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Luxury goods

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Report Highlights:

A recent study shows that 2.4 percent of Brazilian families have annual incomes which exceed R\$131,784 per year (US\$1=R\$1.83, 2000), which is 14 times greater than the average family income in Brazil. This select group of affluent consumers is driving the boom for luxury goods and attracting more world-class brands and their suppliers to the Brazilian market.

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What is luxury?

“Luxury is extremely superfluous, but extremely necessary”, defines legendary trendsetter for luxury goods, Coco Chanel. 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.

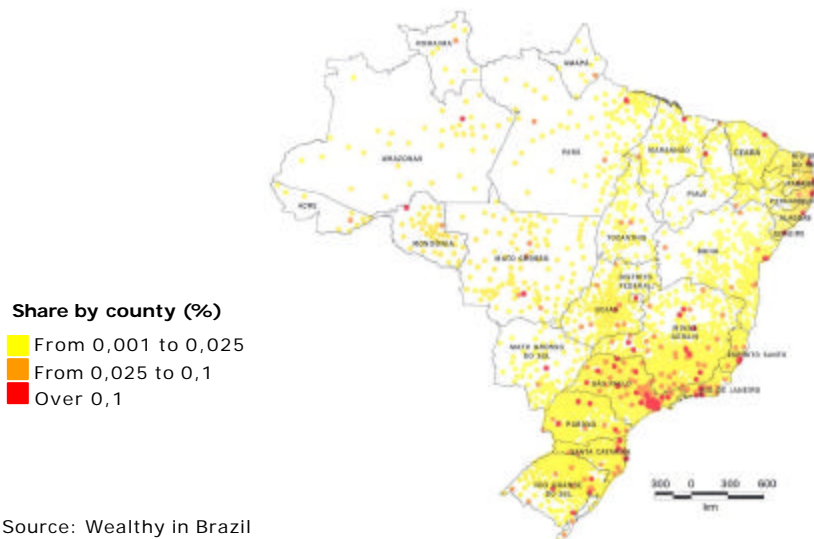
The Market for luxury goods in Brazil

“Wealthy in Brazil” is the title of a recent study developed by the Marcio Pochman, Professor of Economics from the University of Campinas (Unicamp), Sao Paulo. The report was put together using the Brazilian Institute of Statistics and Geography (IBGE) data of 2000 to identify wealth distribution among the upper classes of the Brazilian population. According to this research, Brazilian families with disposable income above R\$131,784 per year (\$72,000 where US\$1 = R\$1.83) are considered wealthy. There are approximately 1,162,164 families nationwide that would fit into this category. Converted into 2003 values, the average income of these families was about R\$270,000 per year (about \$93,100 at an exchange rate of \$1 = R\$2.9), which was 14 times greater than the average family income in Brazil.

The study informs us that the number of Brazilians who comprise this select group increased from 1980 to 2000. While in 1980 they accounted for 1.8 percent of Brazilian families, by 2000, their representation as a percentage of all families had risen to 2.4 percent. The gap in terms of the number of average family incomes to the wealthy families also rose, from 10 to 14 times. Adding to that, this select group of the affluent is responsible for 1/3 of accumulated national wealth (average family income x number of wealthy families).

When studying the geographic distribution of wealthy families across Brazil, the research shows that 58 percent are concentrated in Sao Paulo state. Viewing Brazil regionally, the study indicates that 73.5 percent are situated in the Southeast, 10 percent in the South, 7.7 percent in the Northeast, 6.4 percent in the Midwest and 2.4 percent in the North. Wealth gets even more asymmetrical when considering its distribution across cities: Sao Paulo city is home to 443,462 affluent families, representing 38 percent of the total number. Rio de Janeiro and Brasilia rank second and third, with 6.6 and 3 percent of the total number of wealthy families, respectively.

BRAZIL 2000
(accumulated wealth by families per county)



Another resource that assists in explaining wealth distribution in Brazil is the “World Wealth Report 2004”, a result of collaboration between Merrill Lynch and Capgemini. The study indicates that in 2003 there were 7.7 million people worldwide holding more than US\$1 million in financial-asset wealth. This group is designated as the high net worth individuals (HNWIs). In the case of Brazil, 80,000 individuals fit into the HNWI segment. In terms of the number of Brazilian individuals, the study shows a growth of 6 percent when compared to 2002.

