



An online review of Foreign Agricultural Service initiatives and services

## Market and Trade Data

### Brazil's Booming Luxury Market

*By Fabiana Fonseca and Ronald Verdonk*

There are approximately 1.2 million families in Brazil with an average annual income above \$72,000. The number of families in this select group increased from 1.8 percent of the overall population (186 million persons) in 1980 to 2.4 percent 2000. This group also holds one-third of accumulated national wealth (average family income multiplied by number of wealthy families).



Photos courtesy of USDA/FAS Agricultural Trade Office, São Paulo, Brazil

#### Luxury Defined

*"Luxury is extremely superfluous, but extremely necessary." — Coco Chanel, legendary trendsetter*

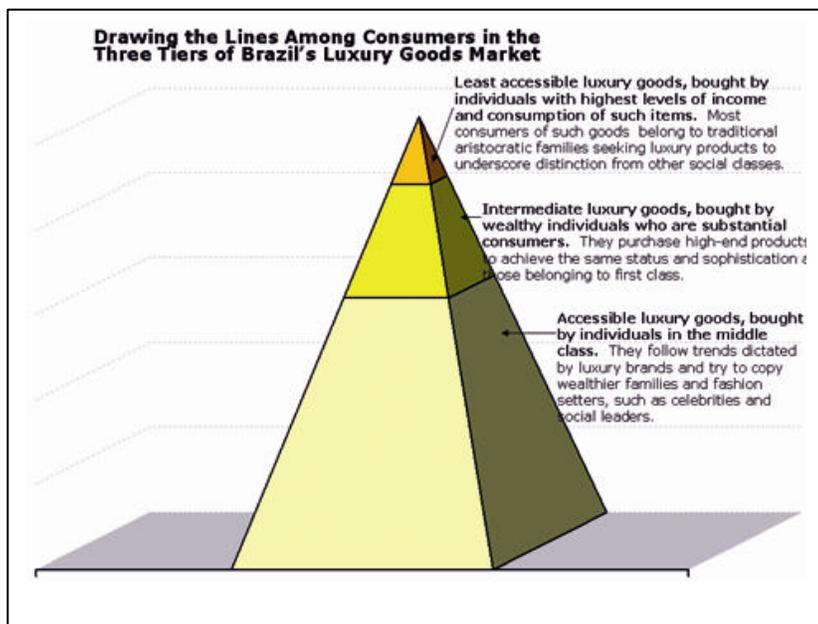
According to dictionaries, luxury is something that is not necessary for life but can make it more enjoyable or comfortable. Sumptuousness and extravagance are a couple of synonyms for luxury.

#### Geography Matters

About 73.5 percent of these families are concentrated in southeastern Brazil (58 percent in the state of São Paulo alone), 10 percent in the southwest, 7.7 percent in the northeast, 6.4 percent in the middle west and 2.4 percent in the north. Wealth distribution is even more asymmetrical across cities: the city of São Paulo is home to 443,462 affluent families, representing 38 percent of the total number. Rio de Janeiro and Brasília rank a distant second and third, with 6.6 and 3 percent of the total number of wealthy families, respectively.

#### Soaring Luxury Spending Likely To Continue

Brazilians, mostly those in the upper income echelons, spend close to \$2 billion a year on luxury goods. The state of São Paulo represents \$1.5 billion (or 75 percent of gross sales) followed by Rio de Janeiro. Expenditures on luxury goods have increased a hefty 35 percent per year since 2000.



### Factors Fueling Economy

Possessing large and well-developed agricultural, mining, manufacturing and service sectors, Brazil's economy is by far the largest in South America and is expanding its presence in world markets.

In 2001-2003, the economy grew, on average, only 2.2 percent per year, as it absorbed a series of domestic and international shocks. That Brazil absorbed these shocks without financial collapse is a tribute to the resiliency of the economy and to the economic program put in place by the government.

The three pillars of this program are a floating exchange rate, an inflation-targeting regime and tight fiscal policy, reinforced by a series of International Monetary Fund programs. As the Brazilian economy heats up, more investment is expected to flow in.

### Portrait of a Luxury Goods Consumer

The reasons why individuals are spending more on luxury goods relate to psychological intangibles. Breaking with routine and responding to the personal value one sees in a certain product are the major factors that contribute to such sales. In general, consumers of luxury goods:

- are highly influenced by a product's appearance;
- have a high awareness of self-image;
- tend to deny that they buy premium brands as a mark of social status;
- purchase such items for pleasure;
- pamper themselves; and
- value exclusivity.

### The Luxury Spectrum

The luxury goods consumer described above becomes disappointed in, and less attracted to, premium brands that have become available to the majority of consumers.

On the other hand, within a company's own product range, there is a fine line that separates luxury products from the



rest. Companies will be struggling for survival if their market remains restricted to a limited number of consumers. So, this is the paradox, the dilemma for companies: to maintain the exclusivity of some products and guarantee mass sales for others.

Despite the finite audience for haute couture and haute cuisine, many consumers want to associate themselves with that audience by purchasing less expensive items (such as such as perfume, sunglasses, foods and beverages) carrying the same brand name.

Suppliers are capitalizing on this trend by subdividing luxury goods into three main categories: inaccessible, intermediate and accessible. They've even coined a term for the trend, "masstige," which combines the words "mass" and "prestige," meaning luxury goods that are more accessible. They are mass-produced goods but still carry the brand-name prestige.

#### **Positioning U.S. Products Exacts a Premium**

For most Brazilians, foreign food products have been relegated to the category of inessential luxuries since the national currency, the real, began depreciating in 1999. Moreover, Brazil is self-sufficient in agricultural production and has no critical demand for imports of most foods and beverages. As a result, imported consumer-oriented products fall into the luxury category.

Within this class of goods, U.S. food exporters compete directly with EU





(European Union) companies. The foreign influence in Brazil's food culture is almost wholly European, and products from EU countries represent both tradition and sophistication.

Only when the intangible factors are considered, and the consumer purchasing decision process is understood, can an exporter develop an effective marketing program. U.S. exporters cannot be satisfied with merely supplying a product to the market: they have to take the time to understand the Brazilian market and build their brand's personality and image in order to gain market share in Brazil's premium segment.

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