

# THE LUXURY MARKET IN BRAZIL

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Market Opportunities and Potential



CLAUDIO DINIZ



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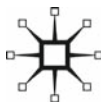
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*To my parents,  
my sisters and my brother.  
My family are the true luxury in my life.  
I love you all!*

Selling luxury means selling dreams

– Claudio Diniz

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# Foreword

Human creativity has lent a hand to fashioning remarkable objects and monuments with loving patience and knowledge. Such luxury, which has brought to life the most beautiful human masterpieces, from the Pyramids of Giza to the Taj Mahal, has existed ever since humankind learnt to provide for the basic necessities. After assuring survival, humankind naturally turned towards the production of objects that convey meaning and a sense of superiority, as testimony to its own development.

Through excellence, humankind has risen higher and the reflection from magnificent objects fashioned by hand has projected an enlarged image of grandeur. Humanity has lent nobility to raw materials, in stone, iron and clay. The powerful human image transcends this material, so that we may take hold of these treasures and use them as emblems to represent our huge capacity.

Luxury is born.

From work in a studio full of tools, the smith and craftsman have made their mark of excellence, creating style and beauty in their work. Thus they acquire a reputation as artists, bringing to life unique objects to enhance the reality that surrounds us, shaping our perception of beauty.

How could the artist conceive that one day production would be spread around the globe, carrying with it the artist's name as a synonym of privilege, of the rise to power and of international renown?

The luxury brand was born.

Globalization arrived; the craftsman, who once produced only a few samples, drowned in a growing demand that could no longer be met by his hands alone. The craftsman started by hiring a few extra hands and soon learned to organize production, so that over the ensuing generations the craftsman was managing a whole enterprise, from production to distribution.

Humble craftsmen became entrepreneurs and once unique samples became part of a series that needed to be sold around the

globe. Marketing took to the stage to instill a desire that must be kept alive and strong for the sake of the brand. In Brazil, we have seen this desire increase at an exponential rate over recent years, as the country grows its citizens yearn to possess beauty and branded luxury. Each desire, however, is expressed in its own way, a product of local history and culture.

Each country offers its own luxury, its craftsmen produce beauty and quality shaped from its history. This also happens in Brazil, leading to the need for a profound study of this market. Claudio Diniz has filled that gap with his enthusiasm, his passion and his knowledge of the Brazilian market.

His project is now also a reference for the luxury world and has its due place in several of its segments, referring to the psychological aspects of consumers, as well as identifying tendencies and particularities. This book is a faithful testimony to what luxury currently represents in Brazil and a projection of what it might represent tomorrow.

Thank you, Claudio!

*Pascal Portanier*

**Pascal Portanier** has a PhD in luxury studies from Nice University, France. He currently works at the London College of Fashion and offers seminars in England, China, Brazil, Argentina, Dubai and Paris. He has 15 years of experience in marketing and design and has worked for renowned luxury brands such as Lagerfeld, Lancôme, L'Oréal, Clarins, Biotherm, Guinot, Rodier and Balenciaga.

# Preface

This book was the result of intense research into the Brazilian luxury market and it surveys worldwide luxury in order to understand better the distinctive aspects of the Brazilian market, which has emerged only recently and has received little academic attention. The results of this research were so consistent that it suggested the need to share this study through publication, a contribution towards the nation's market. In addition, its mapping of the Brazilian market has been designed to meet the demands of entrepreneurs, economists and investors, along with professionals from other sections, such as sales and marketing, or anyone who feels the need to understand this market.

Actually, there are very few products and services that interest professionals and clients as much as those in the luxury market. This is understandable, as luxury products and services are capable of evoking such emotional and symbolic tension in some consumers that they are willing to spend thousands or even millions of Brazilian reais (R\$) to fulfil their dreams and desires. Therefore, we need to understand fully how products and services in the luxury universe can express another person's desires and feelings.

That is exactly what this book is based on: a comprehension of the market from an outline of luxury in Brazil, starting from the main segments of this business, based on the analysis of its tendencies and opportunities, reaching out to the future and to the potential of this market in Brazil. This is a business continuously under transformation as the country is about to host two major events: the World Cup in 2014 and the Olympic Games in 2016.

Equally important for the theoretical aspects of this study was an analysis of the luxury consumers' profile and of the products and services they acquire from the point of view of marketing and distribution, along with that of the challenges facing the expansion of this market in Brazil.

The final section presents the future of worldwide luxury as 'The New Luxury'. Before concluding by exploring corporate experiences of a benchmarking strategy with regard to the decisions made by successful Brazilian enterprises.

# Acknowledgements

I would like to offer special thanks to the following: to my idols Gilles Lipovetsky and Pascal Portanier, who in our conversations have made me grow as a professional and, above all, as a human being; to Sonia Helena Santos for offering a benchmark of the luxury market in Brazil; to Hildegard Angel, Ana Teresa Sampaio, Rafael Castello, Patricia Isabel Lira, Thiago Costa Rego, Rodrigo Correa Stefani, who have all contributed to this book; to Luciano Oliveira for being a loyal friend; to Luciano Tosta, Andre Kiyomori and Renato Cardilho for affection and friendship; to Tina Turkie a special thanks for translating this book and to Palgrave for believing in this book project. Finally, I cannot forget to thank God for always being present in my life.

# About the Author

**Claudio Diniz** is the CEO at Maison du Luxe in Brazil, a consultancy specializing in events management expertise, the Coordinator of the MBA in Luxury Management in two Universities, and is the Coordinator for the Luxury Commission at the French Chamber of Commerce in Brazil. He is author of the book *O Mercado do Luxo no Brasil: Tendências e Oportunidades* (Seoman). Claudio holds an MBA in Luxury Management from FAAP University at São Paulo, Brazil, and has studied at the London College of Fashion, UK, and ESSEC Business School, France.

# 1

## The Universe of Luxury

This chapter will reveal how the universe of luxury arose, its essence, its importance, how personal experiences throughout history and from different cultures relate to it and how it developed in Brazil. It is a trip that needs to be taken to understand the concept of luxury and how that informs one's reactions to it.

Luxury is a response to the need for a social class to distinguish itself. Easily visualized if we think about royalty, on top of the social pyramid and with limitless power to govern, needing to distinguish itself by using products that emphasized its potency through symbols, shiny objects, weight and uniqueness. So royalty met this 'demand' to demonstrate superiority over its subjects by using crowns, coats of arms, rings and other adornments considered exclusive to kings and queens. These products were not used or worn by those outside this class to identify an elite status because of their particular significance, even in the case of clothing made from special materials and in rare colours of limited availability.

However, even those products did not defy local culture. For instance, in India, where a cow is considered sacred, using that animal's hide to decorate one's house would not happen. Thus, it is correct to state that luxury products reflect not only the history and wealth of a people, but also its cultural traditions.

Luxury has long been a measure of the wealth of a social class or even a nation, and the production and sale of luxury goods is not carried out without, at the very least, the *prospect* of consumption. A luxury article should create feelings of desire and admiration for its



owner from his or her peers, such that simply displaying an article suggests luxury. This leads to the fact that the value of a luxury article is not in its usefulness (since of itself it is superfluous) but in the feelings it arouses in the consumer and in its attributes of beauty and fantasy. The desire for ownership is stronger than the desire for the object itself. However, bear in mind that the said article is made by craftsmen using rare raw materials, craftsmen who create tailored and exclusive products that only a privileged few can afford, and whose label must demonstrate it to be a member of a class above all other classes. The same applies to luxury services, whose personalization makes it exclusive. All this contributes to the overall value of a luxury product or service.

## 1.1 Defining luxury

Luxury is the opposite of vulgarity.

– Coco Chanel

In the olden days, the wealthy had to wear jewels and live in mansions to be differentiated from other social classes. That need no longer exists – or is about to disappear.

The rich display luxury in a more reserved fashion. In the United States, a millionaire will show his wealth by being a philanthropist and having his or her name linked to foundations, as does Bill Gates. Contemporary luxury is not fueled by the longing to instill envy or to be known by others, but by the desire to admire oneself, to be delighted by oneself. That narcissistic dimension has become dominant and is changing the concept of luxury.

– Gilles Lipovetsky

There are two kinds of luxury: traditional and contemporary. Traditional indicates a rare, exclusive service or product that is available to very few people, and whose label is a sign of reliability. This kind of luxury has an objective character, as it is related to materialism and to all that money can buy, therefore conferring status on those who acquire it. Contemporary luxury, on the other hand, has a subjective aspect to it (rarity, exclusivity and difficulty to obtain), which sets off an emotional discharge, originating in the human need for personal significance, which in turn is based on 'not having'

what is needed, as opposed to traditional luxury which comes from 'having'. The Italian sociologist Domenico de Masi classifies contemporary luxury into five elements, in the following order of importance: time, autonomy, silence, beauty and space.

Time is spent on the labour to [build/create] a saleable product, but to enhance it with professional specialization even more time, often outside working hours, needs to be invested. As days become shorter and one's daily duties become more and more hectic, personal needs can start to pressurize: When will there be time for the family? Or to be with the ones we love? Where is the time for personal projects? Time for relaxing, for mere idleness, or just to enjoy nature? There is too much time needed and too little time available, meaning time to fulfil one's many needs has become more and more scarce, a luxury.

To see autonomy as a luxury item we must first agree that we are swamped by routine and work, on weekdays and even on weekends. Then, one begins to long for a chance to simply do what we want. That requires autonomy, which depends on the luxury of time. Then we have the difficult task of asking, 'What is it that I wish to do today?' and the even more demanding task of answering.

The luxury of silence is a selfish wish for well-being, which means having time for oneself. This is harder and harder to achieve for those at work, at home or even out and about as cities become ever-more crowded and noisy.

The luxury of beauty can be seen as the recovery, or correction, of the effects of stress, either as a permanent improvement or as a one-off for special occasions.

Finally, the luxury of space is related to the growth in population which increases the demand for, and price of, land. The cost of each square metre in particular neighbourhoods keeps rising due to the lack of building space, which makes it ever-more difficult to afford one's own home.

It is worth noting that contemporary luxury has created a new notion of 'luxury', that of leading of a better and longer life focused on the present, no longer concerned with appearances or social class but with personal significance, where moments and sensations are becoming a rare commodity.

In times of globalization, contemporary luxury is increasingly evident and traditional luxury, although it will not cease to exist, will need to share space with this new luxury, emotion (experience).