The consumption of luxury goods

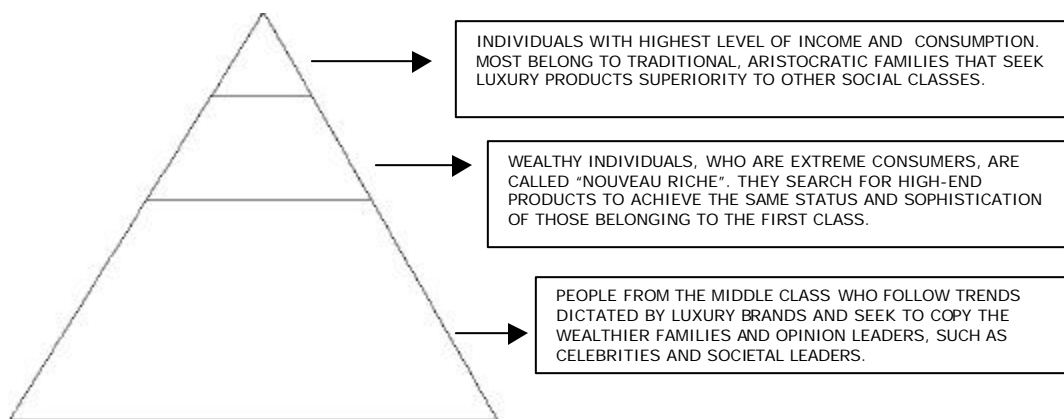
According to MCF, a Brazilian consulting firm for premium products, the value estimated for local spending on luxury goods is close to US\$2 billion per year. Sao Paulo itself represents US\$1.5 billion or 75 percent of gross sales followed by Rio de Janeiro. Consumption of luxury goods increased 35 percent per year since 2000, and as the Brazilian economy heats up more investment is expected to flow in.

Luxury goods are divided into the following subcategories: fashion accessories, luggage & leather goods, shoes, fur, clothes, lingerie, jewelry, watches, cosmetics, perfume, automobiles, jets, yachts, motorcycles, champagnes, distilled spirits, wines, food, crystals, house ware, chinaware, furniture, textiles, lightning, hotel service, restoration, music instruments, electronics, paper supply, books, tobacco, horticulture and health & beauty care. The reason why individuals buy/trade up depends more on intangible characteristics. Breaking with routine and responding to the personal value one attaches to a certain product are the major factors that contribute to sales of this segment. Adding to it, consumption of luxury goods present the following characteristics:

- >The consumer for luxury goods is highly impacted by appearance.
- >Consumers of luxury goods have a high awareness of their self-image.
- >Most of them will deny they purchase premium brands to fulfill a social status.
- >The purchase process differs from regular shopping; it is related to pleasure. The consumer is spoiling himself/herself.
- >Exclusivity counts.

Risks and opportunities

Within a company’s own product range, there is a fine line that separates luxury products from the rest. Premium brands by no means compete in price criteria. As strange as it sounds, customers become disappointed/less attracted if premium brands become available to the great majority of consumers. On the other hand, 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 targeting this type of consumer audience. The following graphic is intended to further explain the lines drawn between the different consumer segments.



Today, to maintain the exclusivity of certain products, luxury goods have been graded into 3 major categories: Inaccessible, intermediate and accessible. Luxury product suppliers use this approach to guarantee mass sales. There is a restricted audience for *haute couture*; nevertheless, there are many consumers willing to be part of this segment by purchasing less expensive items of the same brand such as perfume, sunglasses, etc. This trend is called 'Masstige', it combines the words mass and prestige, meaning luxury goods that are more accessible. They are mass products but still carry the brand prestige.

How to follow the trend and position U.S. food products?

Since the eleventh century, a division developed with regard to products destined to feed the upper and lower classes. To the lower class, vegetables or cereals were available while the upper class had the indulgence of meat, a status symbol at the time. This culinary division had also contributed to separate the aristocrats from the poor. In the course of history, when the upper class felt they had lost the privilege of exclusivity they established new paradigms and adopted new products in an attempt to preserve their exclusivity. On this count, today, arguably, society has not really broken with the past.

For most Brazilians foreign food products became an unessential item in the Brazilian basket since the local currency, the Real, started its depreciation in 1999. Adding to this, Brazil is self-sufficient in food supply and has no critical demand for imports of most foods and beverages. As a result, nowadays, imported consumer-oriented products fit in the luxury category.

Within this class of goods, U.S. food exporters directly compete with European companies. The foreign influence in Brazil's food culture is almost wholly European, and EU products are perceived as traditional and sophisticated. Only when intangible factors are considered and the decision process is understood can an effective marketing program be developed. These findings suggest that exporters can't be satisfied with merely supplying the product to the market, as it is crucial to establish a consistent positioning to persuade consumers and gain market share in the premium segment.

Facts & Figures

>Sales of Cartier in Brazil increased 49 percent in 2003, compared to 2002.

>Louis Vuitton Brazil is responsible for 70 percent of total sales in Latin America. Of the chain's 320 stores around the world, Sao Paulo has the fifth largest gross sales per square meter.

>Ferrari sales in Brazil increased 12.5 percent in 2003. The top selling car costs 350 thousand dollars.

>Sales of Montblanc products increased 32 percent in 2003 compared to the previous year. In Sao Paulo, Montblanc has 4 stores; there is no other city in the world with a greater number of stores.

>Tiffany & Company will soon open its third store in Brazil. Milan and Rome have only one each.

>The British company Diageo, worldwide leader for premium beverages, has opened its third unit called "Reserve Brands Group" in Brazil. Sao Paulo is one of the three cities in the world to host this special division after Milan and London.