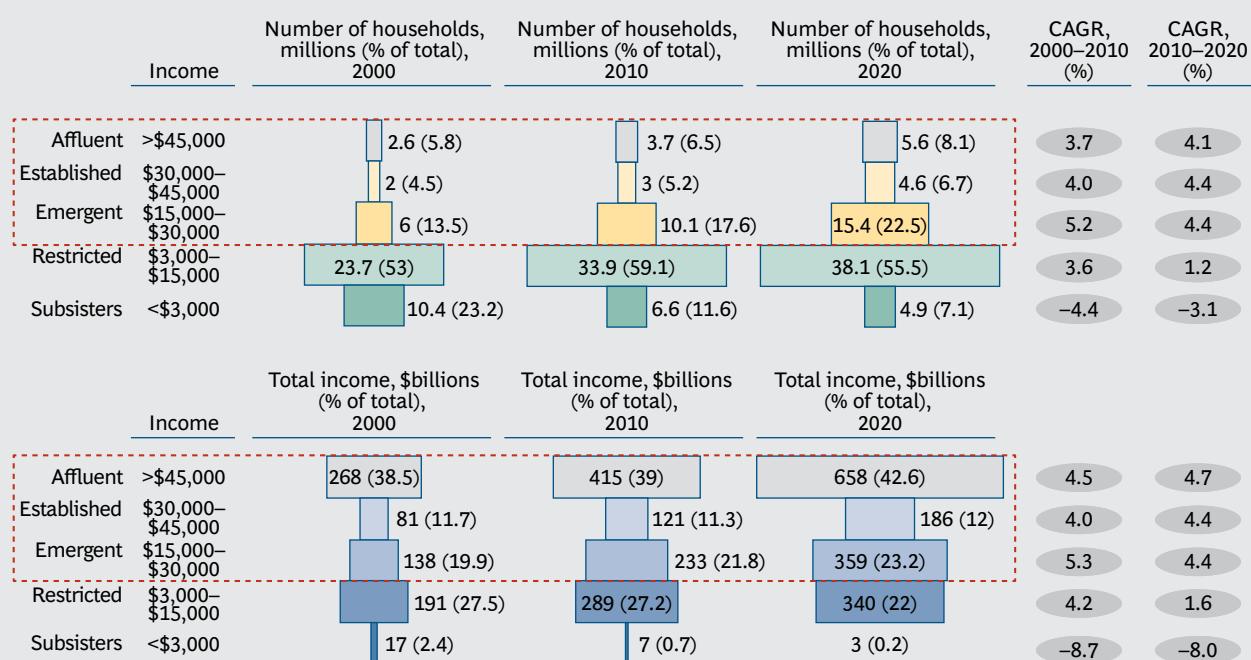
Brazil's consumer market will expand enormously this decade as millions of households enter the middle class and the ranks of the affluent. Greater prosperity will also spread from Brazil's richer southern and southeastern regions to the poorer north, northeast, and midwest. And it will expand from regional capitals and major metropolitan areas to smaller cities.

Given the complexity of serving consumers across such a vast territory, it is important not only to know how much this burgeoning consumer class will grow but also where growth will occur. BCG's Brazil City Income and Consumption database projects growth by city in each income segment to 2020.

These forecasts point to a dramatic increase in the number of upper-income Brazilian households, in sharp contrast to the previous decade, which was marked by a massive shift of families out of poverty. (See Exhibit 4.) Between 2000 and 2010, the number of subsister households shrank from 10.4 million to 6.6 million, while restricted households grew by more than 10 million to account for 59 percent of all Brazilian families.

Through the rest of this decade, the strongest growth will be among emergent, established, and affluent consumers. Each of these income segments is projected to expand by at least 4 percent per year, while the number of subsister households

**EXHIBIT 4 | Millions of Brazilian Households Will Join the Ranks of the Middle Class and the Affluent in This Decade**



Sources: IBGE 2000 and 2010 population census; BCG Brazil City Income and Consumption database.

Note: Exchange rate as of January 2012 (R\$2.00/US\$). Values based on real prices as of January 2012.

will continue to decline. In 2020, some 20 million emergent and established households will account for around 29 percent of the total, compared with 18 percent in 2000. Approximately 5.6 million Brazilian households—8 percent of the total—will fall into the affluent category in 2020, compared with 3.7 million in 2010 and 2.6 million in 2000.

Because of this massive ascent out of poverty, we project that Brazil will represent a \$1.6 trillion consumer market by 2020. We anticipate that emergent and established households will represent around 35 percent of Brazil's income in 2020, compared with around 32 percent in 2010, while the affluent will increase their share from 39 percent to nearly 43 percent.