*Table 1.1* A comparison of traditional luxury with contemporary luxury

<b>Traditional luxury</b>	<b>Contemporary luxury</b>
Members of traditional families, socialites, heirs to titles and great fortunes.	Self-made and successful professionals in all areas, renowned for knowledge and personal valour.
Values fashion brands: 'I must wear brands to show who I am.'	Values clothes without logos, for their materials, and brands that practise sustainability: 'I do not need labels to show who I am.'
Ostentatious.	Elegance through simplicity.
Travel to go shopping and to see and be seen.	Sensory trips, to satisfy emotions.
New York, Miami, London and Paris.	Cambodia, Vietnam, Machu Picchu, the Amazon and Fiji.
Aims to be invited to sit in the first row at fashion shows and to be the centre of attention.	Sitting in the first row at fashion shows is now overexposure. Elegance is having an invitation for the first row but sitting in the third or fifth rows to seem anonymous: 'I no longer need to show up or show off to be who I am.'
Wedding parties as Hollywood-style shows, with a thousand guests.	Simple and exclusive wedding parties, with only the closest friends for guests.
Values living in huge mansions in traditionally prime neighbourhoods with several employees.	Values living in apartments (for security), cosy and elegant but smaller and with few or only one employee, near to children's schools and close to work. Any property has personal meaning: impressive views and garden.
Expensive and exuberant restaurants, with famous chefs. Being seen at fashionable restaurants is more important than the actual food.	Small, exclusive restaurants, off the beaten track and away from urban centres, where food is organic, with no preservatives, made in an eco-friendly and manual fashion to evoke memories of affection.
Does everything to appear in newspaper social columns.	Refuses to be in newspaper social columns.
Values one's labour: 'I spend several hours at work, even on weekends. I am irreplaceable and my company cannot do without me.'	Value one's family: 'I spend precious hours with my family and friends. I go on weekend trips. I am one among others in my company.'
Centralizes one's work.	Teamwork and delegating.

Europe has already made the transition from traditional to contemporary luxury. Some people have noticed this transformation in Brazil, but since its luxury market has only existed for 22 years it is still maturing and is far behind Europe. We must also analyse the difference in behaviour towards luxury between São Paulo – where the nation's luxury market is more mature – and the rest of Brazil – where what starts in São Paulo then reaches other cities (Rio de Janeiro, Brasilia, Curitiba, Recife and Belo Horizonte).

## **1.2 What does luxury mean for Brazilians?**

The concept of luxury varies from one person to another. Something important, rare or special to one person may not be so for another. This section attempts to explore and evaluate 'luxury', using a range of definitions offered by Brazilian celebrities who experience luxury:

Simplicity ... is the best and greatest luxury in life! To be simple in any circumstance, while, of course, drinking coffee in a coffee cup et champagne dans une tasse a Champagne! Tout simplement.

Bethy Lagardere – entrepreneur

Luxury to me is tranquillity; however, when we mention luxury we usually think of products, so in that case it is a combination of three things: savoir-faire, tradition, rareté! Knowledge, tradition and exclusivity.

Dimitri Mussard – heirs to Hermès (Dimitri lives in Brazil)

What does luxury mean to me? It means being able to take a stroll in open spaces, feel the fresh air and the sun shining on my face. To feel the sea at my feet or stroking my legs, to climb a hill and touch the wind. To do all that easily and calmly. To have a good chat with a glass of wine and to visit new places.

Christina Oiticica – artist and wife of  
the writer Paulo Coelho

Luxury is being alive, healthy and having true friends, a wonderful family, working at what one loves, having a true character, being kind, being able to help those in need, having dreams, projects

and culture. Luxury is having one's own style. Luxury cannot be bought, contrary to what many believe. Luxury is light, from the Latin *lux*!

Paulo Ricardo – Brazilian rock singer and composer

Luxury means to me: Uniting comfort and beauty, of course with a touch of exclusivity.

Mario Bulhões – entrepreneur at Pacha Búzios

Luxury is living in health, having a family and being happy.

Vera Gimenez – actress and television hostess

Luxury to me is freedom to say and do whatever comes to mind. Money to me is cheap and is only useful as a means to buy your exponentials of liberty. If the rings of a chain that binds me to a wall are made of gold, what good is that to me?

Facundo Guerra – entrepreneur

Luxury to me is being able to stay at home and read a book with no-one to interrupt me or, better still, having two free days to play with my son.

Eleonora Paschoal – journalist

Luxury is being healthy, surrounded by those you love, living in comfort. The rest are mere details.

Silvio Gemaque – federal judge

Luxury to me is having time to appreciate what I've accomplished and to enjoy it with the people I love the most.

Tatjana Ceratti – hostess on programme  
'Mundo Fashion' (Fashionable World)

Total Luxury is the possibility to Be and to have *whatever fulfils you in heart and soul*.

Preta Nascimento – entrepreneur

Luxury to me is being natural!!

Cristiana Arcangeli – entrepreneur and founder of  
Phytoervas cosmetics

Brazilian luxury is a portrait of our country: improvised, beautiful, rich, while at the same time chaotic.

DJ Ana Paula

To me, luxury means what looks or feels good; actually, I enjoy wearing clothes made by good brands, or a powerful watch, but what looks good comes before what it costs.

Eliane Pitanguy – entrepreneur

Luxury means to me anything that makes me feel all things at once: wealth, power, comfort, sophistication and satisfaction... a new t-shirt made from the simplest white cotton, for instance...

Eder Meneghini – entrepreneur

Luxury to me is not linked to the exclusivity or high price of an object or service. I believe luxury comes from the possibility to accomplish a desire; not from fulfilling a need but from the pleasure of something superfluous. Under that aspect, luxury can be as simple as having an ice-cream to quell one's desire. To me, ostentation does not mean luxury but vulgarity. I feel that travelling synthesizes luxury as it requires time and resources. The former, time, may or may not be a cliché, but it is the most luxurious element one can have.

Felipe Folgosi – actor and show host

Luxury to me, inside the fashion universe, is what really makes you happy. Its true meaning is inside each one of us: you have to feel good towards yourself first; then, luxury can be found in the search for a new dress or clothing which will make that a unique and unforgettable moment in your life (a wedding dress, for instance). The greatest gift in my profession, at which I have worked for 15 years, is the pleasure to be a part of such moments belonging to dozens of clients and seeing that their happiness can be a reflection of my work...luxury is being happy and not following tendencies but, instead, one's heart...

Rogério Figueiredo – stylist

Luxury is not a value, but elegance and naturality; so the more one is aware of that – knowing how to transform simplicity into luxury – the more luxurious one will be.

How can I explain what I feel towards the word 'luxury'? It is important and is often used as a reference in monetary value (\$\$\$), instead of attitude, which I believe it should. Luxury is simplicity and delicacy in the way one thinks, behaves, loves...

Luxury is seen in one's soul, not in one's imported car or even in another's latest yacht.

Luxury is shown in one's behaviour, not in a check book or a credit card. One of the greatest luxuries of our day is TIME, having free time to look after oneself, to be with family and friends or simply knowing how to enjoy rare and exclusive moments of idleness. Silence, moments of a pause... knowing how to live all that is a true Luxury!

Andrea Fasano – entrepreneur

### **1.3 How luxury developed in Brazil**

When Brazil first existed the concept of luxury was tangible only in the dominant empires, and only for the dominant classes, due to a rigid caste system. Therefore, as the empires conquered more and more territory, the representatives they sent to the colonies continued to consume goods from their homeland, choosing the finest products to meet their basic needs, indicating that these goods were of 'superior' quality and introducing them as local luxuries. From 1534, those representing the Portuguese crown in Brazil were able to order goods from Europe, while those not belonging to this privileged group could only admire and long for such ostentation.

In the colonial period, the main raw material produced in Brazil was a luxury product itself, called 'pau-brasil', a fine, dark, reddish wood traded to Arabs on routes to the Mediterranean, used for dyeing fine cloth and for manufacturing writing ink. For the colonized Brazilians, however, real luxury was the ownership of slaves, which conferred social distinction and the status of power and wealth. During that period both wealthy landowners and the elite were consumers of luxury goods, importing products ranging from jewellery and clothing to eastern spices, which defined their status locally, as it did in Europe.

Up until 1800, China, which was discovered at pretty much the same time as Brazil through Portuguese sea exploration, played an important role as its luxury products, such as pottery and furniture,

were brought to Brazil by Portuguese naval and military officers and civil servants. However, after the seventeenth century, imported products came from a wider range of places: Austrian pianos, Dutch beers, French liquors, Portuguese wines and olive oils, Swiss cheeses, and cloth, china and shoes from England.

The proper beginning of the Brazilian luxury market can be considered as happening in 1808 when the Portuguese royal family transferred to Brazil. Their 'legitimizing' power increased the frequency of imports way beyond the growth seen up until then. It started with the arrival of Dom Joao VI, who cast aside the colonial treaty that had conferred on Portugal the monopoly of Brazilian trade under which products had to go through Portuguese hands before arriving in the colony, greatly increasing their cost. Another event that contributed to reduced prices and a better variety of imported products, including luxury goods, was the opening up of Brazilian ports to trading vessels other than those belonging to the Portuguese fleets.

The royal family, as well as lifting duty charges, allowed the import of formerly exclusive goods from Portuguese colonies, and Portuguese servants who specialized in granting royalty their every wish, just as if they were in their original homeland. Introduction to luxury occurred not only in fashion, imported from Europe, but also in culture. European culture in the shape of customs was brought in by the court, changing local traditions and cultural habits and customs, all influenced by the peculiar manners of the European royals. That affected the local taste for art, china, furniture, clothes and utensils.

At that time Rio de Janeiro, the Brazilian capital, was undergoing a transformation, not only because of the opening up of the ports but also because of a change in customs. The preference for European products was due to cultural movements as well as to the arrival of the Portuguese court, of foreign embassies, of European travellers stopping over in Brazil on their trips around the world, and of foreign professionals who chose Brazil as their new home. All of these movements imported European habits, which the local elite soon tried to absorb. This exchange between Brazilians and the arriving Europeans increased their appreciation for imported goods and refined the tastes of the upper classes.

This first moment of luxury changed Rio forever, particularly as a consequence of the changes brought about by the presence of the



royal family. Of these changes, was the downtown area, on Rua do Ouvidor, the street where one could find all the latest riches, fine imported goods and the best bakeries in town. This epicentre of luxury gained in sophistication through its architecture. There was the Paço Imperial in Praça XV square, where the headquarters of the federal government were housed. The famous Quinta da Boa Vista was built according to standards of Portuguese architecture, with fountains and gardens, and was the royal palace. Among the architectural highlights were the Military Academy and the Botanical Gardens – which hoped to adapt European species and spices to Brazilian climates – and the National Museum of Fine Arts, built at the beginning of the twentieth century.

In 1816 several French artists were called upon to achieve some cultural development, Debret, Taunay and the architect Granjean de Montigny, among others. There were literary meetings, musical concerts and theatrical performances with Portuguese and other European actors. Another important contribution was the construction of the National Library, initially called the Royal Library, stocked with books from Portugal.

The changes were many and Rio de Janeiro seemed to be tailored exclusively to the royal family and their quite refined tastes, which included Dom Pedro II's preference for Baccarat crystals and china – he always waited at the port for his orders from Paris to be unloaded.

As the Brazilian capital and the centre of development for luxury, Rio de Janeiro strongly influenced the rest of the country. At the end of the nineteenth century, the desire to become refined and chic gripped the local elite. At that time, the developments in trade led to the rise of the 'nouveau riche', who insisted on ostentatious luxury whether or not they could count on family history or name to impose respect, and who resorted to consumption as a means of achieving upward social mobility and a ticket into the elite classes.

Luxury underwent change according to the times and society. In the twentieth century, during the *belle époque*, to be accepted into the finest circles you had to know what was being worn in Europe. The consumption of luxury developed in urban centres other than Rio de Janeiro. In São Paulo there were the coffee 'barons' and in Manaus and Belem there were the rubber manufacturers. The wealthy could try to join that universe of glamour. However, the 1929 crisis and the revolution of 1930 meant that imported manufactured goods had

to be replaced by those produced nationally, and during the 1950s, 1960s and 1970s foreign luxury articles were only available to those who could travel abroad and were usually sold at exorbitant prices. International travel, however, was rare and could only be afforded by a small proportion of the middle classes, and then only rarely.

In the 1980s, a decade marred by serious economic issues, Brazilians had gained access to international brands. In the 1990s President Fernando Collor de Mello reopened international trade (up until 1992 importing to Brazil was not allowed), which started the second phase of importance for luxury consumption. This developed some years later when a successful economic plan stabilized the currency, pairing the Brazilian real with the American dollar at a one-to-one rate (US\$1 = R\$1). Such measures increased the spending capacity of the Brazilian population, who could now afford to both travel abroad and buy luxury products.

The evolution of luxury consumption in Brazil shows that it has always been related to the political, economic and cultural standards of society, and that the aspects of luxury have been through quite a change over time.

# 2

## The Global Luxury Market

This chapter addresses the global luxury market, including that in BRIC (Brazil, Russia, India and China) and Latin America. After all, to understand the activities of the Brazilian luxury market, one must have a broad view to compare it to the volume of business in worldwide. Foreign enterprises annually commission surveys from consulting companies to understand the size of the luxury market in high net worth (HNWI) groups in BRIC, in underexploited areas, such as in Latin America, and, more specifically, in promising countries such as Brazil, in order to decide where to invest for profit. Utilizing data from these surveys conducted in the main economic groups will help us to understand the market.

For a better understanding of this trade, we will analyse its composition. The global luxury market, according to the Bain & Company and Fondazione Altagamma report, raised €217 billion in 2013, a 2% increase over 2012. The prediction for 2016 is that the market should raise between €245 billion and €255 billion. Out of the €217 billion raised in 2013, 34% was from European markets, 32% from American markets, 8% the Japanese, 21% from Asian-Pacific markets and 5% from the rest of the world. Among the main products consumed in 2013, 28% were accessories, 25% fashion, 23% jewellery and watches, 20% perfumes and cosmetics and 4% wine and champagne.

For 2014, the prospects are quite positive concerning the growth of this market. Luxury conglomerates will focus on developing countries, not only on China, with Brazil and Mexico as their main targets. Jewellery, accessories and watch segments will have a better

performance than others. Fashion and accessories are segments that will continue to represent over half of the revenues from this market. The worldwide luxury market is made up of 35% men and 65% women. Luxury brands are optimistic and are betting on a growth in men's consumption, particularly in Asia and Latin America. According to Bain & Company, in global terms the luxury market mobilizes approximately €1 trillion, if one includes all its segments, such as hospitality, gastronomy, vehicles, yachts, corporate aviation and so on.

## **2.1 The luxury market throughout the world**

In the ranking of leading countries in terms of luxury consumption and revenue during 2013, the USA was at the top with €62.5 billion, with New York as its main city with an estimated revenue of €21.5 billion (34% of the nation's total value). In second place came Japan with €17.2 billion in 2013 and €19.7 billion in 2012, with Tokyo the showcase for the Japanese luxury market with €7 billion (41% of the nation's value). Italy came next with €16.1 billion, with Milan responsible for €5 billion, representing 31% of the Italian market. China, excluding Hong Kong, came in fourth place with €15.3 billion in 2013 and €15 billion in 2012. Hong Kong was excluded from this list due to its size, but was in ninth position as an independent market with €7.7 billion in 2013 and €7 billion in 2012 (the luxury market in Hong Kong, according to Bain & Company, is larger than those in Brazil, India and Russia and has shown a growth above the global average).

France raised €15.1 billion, Paris being responsible for 72% or €11 billion. The United Kingdom, despite the economic crisis, grew by 4% on the previous year with €12.1 billion, and London was responsible for 74%, meaning €9 billion, as that city benefitted widely from the Olympic Games boosting sales. Germany came in seventh position with €9.9 billion, South Korea in eighth with €8.3 billion. Among the BRIC countries, China and Russia appeared in the top ten ranking of luxury-consuming countries in the world. Russia was in tenth position with €5.8 billion, Moscow accounting for 73% of that figure. However, expectations are that BRIC will represent 52% of the global luxury market in 2017. China alone will have a 33% slice of the market. With these figures, one can easily understand why

luxury brands are changing their ideas and adapting to a new reality. Predictions have it that Brazil will represent 5% of the global market in 2025, with an estimated turnover of US\$48 billion.

Such a composition in the global ranking of luxury markets is connected to the many changes this business has been going through since 1995. These changes are represented as follows:

- **1995–2000 – luxury market democratization.** In 1995 its market share was €77 billion and in the year 2000 it was €128 billion, meaning a 66% growth of the luxury market over that period.
- **2001–04 – luxury market consolidation.** In 2001 it was €133 billion and in 2004 €136 billion, showing a 2.3% growth in the global luxury market over that period.
- **2005–07 – expansion of the luxury market.** In 2005 it was €147 billion and in 2007 €170 billion, showing a 16% growth in the global luxury market over that period.
- **2008–09 – crisis in the luxury market.** In 2008 it was €167 billion and in 2009, €153 billion, which meant the global luxury market reduced by 8% over that period.
- **2010–13 – revitalizing the luxury market.** In 2010 it was €173 billion and in 2013, €217 billion, showing a 25% growth in the global luxury market over that period.

Looking at the development of the global luxury market between 2011 and 2013, a few interesting points can be observed: a considerable growth from USA department stores; increase in e-sales; good performance in all luxury segments; luxury clients returning to their pre-crisis habits; considerable growth in e-commerce sales for international brands (25%) with revenues reaching €7billion, 25% growth on 2011.

An assessment of the global luxury market between 2012 and 2013 shows that Europe had a 2% increase in sales over that period. It is still the principal continent for the luxury market, as Italy, France, England and Germany are the main consumers of luxury and together represent 72% of the European luxury market.

Brazil and Mexico are the main consumers in the Latin American market. The American continent sold €69 billion in 2013 against €66 billion in 2012, a 4% increase over the period. One of the most

	2012	2013
Europe	34%	34%
Americas	31%	32%
Japan	9%	8%
Asia-Pacific	20%	21%
Rest of the world	5%	5%

Figure 2.1 The worldwide luxury market

Note: USA accelerating in real terms in 2013 from a good performance that started in 2012; Chinese becoming relevant in Western cities (e.g. Las Vegas, Los Angeles): many brands redirecting investments to the country, targeting second tier cities and locations, trend towards conversion of department store doors into direct concessions; Canada becoming increasingly dynamic with USA department stores expected to expand; Latin America maintaining growth in real terms, with the exception of Argentina.

Source: Bain & Company and Fondazione Altgamma.

Italy	22% (€ 16.1 billion)
France	20% (€ 15.1 billion)
UK	16% (€ 12.1 billion)
Germany	13% (€ 9.9 billion)
Total European luxury goods market (€ 74 billion)	

Figure 2.2 Main European countries

Source: Bain & Company e Fondazione Altgamma.

important factors in this growth was increased spending by Chinese tourists in New York and Hawaii. Another significant factor was the increase in sales in the jewellery and watch segments. The luxury market in Brazil started to grow after 2009 (the year in which Chanel and Hermes came to the country). According to Bain & Company luxury brands are increasingly targeting Brazil, so that the brands which have not yet arrived will soon do so. Brazil has been the focus of international reports. For the first time, Bain & Company dedicated a whole page to Brazil in its report on the worldwide luxury market. Another relevant fact from 2012 is that luxury brands left Argentina, further enhancing the position of the Brazilian luxury market.

Predictions are that, unless there is another world crisis or unpredictable occurrence (such as an earthquake, tsunami or terrorist attempt), the luxury market will have a global turnover between €245 billion and €255 billion in 2016.

The luxury market's 'apple of its eye' is the accessories segment, which had a 28% share in 2013. This segment alone sold €61 billion, with €13 billion in shoes, €36 billion in leather and €13 billion in textiles and eyewear. The successful performance in leather sales was due to the consumer awareness shown by luxury brands, who convinced consumers that leather articles produced by famous brands are of above average quality, as well as being handmade and long-lasting. The positive results in sales in that segment in Asia, especially in China, also contributed.

Sales revealed the success of investment and opening of shops in privileged locations in several countries around the world (especially in China).

The market perceived that there was purchasing potential among male consumers. Men have finally turned to shopping and are boosting sales in the fashion segment. Another contribution to the fashion segment was the increment in sales in children's fashion, a category in which practically all brands are investing.

After years of marginal efforts, brands are aggressively entering the online arena, leveraging the Internet for both sales and communication. Several factors are worth noting:

- There are over 5,000 country-based online stores. However, 40% of brands still do not sell online. M-commerce represents almost a third of traffic and over 10% of sales for some brands.
- Off-price segments still represent around 30% of the market, pushed by blossoming flash sales sites and in-season promotions by department stores.
- Luxury brands are still struggling to capture changing consumer behaviour, especially the younger generation, less attracted by traditional luxury brands.
- Luxury sales in Africa are still very concentrated in South Africa and Morocco, but brands are starting to expand in new markets (e.g. Angola, Nigeria).
- Men's products are outperforming women's in most markets, but are sharply decelerating in mainland China.

- The 2013 luxury car market posted a solid growth, driven by new markets – Brazil, India, the Middle East and China (even if decelerating) – especially in the ‘supercar’ segment.
- There is a growing Brazilian market, already accustomed to yachting culture.

## **2.2 BRICS’s luxury markets**

BRICS is an acronym for the economic group made up of emerging countries with a strong influence over global markets, originally composed of Brazil, Russia, India and China it now also contains South Africa, which joined in 2011. Recently, the group has been showing quite excitement sales figures, forcing international luxury brands to target these countries to develop their production. The expectation is that these countries will achieve an average growth of 25% in the luxury market over the next four years.

The global crisis that started in the USA took a considerable toll on the worldwide luxury market, whereas countries without the same economic size and solidity as developed countries did not have too much to lose. That is the case with BRICS, and they found it easier to escape the crisis. Therefore, the luxury market will count mainly on this group to compensate for global performance and on the middle classes in these countries, where there has been a process of social inclusion. The growth of the middle classes in BRICS has given them great importance in their countries. Currently, BRICS have between 16% and 18% of the global luxury market and currently represent 30% of Louis Vuitton’s global profits. Furthermore, in 2015, BRICS will have the largest number of luxury consumers in the world.