We project that middle-class and affluent households will account for 85 percent of incremental consumption in Brazil between 2010 and 2020. The affluent will account for 29 percent of all Brazilian consumption by the end of the decade, while the emergent and established segments will account for a combined 38 percent.

**The Changing Geography of Growth.** Until recently, companies could succeed in Brazil by focusing on heavy concentrations of consumer wealth in the south and southeast and a few major urban centers in the northeast. Not much longer.

The southeast will still have the highest concentrations of upper-income Brazilians in 2020. But the fastest growth will be in the underdeveloped north and northeast. Together, these two regions are projected to add around 2.5 million new middle-class and affluent households between 2010 and 2020. Their share of the national total in these segments will rise from 18 percent to 22 percent. Leading consumer-goods companies in Brazil recognize that fast-growing markets in various regions must be approached and served differently. For example, Mondelēz International (formerly Kraft Foods) has created a distinct operating unit to serve Brazil's north and northeast.

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By 2020, the consumer opportunity will be spread out across more cities, smaller cities, and a larger portion of Brazil's vast territory.

Consumer wealth is likewise spreading to smaller cities and from coastal regions into Brazil's interior. Some of the biggest growth in middle-class and affluent households will occur in cities with populations of less than 500,000. By 2020, these cities—where more than 60 percent of such families will live, compared with 57 percent in 2010—will account for around two-thirds of incremental consumption. Nearly half of that new spending will occur in cities in the interior of the country, while the remainder will be in capital cities and metropolitan areas. In other words, the consumer opportunity will be spread out across more cities, smaller cities, and a larger portion of Brazil's vast territory.

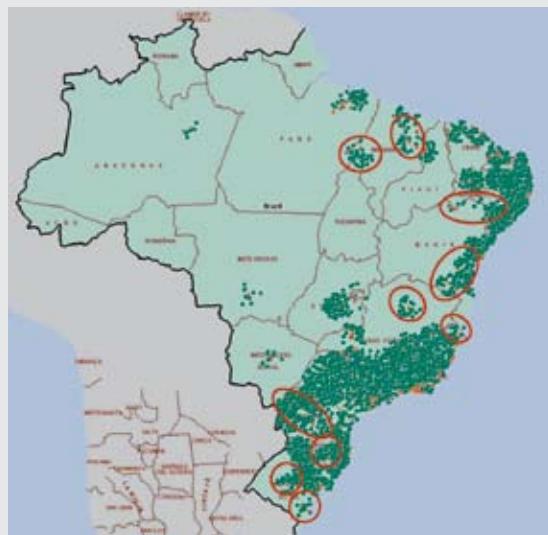
**Emerging Consumer Clusters.** A good way to approach Brazil's changing consumer geography is to focus on emerging clusters of adjacent municipalities that meet a minimum threshold of consumption. Clusters can be defined in many ways, depending on a company's strategic priorities. We looked at emerging clusters where an anchor city is within 100 kilometers and household spending amounts to at least \$5 billion annually. (See Exhibit 5.) Virtually all of these clusters are along Brazil's coast and around capital cities such as São Paulo. In the years ahead, new clusters with equivalent levels of consumption will develop in landlocked states such as Minas Gerais and the inland areas of such coastal states as Bahia, Pará, Maranhão,

## EXHIBIT 5 | Clusters Where Households Spend at Least \$5 Billion Each Year

In 2010, these clusters were mainly in the south and in coastal areas



By 2020, new clusters will appear in the north and in the interior



Sources: IBGE 2000 and 2010 population census; BCG Brazil City Income and Consumption Database.

Note: Clusters are within 100 kilometers of a city with a population greater than 100,000.

and Rio Grande do Sul. Much of this growth will be driven by industries such as agribusiness, infrastructure, and natural resources.

In Brazil's north and northeast, there are five new consumer clusters where middle-class and affluent households spend at least \$5 billion per year. One is emerging around Jequié in central-south Bahia, a major petroleum-products distribution base for companies such as Petrobrás, Esso, and Shell. In southwestern Maranhão state—an important hub for the agriculture, steel, and wholesale distribution industries for such companies as Vale, Queiroz Galvão, and Coca-Cola—a big consumer cluster is forming around Açaílândia and Imperatriz. This region is drawing surging investment in energy and transportation infrastructure by public-private partnerships. And in the southeast, one of six important new consumer clusters is the area around Montes Claros in Minas Gerais. This is home to diverse well-developed industries, including textiles, cement, foods, and biofuel. Petrobrás, Novo Nordisk, Nestlé, and Fiat are active in the area, and a new industrial district is under development.