Looking at trends in China, its market dominance will only increase. In 2005, it was the fifth largest economy in the world; in 2007 it overtook France and Germany; and in 2010 it overtook Japan, becoming the second largest economy in the world; very possibly it will rise to the top of the list, overtaking the USA in 2025. Who, then, is this giant? China has a population of 1.34 billion people (45.68% in urban areas and 54.32% in rural areas). It is a dynamic country, constantly evolving, has a strong monetary culture and its life expectancy is 74 (in 2011), where 36.3% of its population live on less than US\$2 a day. It has been growing strongly for 25 years,



at 10% a year. Its growth has an effect on the standard of living, meaning there are more and more Chinese consumers looking to buy luxury articles to affirm their social status. Their consumption includes everything everywhere, from cars to fashion, from tobacco to watches, from Paris to New York.

As China has the largest population in the world, it benefits from its young population, cheap labour and potential for exports. It already offers a wide range of products and diversity in channels of distribution, as well as highly competitive prices. Asia-Pacific increased its share of the global luxury market by 1%, from 20% in 2012 to 21% in 2013, China being the main country in that block. Moreover, China opened more shops with luxury brands in 2012 and 2013 than both Europe and the USA together. The Chinese are becoming relevant in Western cities (e.g. Las Vegas, Los Angeles), and Hong Kong and Macau are benefitting from an increase in the flow of tourists and new retail developments.

There are further points to consider:

- There has been a sharp reduction in Japanese tourism due to yen devaluation, only partially offset by growth from China pushing duty-free sales since the second quarter of 2013.
- New markets (Malaysia, Indonesia, Thailand, Vietnam) are increasingly relevant both for domestic spending and tourist visits, especially during Chinese Golden Week.
- Chinese consumers are increasingly buying luxury goods abroad (Hong Kong, Macau, Europe, Middle East, USA West Coast).
- European price increase policies have had a limited impact.
- Men's products are outperforming women's in most markets, but sales are sharply decelerating in mainland China.

However, there are still some difficulties that need to be addressed, such as: great social differences; environmental issues; and policies against counterfeiting, as they are currently the largest market for fake products in the world.

Also in this group is India, a young and energetic country, with high literacy rates and a strongly traditional culture based on a society of castes. Indians have enough wealth to consume luxury products, which they buy from luxury boutiques or shopping malls, along with a highly developed culture of e-commerce trading. They

are still developing their retail infrastructure. Forgery was tolerated in India, but this has changed following government initiatives to fight piracy.

Russia is interesting from the point of view of luxury products, as it represents a balance between wealth and tradition. One issue for luxury products is their distribution, which is still limited. However, there has been an increase in the consumption of luxury services and consumers, who are rich, impulsive and daring, have been changing their attitudes. Passionate and spirited, they have a very strong sense of glamour culture.

Besides the political and cultural aspects of BRICS, there are other indexes regarding the luxury market in this group, as follows:

### **China**

- Estimates for revenues in 2025 are US\$328 billion, equalling 33% of the global luxury market.
- 1,123,000 Chinese millionaires have the potential to invest over one million US\$ (HNWI), which is predicted to rise to 2,112,000 in 2018 (according to the Credit Suisse).
- There is the potential to open 3,500 luxury stores over the next 15 years.

### **India**

- Revenues are estimated at US\$67.2 billion in 2025, taking 7% of the global luxury market – in 2010 it was only 1%.
- There are 182,000 HNWIs in India, predicted to rise to 302,000 in 2018.
- By 2020, 400 million people will be part of India's middle class, a figure four times the current total.
- Between 2008 and 2013 India opened 600 shopping malls.

### **Russia**

- Revenues are estimated at US\$67.2 billion for 2025, a 7% slice of the world luxury market – in 2010 its share was 4%.
- There are 84,000 HNWIs, predicted to rise to 133,000 in 2018.
- The country fell from the second to the tenth position as most attractive market for retail in 2010, due to slow post-crisis recovery rates and to a saturated market.

## **Brazil**

- Revenues are estimated at US\$48 billion in 2025, sharing 5% of the world's luxury market – in 2010 Brazil's share was 1%.
- There are 221,000 Brazilian HNWI, predicted to rise to 407,000 in 2018.
- 40 million people rose to classes A, B and C from 2008 to 2012, and by 2015 estimates are that this number will include another 30 million.
- 45% of luxury consumers earn over R\$10 thousand per month and the average spending for Brazilians is R\$4710.
- 58% of luxury consumers are women.

Brazil will be the emerging power of the future. It is the BRIC country with the most promising signs, having recently discovered one of the largest ocean reserves of petrol in the world, called pre-salt. It was also chosen to host two international sports events, which will contribute to an improvement in the country's infrastructure and its international projection, the World Cup in 2014 and the Olympic Games in 2016. Despite optimistic figures, present growth rates are well below those of other BRICS, especially China. However, the quality of Brazilian growth is undeniably higher than China's in several respects, including: greater respect for the environment and for labour issues; and better improvement in terms of economic differences. Then again, there are still barriers to growth, such as a weak education system and low savings rates.

What keeps the figures optimistic about sustainable growth for Brazil is the low percentage of mortgage debts, which is 3% compared to 12% in other BRICS and against an average of 64% in European countries. Of further importance is that Brazil is a democratic country (unlike China), which does not face armed conflict (ethnic or religious) or hostile neighbours (unlike India), and which imports more petrol than weapons and has due respect for foreign investors (unlike Russia).

### **2.3 Luxury markets in Latin America**

Latin America's hub for luxury consumption is Brazil, where the market has grown 35% over the last seven years, representing 3%

of the country's GDP, concentrated in the city of São Paulo. It left Argentina behind, with respect to Buenos Aires, as well as overtaking Mexico. This is as a result of the growth of the middle class in Brazil. São Paulo is listed eleventh among the leading cities likely to be most influential over the next ten years, according to research performed by McCann Worldgroup – New York is fourth and London fifth.

According to the *World Wealth Report 2013*, Latin America has 500,000 HNWIs, meaning high net-worth individuals represented by millionaires who can afford to invest US\$1 million (not coming from their residential property), of whom 82% are male against only 18% female. Brazil is at the top of the list when counting the number of billionaires, 124, followed by Mexico, Chile, Columbia and Argentina.

Columbians and Peruvians are important consumers in Latin America, Paraguay also hosts one of the most imposing shopping malls in Latin America, the Multiplaza Mall. Columbia is one of the countries undergoing a surprising expansion. After Brazil and Mexico, it is the third largest market in Latin America in terms of growth for companies such as the Italian Salvatore Ferragamo. Peruvians have conquered Latin America in gastronomic terms, however, although luxury brands would like to enter the Latin America countries, due its purchasing potential, they cannot find the right shopping malls or high streets to open shops in. This process is starting in those countries.

Chile is growing continuously, but its limited size means that any increment is still minor. In Argentina, the luxury market has been declining. Buenos Aires was once considered the luxury capital of Latin America, it even had a Harrods branch in its day. The same could be said of Venezuela, one of the leading consumers of Veuve Clicquot and Johnnie Walker in South America. Louis Vuitton closed its operations in Venezuela, and some hotel brands left the country after former president Hugo Chávez determined that one floor in every hotel should be kept for people with no income, and after state confiscation of the Hilton. Those were negatives for Venezuelans, who could only buy luxury articles outside their country. Despite this, Caracas Airport has a duty-free shop that performs better than those in Guarulhos Airport in São Paulo, or Galeão Airport in Rio de Janeiro.

In 2010, BMW had record sales in Latin America and the Caribbean, having traded 22,200 vehicles, both BMW and Mini (luxury compact). That was 51% higher than the previous year.

Countries with the highest performance overall were: Chile (102% growth in sales), Argentina (57%), Brazil (55%) and Columbia (26%). Data from research undergone by IBOPE to study the highest classes in Brazilian, Mexican, Columbian and Argentinian populations showed that the Latin American consumer is: average age of 38; a university graduate or has some higher education: well-positioned at work; and influential in the purchasing decisions of friends and family. These are consumers that are changing this market's potential with over 80% of these highly positioned consumers owning credit cards (average 2.5 units), which are used for monthly expenses of US\$850, and 72% have credit cards linked to reward systems, considered important to this group.

Furthermore, 73% of the population with strong purchasing potential in Latin America has been on an average of three business trips over a period of 12 months, and 82% has been on two pleasure trips during the same period. Average holiday expenses per person were over US\$1,847. However, 52% of these elite consumers are not members of Miles systems, so there is an opportunity for investment here.

It is important to know the consumers in this region, a demanding public who keep well informed and competitive. It is essential for brands to exploit the concept of 360° communication to improve their position towards this segment. Nonetheless, one must closely observe the differences that exist in the region: Brazil, for instance, is where local products are sold the most due to nationalism; whereas 76% of Mexicans and 73% of Columbians are notorious for their belief that they must gain international recognition for their businesses. A curious fact about this group is that 85% trust in the Internet as a source of information and 91% of those in the survey frequently use the Internet to find references to products before acquiring them. As many as 82% of Brazilians find it convenient to shop online, whereas less than half the Argentinians, Columbians and Mexicans think the same.

This is a consumer who values quality much more than the average population does, and 80% are willing to pay more for products that they perceive as better quality. Moreover, they are extremely brand

faithful. In Brazil, customer loyalty is above 90%, in Argentina it reaches 86%. Only Columbia has a much lower percentage (55%), but this is still more than half of its population.

It is important to stress the strength of the media in the sales of these products, as 81% of consumers believe that magazine advertisements are the best vehicle for travel advertising and 72% consider cable TV the most efficient media for advertising credit cards. On the whole, they value traditional and online means of communication, which should be combined for the best results to attract the target public.

Lastly, half of Brazilians consider smartphones (iPhone and Blackberry) their most desired object and intend to acquire one within the next 12 months. There are differences, however, in terms of gender: 76% of female consumers would buy skincare products, 50% would opt for a computer and 45% designer clothing. The male consumer is different: 57% would buy a mobile phone, 54% computers, 49% perfumes and 41% designer clothes – these are among the most frequently mentioned products. When the subject is beauty, 50% of male consumers would buy skincare products for themselves.

# 3

## The Luxury Market in Brazil

After an examination of the luxury market worldwide, we will now move on to its behaviour in Brazil, outlining the stage this market has reached and assessing its importance in the country's economy. Learning where the luxury market is to be found, and which enterprises are part of it, should help in understanding the profitability of the main segments of this trade in Brazil.

At this point in time, the Brazilian market is attracting large companies from the luxury sector, thus accelerating its growth in the economic cycle. With the global economic crisis, the larger operations in luxury turned to Brazil, whose market has achieved a vigorous growth with an estimate of a 35% increase in sales over the next four years. Since 2011, prestigious brands have been arriving in Brazil, among them Bottega Veneta, who launched a new store in São Paulo. Prada took its time, but came aboard in style, with a 300 m<sup>2</sup> space, and has already expanded to Rio de Janeiro. Fendi, Alexandre de Paris, Canali and others landed in the country with daring plans to expand.

In 2012, JK Iguatemi Mall was finally launched amid high expectations and controversy, and offered named brands, including: Goyard, Chanel (opening five more boutique stores during its expansion process in the next few years), Lanvin, Gucci (with its first exclusively male shop in the world; it also opened shops in Rio de Janeiro, Brasília and the Cidade Jardim Mall, also in São Paulo, a total of four stores in 2012), Balenciaga, Ladurée, Dolce & Gabbana, Sephora (its first shop in Brazil, where people queued up

all month to get in). Sephora's expansion plans include opening 40 boutiques in Brazil. Daslu, having opened at the end of 2011 in Rio and with a new shop in Cidade Jardim Mall in 2012, has also opened in Brasília, Curitiba, Porto Alegre, Ribeirão Preto and Recife. Other expanding brands are Tory Burch, Burberry (which opened at the Village Mall in Rio), Yves Saint Laurent, Issa London and Miu Miu. Alongside this was the opening of the first 4D cinema in the country, which transcended the 3D experience by including new sensations such as moving seats, water spray, wind, fog and aromas. Cidade Jardim Mall completed its second expansion to accommodate Balmain, Tag Heuer, Cartier and Louis Vuitton (with a 1200 m<sup>2</sup> flagship store). Several more international brands are due to arrive in Brazil in 2014.

All in all there are certainly still great opportunities in some important luxury segments, such as the automobile sector, which has seen heavy investment over the last few years and has quite a relevant position, nowadays. There are opportunities in other segments where Brazil does not have a tradition of operating.

Until now, the luxury market in Brazil has not been adequately measured. Although there are surveys and estimates, the results have not been consistent. GFK has fairly positive figures for the Brazilian market, but Bain Consulting, who dedicated a whole page to Brazil in its latest report, presents figures that are half the value of those presented by GFK. Who is right and who wrong? LVMH Group is hiring an auditing company to map out and measure the Brazilian market. Once the figures are divulged, we may have a better picture of the size of this trade. What we do know is that the luxury segment in Brazil is still young and has an enormous potential for growth.

### **3.1 The Brazilian luxury market**

The luxury market in Brazil is going through a golden moment, while economic stability is turning this into an attractive country for investors. Over the last three decades, the nation's economic growth has been solid and balanced. Brazil overtook Britain at the end of 2011 to become the world's sixth largest economy. The country's economic solidity developed from the growth of some cities, mostly those located in the southeast. These represent the 27 major



cities in the group of the richest cities, with 47% of Brazil's GDP, contrasting with the 2,226 cities in the group of the poorest, which represent 4.7% of GDP.

The current structure of the population is privileged in a unique way, which it will not see again. For the first and last time in its history, Brazil is going through a period of, especially favourable, 'demographic surplus' as the number of economically active people is significantly higher than that of their dependents, meaning the elderly and the very young. This is a beneficial circumstance for economic development, as the population is a stimulating agent for social and economic growth. This demographic bonus was reached because there was a heavy decline in the birth rate after the 1970s while death rates decreased at a slower pace, resulting in the number of children and elderly being lower than the number of those active in the population.

The map of cities with the highest luxury consumption shows São Paulo at the top, with 70% of the market, followed by Rio de Janeiro with less than half of that, despite presenting better characteristics for consumption, with Brasília in third place as its approach to this market is more traditional and consumption occurs due to ostentation more than personality.

The concentration of both market and wealth in the city of São Paulo is easily explained: there are several multinational companies that offer great job opportunities; the city hosts excellent universities and the best hospitals in the country, thus providing an excellent standard of living for its citizens. Furthermore, out of the US\$66 billion in foreign investment in Brazil in 2011, 40% was directly invested in São Paulo.

Despite this concentration of wealth, unfavourable to the country as a whole, BNDES (the Brazilian Development Bank) – based on ongoing projects and on prospective investment in industry for infrastructure and building projects for housing and urban and sports plans for the World Cup in 2014 and the Olympics in 2016 – estimates that R\$1,324 trillion will be invested in the country between 2010 and 2013, representing a 54.6% increase when compared to the R\$856 billion investment accumulated between 2005 and 2008. Those investments aim to meet consumer demand from Brazilians and the many tourists expected during the two international events and after.

However, internal consumption in Brazil is going through a new process: purchases nowadays aim for quality goods, as the Brazilian consumer is globally connected and knowledgeable, and likes to 'see and be seen'. One must have an understanding of consumer aspirations, as they no longer settle for any old thing. The consumption of luxury products is much more than a simple purchase. It opens doors for the country to be part of a select group in the market, although it is still a fair way off from that in Europe and the United States.

A look at the revenue for the market over the past five years (GFK/MCF) shows evident growth in this trade: in 2007 revenues were R\$9.9 billion; in 2008 R\$11.1 billion, a 12% increase; in 2009 R\$12.3 billion, a 12% increase; in 2010 R\$15.7 billion, a 28% increase; in 2011 R\$18.54 billion, an 18% increase; and in 2012 R\$20.1 billion, an 8% increase, with favourable expectations for 2013. From the data presented, it is evident that there are still many opportunities for business in the luxury market in Brazil with investment in opening new shops in 2012 estimated at R\$2 billion.

Brazil has perceived that this segment cannot be seen as economically superfluous since it has contributed by generating employment and revenue, in both trade and manufacturing. After all, luxury brands require qualified labour to provide creative marketing services and a constant renewal without contradicting the brand's essence. Furthermore, the luxury universe allows for experimenting with new technology with high initial costs for limited production.

Therefore, Brazil has an enviable economic growth and the luxury market has been showing exponential growth over the last few years. There are excellent opportunities for the future, as the brands that have not yet arrived are certainly negotiating to come to Brazil so that they can be alongside other companies in attending to 20 million consumers in the segment.

Luxury conglomerates have faced great difficulties in finding space for their brands, and when they decide to come here, there is nowhere available to open a shop. Supposing a brand has closed a deal and wishes to open a shop in Brazil, the logical choice is to go first to São Paulo as the entranceway to the Brazilian market. Oscar Freire high street would be the first obvious option, if there were any space available, and the next option would be Iguatemi

Mall, where there simply is no space either, or Cidade Jardim Mall where expansion was anticipated to accommodate brands fighting for shop space. JK Iguatemi, for instance, was quickly sold out. Due to that limitation, some brands chose to open in other shopping malls which, despite not being considered luxury malls are a solution to the lack of space, such as Higienópolis Patio Mall where the variety of shops include Burberry, Carolina Herrera and Carlos Miele.

In Rio this is an even greater issue as, for years, there was only one mall, the Fashion Mall, in an underprivileged area near the large Rocinha favela (nowadays, this favela has undergone a pacifying process but, although the situation has improved, the mall still lacks the glamour of a luxury mall). Leblon Shopping Mall was opened in 2006 and is another option, but it also lacks sufficient appeal to be considered a luxury mall. However, Village Mall, launched in December 2012, should revolutionize Rio's luxury market and shows every likelihood of being a great success as the luxury address in Rio.

In Brasília, there is the choice of either Iguatemi or Magrella malls, although Daslu opted to be at the Park shopping centre, which is not seen as a luxury mall. Iguatemi Brasília made a blunder when choosing the location for their mall.

Brazil is not a country where department stores are an option for luxury markets to test the market before opening their own space. The tendency in Brazil is to have shopping malls with a variety of stores. Daslu, a luxury department store, could have been an alternative if it had not suffered an enormous setback. So, whoever decides to open shop here will have to wait between a year and a year and a half to get space in a shopping mall.

The luxury market in Brazil is a peculiar one and cannot be compared to those in other countries. In the United States the market supplies Americans, Mexicans, Brazilians, Chinese, Japanese and Europeans. In Europe it supplies Europeans, Chinese, Japanese, Brazilians and Americans. The Asian market supplies the Chinese, Japanese, Europeans and Americans. In Brazil, it is only for Brazilians. Americans, Europeans, Chinese or Japanese do not buy products from Brazil as they are more expensive due to high import taxes. Even so, this is the decade where Brazil will be outstanding, along with its luxury market, as will Rio. Above all, it is the decade for women.

### 3.2 Main luxury segments in Brazil

Luxury companies feature the following distribution: 61% in retail, 24% in services and 15% in manufacturing. When one considers national companies, figures do not differ much with 53% in retail, 32% in services and 15% in manufacturing, whereas, for international companies, 70% are in retail, 15% in services and 14% in manufacturing. The figures show how strongly the market is concentrated in retail, where there are still many opportunities, but the other areas have much space for investment as the markets there have been underdeveloped. Observing brands in GFK/MCF's survey of companies, the national benchmarks are: H. Stern shares 18% of the market, Fasano 10%, Osklen 8% and Daslu 3%. The international benchmarks are Louis Vuitton's share of 14%, Giorgio Armani 8%, Hermès and Chanel 3% and Marc Jacobs 1%.

Assessing the results in the survey by GFK/MCF, which studied consumer preferences (among those who chose more than one segment), Brazilian companies had a more uniform participation, ranging between 10% and 20% in most segments, headed by gastronomy, fashion and footwear representing a total of 51% of the market. At the other end, with lower participation, one finds the automobile sector, along with watches and cosmetics, representing 12% of the market. Among international companies, the market is more concentrated in segments such as fashion, clothing and footwear, representing a total of 84% of the market, whereas the other 12% are made up of furniture, alcoholic beverages and gastronomy.

Among the products consumed, the main segment is that of accessories, particularly handbags and eyewear. That is probably due to the fact that most Brazilians do not have money to spend R\$20,000 on a handbag, but would willingly pay R\$500 on a designer keyring. In beauty segments (cosmetics and spas) there has been quite good growth, but the most outstanding segments are cars and real estate, the latter is responsible for positioning Rio de Janeiro in third place among the most expensive square metres in the world.

A final presentation of consumption is an example of how the luxury sectors are distributed:

- **Household luxuries.** Antiques, art, electronics, fabrics, furniture and decoration, utensils, construction material, linen, china and silverware.

- **Personal luxuries.** Luxury cars, beauty products, cosmetics, scents, clothes, fashion accessories, jewellery and watches.
- **Luxury experiences.** Trips, gastronomy and restaurants, entertainment (plays, shows and concerts), spas, massages, luxury services for the household (cleaning and organization, decoration, landscaping and gardening).

### 3.2.1 Aviation

According to a survey performed by ABAG, the General Brazilian Aviation Association, Brazil has the second largest general aviation fleet in the world, with 12,505 airplanes and 1,325 helicopters. This segment includes the corporate aviation market with a vigorous growth and a current fleet of 1,650 aircraft, out of which 650 are helicopters, 350 are private jets and 650 are turboprops. From this corporate fleet, 35% (577 aircraft) are concentrated in the city of São Paulo, the country's main economic centre.