The changing geography of Brazil's rising consumer class will profoundly affect companies' strategies and go-to-market capabilities. To maintain share, they will need to establish a presence in a much larger number of Brazilian cities and venture out of metropolitan areas into smaller municipalities.

## Sectors Ready for Takeoff

The emergence of millions of middle-class and affluent Brazilian families will usher in an era of dramatic sales growth in a broad range of goods and services. For many

companies, Brazil is becoming ripe for an all-out push in products that until now few families could afford. For others, it is time to reassess their portfolios and prepare for surging sales of higher-value products as families begin to trade up. Several leading companies are already gaining a strategic advantage by positioning their product portfolios accordingly. Pernod Ricard, for example, anticipated that Brazilian vodka drinkers were ready to trade up. It began investing in its Absolut brand around five years ago and helped create a market for premium vodka.

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With millions of families vaulting out of poverty and into the middle class, it may be time to emphasize more premium brands and to appeal to a more affluent lifestyle.

Some of the fastest growth in Brazil through the rest of this decade will be in consumer services. We project that private education, financial services, telecommunications, and transportation will all enjoy compound annual growth of 3.5 to 4 percent in real terms. Brazilian consumers will also spend a greater share of their incomes on apparel, groceries, and leisure activities. The health care and personal care sectors will maintain annual real growth of around 3 percent through 2020. Consumer durables will likewise experience healthy growth but will command a declining share of the average family's budget.

To identify the biggest opportunities in Brazil, it is important to look beyond averages in major product categories to specific products and services. Within the beverages category, for example, we project rapid sales growth for whiskey, vodka, wine, and Champagne, as spending on rum and other sugar-cane-based spirits wanes. In packaged foods, we project that consumption of cereal bars will increase more dramatically than that of salty snacks. In the leisure and entertainment category, spending on air travel is likely to rise rapidly through 2020, but bus travel will grow more slowly. In personal-care products, sales growth of sunscreen will significantly outpace that of hair care products. Indeed, we project sharp differences in the growth trajectories of different products in every category we studied.

## A New Approach to Brazilian Consumers

The economic and social changes sweeping across Brazil will require most companies to adopt a fundamentally new approach to this dynamic emerging market. Their product portfolios, geographic footprints, and profiles of key consumer segments are quickly becoming obsolete. Few are fully prepared for the transformation ahead. A new approach is called for that will require companies to do the following:

- Develop portfolio strategies that are informed by consumption curves. If a product's curve describes a pattern that is stable with income or has reached a plateau, the company should focus on improving distribution or revitalizing its product line with more up-market or innovative offerings. If the curve indicates continuous growth or a steep growth phase, the company should prepare for growth and prevent competitors from seizing an early lead.
- Prepare to adjust product portfolios and value propositions to capitalize on surging consumption by the rapidly growing emergent and established middle-class segments, which can be expected to trade up to higher-value products. Until now, focusing on low-cost products and positioning them for budget-conscious buyers may have been the optimal approach to the Brazilian market. But with millions of families vaulting out of poverty and into the middle class, it

may be time to emphasize more premium brands and to position the portfolio to appeal to a more affluent lifestyle.

- Adapt the company's geographic footprint in anticipation of the emergence of new commercial hubs and concentrations of middle-class and affluent consumers across the country. Companies must develop go-to-market and supply chain strategies, as well as on-the-ground capabilities in market research and communication that are tailored to local differences. They may also require a more dispersed manufacturing footprint. To reach smaller cities, companies will need to invest in low-cost retail channels, such as e-commerce, that can more easily reach new pockets of higher-income consumers.

**F**OR MANY COMPANIES, adapting to the changing dynamics of the Brazilian market will require new capabilities and a new operational approach. Companies that can anticipate changes in the Brazilian marketplace will be able to seize the advantage in one of the world's greatest consumer-growth opportunities.

#### NOTES

1. See "Brazil: Facing the Productivity Challenge," BCG article, September 2012.
2. See *From Wealth to Well-being: Introducing the BCG Sustainable Economic Development Assessment*, BCG report, November 2012.
3. For BCG's research on consumers in China and India, see Michael J. Silverstein, Abheek Singhi, Carol Liao, and David Michael, *The \$10 Trillion Prize: Captivating the Newly Affluent in China and India*, Harvard Business Review Press, 2012.

## About the Authors

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