Brazil is the Latin American country with the largest market in corporate aviation, ahead of Mexico, Venezuela, Argentina, Columbia and Chile. Among factors contributing towards the country's fleet expansion are: a strong national currency; enhancing imports; the decentralization of economic activity; generating greater air traffic; and the internationalization of Brazilian companies, such as Ambev. Further important data in aviation includes the fact that the country has, according to IHST (International Helicopter Safety Team), 4% of all helicopters worldwide. Over the last ten years, Brazil's fleet has grown 58.6%, a rate three times higher than general aircraft figures, which have increased by 18.7%.

Of the 1,325 private helicopters in the country, 541 are in the State of São Paulo, which has the highest number for aircraft in Brazil; then comes the State of Rio de Janeiro, with 285 helicopters registered; then the State of Minas Gerais, with 139, mostly all in Belo Horizonte where there are 124 types of aircraft registered. The city of São Paulo is a world leader in terms of helicopters, as it is the city with the largest fleet on the planet, 452, beating New York City's 445. Currently, the State's capital city of São Paulo is the only city in the world to have air traffic control exclusively for choppers. Furthermore, São Paulo city has 242 heliports, representing 57% of the 473 heliports in the state. Curiously, the neighbourhood Vila Olimpia has more helistops than bus stops.

### 3.2.2 Civil construction

Although this is a growing segment in Brazil, it is still a small niche with great opportunities for investment and expansion. It corresponds to 4% of the national GDP, a lower figure than the 25% to 30% in other Latin American countries. However, this market has been expanding and demand in Rio de Janeiro and São Paulo has increased along with heavy growth in other state capitals. The market has received an impetus due to easy real estate credit, the rise of the middle class and the World Cup factor, which has raised prices and started overvaluation.

In Rio de Janeiro, the price of high-class real estate has increased by about 200% over the last five years. In Ipanema, on Vieira Souto Avenue, an apartment facing the beach is valued at R\$40,000 per m<sup>2</sup>, but can fetch R\$51,000 per m<sup>2</sup>, according to a survey by Secovi-Rio.

Sotheby's International Realty estimates future investment will be R\$4 billion over the next three years. According to AFIRE (Association for Foreign Investment in Real Estate), Brazil became the second best realty market in the world for foreign investors in 2012, beating China in terms of preference.

Among the high-end construction companies are JHSF and Sercon Brazil. Among realtors are Lopes Prime, Fernandez Mera, Elite Brazil and Bamberg.

### 3.2.3 Gastronomy

The gastronomic segment is doing very nicely and shows a prospect for developing further, since the important growth of Brazilian cuisine has been visible for quite some years and has reached a prestigious level of quality and luxury. The high level of development in this segment places limits on the installation of large international chains in the country while enabling Brazilian restaurants to become international, as in the case of the national chain Fasano, now operating in Punta del Este. Nowadays, when one mentions luxury cuisine in Brazil, there are practically no foreign chefs with a great career in Brazil, as there were some years ago. Now there is a new batch of young chefs who are remaking Brazilian gastronomy with typically Brazilian ingredients, such as Alex Atala and his world-famous restaurant D.O.M., assessed by the British *Restaurant Magazine* as the fourth best in the world. A peculiarity of this segment, which contributed

to its success, is the sophistication in demand, as consumers are ever more knowledgeable about ingredients and spices and are less effected by 'show and copy'. This is an ideal model for the luxury market, as client knowledge creates a demand that is more significantly supported and less vulnerable to economic variation.

### 3.2.4 Hotels

There is little competition in this segment, which would benefit from some improvement to reach international standards, especially when considering the demand for the World Cup and the Olympic Games.

One of the obstacles in the field is job attractiveness, as salaries are low and turnover is high. Some distinguished brands are Emiliano, Fasano and Unique, all competing against large international chains. Some international brands, such as Mandarin Oriental and the Ritz Carlton, have yet to make their appearance in the country. There are, however, some Brazilian states that excel in this industry, as in Bahia with its heavenly Txai, Fazenda São Francisco, Etnia and Kiaroa, along with the historical Pestana Convento do Carmo and the brand new Zank, with a focus on national design in its attractive decoration. The state of Santa Catarina has the award-winning Ponta dos Ganchos, with a prime service of three employees to each bungalow, which puts the small city called Governador Celso Ramos (240 km from Florianópolis) on our luxury map.

São Paulo boasts the hotels Fasano, Unique, Tivoli Mofarrej and Emiliano. Rio de Janeiro has the classical Fasano (a unique Brazilian Project by French designer Philippe Starck) and Copacabana Palace, while Gloria Palace Hotel is undergoing refurbishment and with very high expectations for its relaunch. In fact, Copacabana Palace is one of the first of its kind in the country's luxury market, as it has extended hospitality to royalty, presidents and several celebrities from around the world. The Copa, as it is affectionately called by its guests and admirers, is a pattern for hotel luxury and is used as an example in many countries. Copacabana Palace underwent heavy refurbishment, probably the most extensive repairs since its first opening, and was reopened in a grand style. It is still the best hotel in Brazil.

### **3.2.5 Jewellery and watches**

These segments sell to demanding clients who know what they want to buy when entering a shop; prices are not as relevant as the desire to fulfil a particular experience. Brazil is fourteenth in the world for jewellery consumption, in thirteenth position for producers of raw gold and in fourteenth position among countries producing gold jewellery, with a production of 23 tonnes, an 11% growth on 2009.

H. Stern, a genuinely Brazilian enterprise, was one of the first companies to appear in the Brazilian luxury market and is the national pride in this segment. According to Rolex, they sell, on average, 700 watches per year in Brazil. The brands in this industry are: Bulgari, Cartier, H. Stern, Tiffany and Van Cleef & Arpels.

### **3.2.6 Fashion and accessories**

This segment is the apple in the eye of the country's luxury market. It was strengthened when the national currency (real) became stronger against the dollar, and by the habit of purchasing in instalments, which benefitted local products over those from New York or Miami, for instance. Moreover, men have become more self-conscious in terms of what they wear and have started buying their own clothes and accessories, an activity previously left to their wives and girlfriends.

São Paulo is the fifth world capital for fashion, behind Paris, London, New York and Milan. International brands in the market are: the French brands Chanel, Dior, Hermès and Louis Vuitton; Italian brands Armani, Dolce & Gabbana, Ermenegildo Zegna, Versace and Gucci; North American brands Carolina Herrera and Tommy Hilfiger; British brands Burberry, Aquascutum, Paul Smith, Dunhill and Vivienne Westwood; and the German brand Hugo Boss. Louis Vuitton was one of the first international brands to settle in Brazil. The brand produces and sells clothing, shoes, watches, jewellery, accessories, sunglasses and books. With its latest store opening in 2013 in Curitiba, the brand has proved that it wishes to take root outside the Rio-São Paulo.

Among national brands comparable with foreign ones are: Daslu, Osklen, Ricardo Almeida, Alexandre Herchcovitch, Carlos Miele, Cris Barros, Gloria Coelho, Reinaldo Lourenço, Adriana Barra, and multibrand stores NK Store, Magrella and Dona Santa.



### 3.2.7 Nautical

In the limited luxury yacht market, Brazil's portion is 1.5% of world consumption. Italy is the largest producer of luxury yachts in the world and in second place is the United States, followed by Holland, the UK and Germany respectively. To consider a yacht a luxury, there is a price reference, as the cost will rarely be below R\$1 million.

Compared to other segments, this is one in which Brazil has the least tradition in the global market, and therefore has not fully developed its potential. The port association Companhia dos Portos estimates a total fleet of 650 thousand units, which includes large yachts, boats and other vessels, whereas the United States, considered the largest market in the world for trading, commercializes around one million yachts a year. However, the global economic crisis is still affecting developed economies and the value of Brazilian currency is enabling Brazil to become a safe harbour in this segment. An exciting contribution is the blossoming market in which over 14,000 nautical units are sold every year, 60% of which is concentrated in São Paulo, despite having fewer and more distant beaches when compared to Rio de Janeiro and Santa Catarina.

Over the past years, the number of shipyards in the country has more than doubled, forcing those that already existed to change their production strategy. There are already 151 shipyards to meet the demands of the nautical leisure and sports sectors. Another aspect of this market is that it is at an early stage and so consumers are a select group with very sophisticated demands for the utmost quality and comfort in every detail, requiring the market to answer with innovation, technology and exclusivity. Therefore, large international enterprises are betting on this market by offering products containing new luxury items and prime finishing, coming second to Brazilian companies only in terms of price.

Regarding the future, Brazil – a country with 7,300 km of coastal beaches and one of the largest and most beautiful coastlines in the world – has projects for the construction of new marinas along its whole coastline to guarantee its entry to this market at a global level. To supply this segment, there are national enterprises, such as Intermarine and Schaefer, and foreign companies Azimut Yachts and Ferretti.

### **3.2.8 Perfumes and cosmetics**

This segment is the entrance to the luxury world, as it is the second in sales in Brazil, just behind fashion and accessories, and is the second largest market for male cosmetics in the world.

Brazil ranks third among the highest consumers of cosmetics, perfume and make-up, right after the United States and Japan. The growth of the Brazilian market was three times faster than the world average. To get a better picture, famous brands of make-up are consumed by 50% of the women in the United States, while in Brazil only 5% purchase them.

This is a segment in full expansion in the country. While a client might not be able to afford to buy clothing by Chanel, they can access the universe of Chanel by purchasing a perfume, cosmetics or even nail polish, and these products have a waiting list after selling out in only a few hours after the opening of the shop in Rio.

The most commonly used sales channel for perfumes and cosmetics in Brazil is duty-free shops in the airports. The perfumes of preference are French, followed by Italian and North American. The most relevant brands for cosmetics are L'Oréal, Estée Lauder, LVMH Perfumes and Cosmetics, Chanel and Clarins. In addition to maintaining its position as the number one 'make-up prestige' in more than ten countries, including North America, the brand MAC has become number one in 'make-up prestige' in Brazil. This assessment is from Estée Lauder, owner of the cosmetics line.

### **3.2.9 Tourism**

The lack of infrastructure and low service quality are responsible for the low level of exploitation of Brazil's natural beauty and the extension of tourism in the country. The most common international destinations for tourism are still, traditionally, the United States and Europe, with a recent tendency towards exotic routes, including China, India and Southeast Asia, leading one to expect that the global elite will soon discover the charms of the generous Brazilian coastline.

Brazil has one of the largest tourist activities in the world, at the top of the global ranking for countries with potential for growth in this industry. There are thousands of kilometres of coastal beaches with soft sand and a huge expanse of fresh water, with a climate and

variety of scenery to enhance the segment. For instance: freshwater beaches in the Amazon, the swampy Pantanal region, beautiful salt-water beaches in the northeast, the waterfalls in Foz do Iguaçu, along with the traditional tourist destinations in Bahia, Rio de Janeiro, the north coast of São Paulo's beaches and Santa Catarina.

With so many opportunities, what is missing for better development? There is a lack of infrastructure to support the growth of domestic demand. Travelling, after all, involves a long chain of events, starting from the moment one buys a ticket, going through a series of steps up until catching a taxi home. The whole structure is underdeveloped in Brazil, starting with frequent delays at airports on peak days, followed by precarious conditions on the highways and then the lack of hotels to meet tourist demands. Keeping in mind that luxury is required in every small detail, any one of these setbacks keeps the sector from being part of the luxury market. However, with the oncoming Olympics and the World Cup, new entrepreneurship is to be expected in tourism, hotels and gastronomy, where there is the promise of great growth in the luxury market in the present decade.

### 3.2.10 Vehicles

In the automobile segment alone, Brazilian consumption is the fourth largest in the world for premium vehicles. It is considered one of the main markets for Ferrari and is attracting Bentley and Aston Martin. In fact, there is a waiting list to acquire cars costing between R\$500 thousand and R\$1 million.

The figures for 2013 show a 62% growth in automobile sales compared to the previous year, with sales of imported vehicles costing over R\$100,000 increasing by 105.7% compared to the same period in 2012. In 2013, Brazil was the fourth largest global automobile market, exempt from the crisis seen in Europe and the United States.

Breaking this down by brand will allow a fuller picture of success in this segment:

**Audi** – With the title of ‘most sought after’ among Brazilians, the German automobile company is part of the Volkswagen group. In 2013, they imported 6,686 cars into the country. The most preferred model was the A4, according to ABEIVA. (Brazilian Association of Importers of Vehicles)

**BMW** – The big cars of BMW are the second to occupy the minds of Brazilian consumers. In 2013, according to importing companies, the domestic market bankrolled 13,887 units of this brand, 60% more than in 2012. The preferred models for orders were the Series.

**Mercedes-Benz** – Brazil is a strategic market for Mercedes-Benz, which announced late in 2013 the opening of a new plant in the country, with investments of about R\$500 million. The new generation C-Class, presented this January at the Detroit auto show, will be produced from 2016 in Portugal.

**Range Rover** – The Range Rover, one of the most luxurious SUVs in the world, is one of the most premium cars sold in Brazil. This way, those who want to feel the majesty of the English automobile will spend enough to buy an apartment. The disbursement is around R\$270,000 for the simplest version and nearly R\$500,000 for the top version.

**Ferrari** – A timeless classic, the Ferrari keeps its firm place among Brazilian car-lovers. In 2013, according to importers, 37 new cars was sell in Brazil.

**Porsche** – Consumer interest in the Porsche brand is not for nothing and the brand is experiencing a period of growth in Brazil. In 2013, 1,039 vehicles were imported from Germany, an increase of 84.5 %, according to ABEIVA. The Cayenne was the buyer's darling.

**Volvo** – The Swedish automaker has as a leader in the Brazilian market in the XC60 model, which in its 2014 version can be bought from R\$154,950. In total, the number of vehicles of the brand to land in Brazil in 2013 totalled 2,927 units, according to ABEIVA – a small decrease of 2.1 % from the 2,990 bought in 2012.

**Lamborghini** – The Italian manufacturer of luxury sports cars has a captive and select audience in Brazil. According to importers, 14 units of the car were brought to the country in 2013, and 20 units in 2012. The preferred model is the Brazilian Gallardo.

**Cadillac** – This is the luxury brand of General Motors Group. The company will begin operating in Brazil in 2015. Among the candidates for release in national territory is the CTS-V sedan. Another is the ATS Coupe, a big attraction at Detroit 2014.

**Jaguar** – This automotive icon has a permanent place among Brazilians, who imported 293 units of the brand in 2013, especially the XF model. It was a beautiful growth of 474.5% compared to 2012 when only 51 vehicles were imported to national soil.

**Infiniti** – The Infiniti is the luxury division of the Japanese Nissan, and one of the promised automakers that may land in Brazil in 2014. The bet is that models like the crossover-designed Q30 will attract younger consumers.

The automobile segment could be even stronger were it not for such heavy taxes. Whereas in Germany a Class C 250 Mercedes Sedan costs €34,500 (R\$88,000) and US\$34,800 in the USA (R\$65,000), in Brazil its price reaches an exorbitant R\$191,000. The producers of Korean and Chinese cars have already announced their plans to produce their premium lines in Brazil, so as to reduce the impact of import taxes, and to be competitive for an even higher number of sales.

The good news is that BMW, Mercedes-Benz, Land Rover and Volvo all are opening production lines in the country in 2014.

This segment includes motorbikes, with 37,000 units commercialized. The success for premium motorcycles involves much more than selling a vehicle; it means selling a lifestyle. The production of luxury motorbikes is benefitting from some good results. For instance, an imported BMW is presently sold at R\$55,000; with local production, its price will decrease considerably, by 27%, to cost only R\$40,000.

This segment is going through a golden moment, and still has much space to grow. Actually, those companies that have not yet made the move are considering the possibility due to optimistic predictions for the next few years, resulting from the increased possibility of finance purchases in this area, bringing on even higher record in sales.

The largest brands for imported luxury cars are: Aston Martin, Bentley, BMW, Ferrari, Jaguar, Lamborghini, Land Rover, Lexus, Maserati, Mercedes-Benz, Pagani, Porsche and Spyker. For luxury motorcycles they are: Harley-Davidson, BMW, KTM, Honda, Kawasaki, Triumph and Yamaha.

### **3.2.11 Wine and spirits**

This category of products is found at duty-free shops at airports, in liquor stores, emporiums and in supermarkets. They can be found alongside other beverages, such as beer and sodas, which, however common it may be, is contradictory to the concept of luxury.

These products include whisky, cognac, vodka, gin or rum, champagne and some Brazilian 'spumanti', such as Chandon. There are three large groups in the country: Diageo (Smirnoff, Johnnie Walker, Baileys, J&B, Captain Morgan, Cuervo, Tanqueray and Gordon's), Pernod Ricard (Chivas Regal, Ballantine's, Campbell, Jameson, Havana Club, Malibu, Martell, Seagram's, Beefeater, Stolichnaya, Perrier Jouët and Mumm) and LVMH (Hennessy, Dom Perignon, Krug, Moët & Chandon, Veuve Clicquot and Chandon).

### **3.3 Outlets in Brazil**

A longstanding reality in Europe and USA, luxury outlets only started to settle in Brazil in 2012. After experiencing failure in the 90s, when shopping outlet projects did not work, it is now a new epoch for these outlets in this country.

The model of outlets abroad is, among other assumptions, to sell cheaper products but in selected shops only. Brazil has not adopted this model. The trend for building outlets in Brazil takes into account the increased purchasing power of the middle class, which requires a different model of retail.

This situation has attracted luxury brands to venture into malls, settling for even more ambitious shops. A study by IBOPE Intelligence assesses that Brazil is likely to have 33 projects classified as outlets in the next six years. In 2014 an outlet will be opened in Novo Hamburgo (Rio Grande do Sul). Others will be opened during 2015, in San Roque (Sao Paulo), Camaçari (Bahia), Balneario Camboriu (Santa Catarina), Rio de Janeiro and Fortaleza. With the opening of the these outlets, these will add R\$2 billion to the existing annual revenues.

Brazil has learned from past mistakes and new investments cannot go wrong again. The challenge will be to prove that the failure of the 1990s will not be repeated, when the deal did not work out for a number of reasons: retailers worked with little stock; the projects

were designed in regions near major centres, and thus the traditional malls, big brands, for fear of cannibalizing their products, did not adhere to the style. Previously in Brazil we adopted these assumptions that are peculiar to an outlet which means success.

Retail outlets are a complementary channel, a tool for offsetting inefficiencies and errors. Their importance grows with an increase in 'leftovers' of products not sold through conventional channels during their life cycle and the need for margins in pricing. The enabling characteristics that lead to a greater need for designing outlets and distribution channels are:

- \* Products with relatively short life cycles, high level of updating and seasonality. This is the case in all lines connected to fashion, but applies increasingly to decor and other categories that incorporate the dynamics of fashion and seasonal collections in their product development;
- \* Brand and established manufacturers with distribution focused on indirect channels (multibrand shops and department stores) that impose sales processes and number of channels, increasing the margin of error in purchases;
- \* Existence of large networks of multibrand department stores, which frequently have long procurement cycles, high inventory levels, markdowns during long cycles and high volumes of products, with little ability to sell in conventional stores;
- \* Chain of geographically decentralized outlets and long lead times between the development of the line, the production and distribution supply cycle and the purchase of products.
- \* High margins between the acquisition cost of the product and the retail selling price, which allows for the necessary attractive markdowns with sufficient margins to absorb low cost operations;
- \* A network of outlets is justified when there are large volumes of products that, financially, do not justify burning in traditional outlets (i.e., when you do not sell your product in a normal shop you can send them to an outlet shop with reduced price).

Outlets generate direct and indirect costs in assembling store, personnel, maintenance, control, supervision, management and delivery of products. The networks established to address the outlet

channel and even as business unit. In the USA and Europe specific product lines are developed to supply chains of outlets, to ensure a minimally structured and compelling offering, an availability of sizes and increased gross margins. Many outlet operations achieve high profitability like this, which requires great discipline in the rate of expansion in order not to cannibalize the channels that sell at full price.

The Brazilian reality is that the relevance of outlets as supports to the distribution channel is limited. As for the, previously mentioned, enabling points:

- \* Brazil has a complete production chain related to fashion, which reduces the lead time between development, purchase and distribution of goods.

This copies the efficiency and agility of European fast fashion, which has advantages in relation to the American model:

- \* High costs, plus the historical limits of the resources of finance companies, created a culture in Brazil more intense than in the USA;
- \* Average inventory levels in Brazilian retail fashion are lower than in American networks, particularly in relation to conventional department stores such as Macy's, Saks, Bloomingdale's and JC Penney;
- \* The predominance of retail brands leads to control over the product and production, shortened production cycles, purchasing and distribution;
- \* Large format, multibrand, conventional department stores no longer exist in Brazil, which makes it an exception compared to other mature and emerging markets. In Mexico, Chile, Argentina and Peru there are Palacio de Hierro, Falabella and Almacenes Paris, which have similar formats to Macy's, Sears, El Corte Inglés, Kaufhof, Lord & Taylor, Galeries Lafayette and Coin in the USA and Europe.

The Brazilian consumer is willing to buy at an outlet, even in urban centres, but they need to recognize a considerable advantage in price,



That consumer is already used to buying in outlets in the United States; the Sawgrass in Miami is a favourite of Brazilians, where they find the brand they want and pay the price.

The scenario in Brazil today is much more conducive to an investment in luxury brands in a shopping outlet than it was in the 90s, and the economic environment has also changed (the risks are much lower now). Brazil still has a lot of development potential in this market. In the United States there are more than 300 operations and worldwide (North America, Europe and Asia) this number exceeds 400 shopping malls, with over 20,000 stores. The big challenge is allow for enough growth in the market, which does not happen even supply retailer.

In Brazil, there are three outlets in operation: Premium Sao Paulo, Brasilia and Bahia. The Iguatemi group holds a 41% interest in Platinum Outlet, the other 49% is held by the bank Credit Suisse.

Brands that are operating in malls in Brazil are:

Giorgio Armani, Diesel, Lacoste, Hugo Boss, Osklen, Tommy Hilfiger, Ricardo Almeida, Ermenegildo Zegna and Daslu Carlos Miele.

# 4

## Who Are the Luxury Consumers in Brazil?

One of the strengths of this book is its in-depth knowledge of luxury consumers and their importance in this market. The goal of this chapter is to introduce their characteristics: aspirations, social class and location, income, spending habits, their expectations of the products, how faithful they are to a brand and which services they look for. To be able to identify a luxury client one must learn what characterizes him or her. One particular aspect is related to perceptions, where 'having' is more important than 'being'. This means that any lack of recognition for 'being' requires higher levels of 'having' as a password to a social group and to access its status. The condition of 'having', however, reflects two sides of consumerism: the satisfaction of a personal need, and social ascension or belonging to a group. The economic elite can be split into two subgroups: emerging (new money) and traditional (old money), where the latter is usually distinguished from the former by a refined taste.

The traditional elite, founded on a social prerogative, has an interesting reaction when it perceives it is being copied: they change their position so as to maintain their social distinction. This occurred, for instance, when the emerging group began using designer clothes for ostentation, so the traditional group responded by wearing personalized designer clothes. Therefore, the recent growth in the consumption of luxury brands and goods is due to the emerging group and the increase in their acquisitive power. A large number of the new millionaires come from agribusiness; there are also top executives and entrepreneurs (self-made, successful people). There is also a

group of millionaires, within the emerging elite, made up of athletes and people from entertainment.

A strong trait among this group is social distinction, which subdivides the group according to social origin, once again into emerging and traditional. When examining the range of products they acquire, it is notable that it is not the price that determines its social worth, but good taste and suitability for purpose, as in choosing the right wine for a meal, whether or not it is cheaper than another. However, if just anyone can learn how to choose the appropriate wines for a meal then it is no longer effective as a way to distinguish oneself and so they must count on a new element, such as the choice of the wine's best year or region. Likewise, if many people hold a certain academic degree, such as an MBA, it no longer distinguishes one and one must count on another element, for instance whether it was awarded nationally or internationally.

In another instance we might consider that when anyone can become fluent in English, the second language for many worldwide, fluency in that language must be supported by the command of yet another, such as Mandarin Chinese, presented as a good business language, both now and for the future.

Another feature, previously mentioned, is the fact that Brazilians like to be in touch with the latest trends, which is why they are consumers of trends, as well as avid purchasers of novelties, and familiar with the most recent designer goods. The luxury consumer, in this day and age when time is so scarce, makes up for this scarcity by rewarding him or herself on the grounds of 'I deserve to'. They are not as concerned with amassing goods as with spending on goods or experiences that will provide personal satisfaction and a better lifestyle: a special, full-menu dinner, a wonderful massage or an unforgettable trip, for instance.

The value of any good or service is actually down to one's perception, both during purchase and use, linked to feeling and to satisfaction, be it social, economic or emotional satisfaction. Therefore, the value of a product is based on the consumer's subjectivity, not on the value attributed to it by the manufacturer as the sum of its raw materials, production costs or quality.

A peculiarity of the Brazilian luxury market is a specific cultural practice: purchases are made by instalment, using credit cards or pre-dated cheques. This practice goes against the typical policy of

a luxury brand and means that major brands coming to Brazil have to adapt to this particular style. Sales in Brazil have been reaching significant figures and those in 2013 overtook expectation. This success brought Brazil to the attention of the headquarters of most luxury brands and resulted in altered targets and projects for the following years.

In summary, the Brazilian consumer wishes to belong to a more sophisticated, exclusive universe. In spite of the lack of indicators for the size of this sector within the national economy, the tendency of the population to purchase luxury goods can be seen in the visible signs of growth, susceptible to the supply of new brands and services.

#### **4.1 The Brazilian luxury consumer**

As mentioned, the Brazilian luxury market is different from that in other countries and the consumer is also different. Brazilians are often impetuous, buying on impulse and ignoring their monthly incomes. Purchases are often made on credit and mostly in instalments. To be able to buy more, Brazilians often pay the minimum due on their credit card bill, which allows them to buy more without paying off the total debt. Brazilian customers, more emotional than rational when faced with the chance to spend, are a unique case for the luxury market! Even consumers who frequently travel abroad buy and consume locally. If they desire a product they buy it immediately, as they cannot wait for the next trip abroad. If they do decide to wait until the next trip to acquire a product, they go to the shop to try it on before travelling. Brazilian luxury consumers like to be pampered and often bond with their salesperson since there are no barriers here. Some luxury brands send salespeople to show a collection at the clients' houses to allow them to choose with convenience and comfort. If the client buys at a store, the purchase can be delivered to the home.

Brazil may seem like a single territory, but the profile of a luxury consumer varies immensely from one town or city to another. Consumers from the north or northeast come about once a month to São Paulo for their shopping and they love to enter a shop where the saleswoman will play their favourite song or give them champagne and remember their favourite styles. Even if they are aware that they

are paying a higher price than they would abroad, they are unconcerned. As most of them are not fluent in English or French, they are treated as common consumers in New York, Miami or Paris, which means they do not experience a ‘thrill’ when purchasing abroad, which is essential to the luxury market.

Carioca women (from Rio) are the most easy-going and extroverted and they do not mind going into shops or jewellers in their swimwear. In São Paulo, on the other hand, they like to dress up, have a manicure and a hairdo to go shopping and have a more formal attitude. In Brasília (the political capital), luxury consumers prefer to pay cash than to charge their credit cards.

Each region has its own peculiarity and consumer habits vary widely so that brands should adapt to local needs. After all, the Brazilian consumer is the only one to buy luxury in instalments. In a consumer’s mind, she is not spending R\$5000 on a handbag but ten instalments of R\$500 each. Getting to know one’s client is fundamental to a company’s strategy in this segment. Therefore, here follows a summary of the luxury consumer profile, according to a survey by consultants Cognatis Geomarketing.

### Age

- 5% are below 29
- 16.7% are between 30 and 39
- 62.9% are between 40 and 64
- 15.5 % are above 65

### Gender

- 58% of the consumers are female
- 42% of the consumers are male

Source: GFK/MCF

Southeast	12.2 million (61%)
South	3 million (15%)
Northeast	2.6 million (13%)
Central West	1.4 million (7%)
North	0.82 million (4%)

*Figure 4.1* Where are the luxury consumers?

Source: Cognatis Geomarketing.

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Proportionally, Brasilia D. F., capital (Distrito Federal) tops the list: over a quarter of the inhabitants are at the top of the social pyramid.

Brasilia	27%
São Paulo	20%
Santa Catarina	17%
Rio de Janeiro	16%
Rio Grande do Sul	16%

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Figure 4.2 The wealthiest states

Source: Cognatis Geomarketing.

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R\$ 930 billion was the potential consumption by classes A and B in 2011.

Transport	10.8
Vehicles	5.7
Taxes	4.8
Clothing	2
Health insurance plans	1.4
Home appliances	0.834
Cable TV and internet subscriptions	0.41
Parties and ceremonies	0.385
Hairdressing	0.28
Jewellery	0.141
Manicure and pedicure	0.104

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Figure 4.3 Monthly expenses for classes A and B (in billions R\$)

Source: Cognatis Geomarketing.

An evaluation of families in classes A and B shows that there are:

- 8 million people in modern mature families (double income, at least one of the spouses is over 45-years-old, with children under 18).
- 4.2 million people in modern families (double income, both spouses are under 45, with children under 18).
- 1.8 million single people with an adult son or daughter (single males or females, includes separated, divorced or widowed, with son or daughter over 18).
- 1.2 million people living in traditional families (single income, couple under 45, with child under 18).
- 4.8 million in other groups.

*Table 4.1* Where are the millionaires in Brazil?

São Paulo	63,398*
Rio de Janeiro	20,727*
Minas Gerais	7,980*
Rio Grande do Sul	7,812*
Santa Catarina	4,123 (76% increase from 2003 to 2010)
DF	2,800**
Bahia	2,471
Goiás	2,233 (31% increase from 2003 to 2010)**
Pernambuco	1,743*
Espírito Santo	1,575 (61% increase from 2003 to 2010)
Mato Grosso	1,435 (39% increase from 2003 to 2010)**
Ceará	1,309*
Paraná	1,211 (41% increase from 2003 to 2010)
Mato Grosso do Sul	1,211 (41% increase from 2003 to 2010)
Alagoas	658
Maranhão	504 (33% increase from 2003 to 2010)**
Pará	476*
Sergipe	434
Rio Grande do Norte	427 (55% increase from 2003 to 2010)**
Amazonas	399
Paraíba	252
Piauí	224
Amapá	182
Tocantins	70 (46% increase from 2003 to 2010)*
Acre	35
Rondônia	(33% increase from 2003 to 2010)**
Roraima	28

Note: \* Fortunes above R\$50 million.

\*\* States with highest increase in number of millionaires between 2003 and 2010.

Source: Haliwell Bank.

*Table 4.2* List of top ten Brazilian billionaires

Position	Name	Fortune (billion R\$)	Age
01	Jorge Paulo Lemann	38,24	73
02	Joseph Safra	33,9	74
03	Antônio Ermírio de Moraes	25,68	84
04	Marcel Telles	19,5	63
05	Roberto Irineu Marinho	17,28	65
06	João Roberto Marinho	17,26	59
07	José Roberto Marinho	17,1	57
08	Carlos Alberto Sicupira	16,78	63
09	Norberto Odebrecht	10,10	92
10	Francisco Ivens de Sá Dias Branco	9,62	78

Source: Forbes.

According to Cognatis Geomarketing almost 80% of the Brazilian families in classes A and B have a monthly income under R\$15,950.

There were 124 billionaires in Brazil in 2013, an increase of 68% on the 74 billionaires in 2012, almost four new billionaires per month. Most of these billionaires live in São Paulo.

#### 4.1.1 The behaviour of Brazilian luxury consumers

The reason for identifying the way luxury consumers behave is to get to know one's clients more deeply by outlining their desires and preferences so as to help companies trading in this segment to define and reach their target audiences. Therefore, in the list below we can see the desires that move luxury clients towards consumption.

According to a report by Credit Suisse, Brazil has become a factory making millionaires, many a day. They come from agriculture, entertainment and football. How do they think and how to attract them? Brazil has not yet reached a consensus on how to proceed with the new rich. They are everywhere and luxury segments are not prepared to meet them. That scene from the 22-year-old movie *Pretty Woman* is repeated several times in boutiques, hotels and restaurants in Brazil.

Luxury brands have realized, but still have not adapted to, the new Brazilian reality: that the money has changed hands, it is no longer exclusive to the traditional, rich families and their culture of luxury, based on childhood travels to Paris or New York, studies in highly-regarded schools, never lacking for anything. The new rich are not the same: most became millionaires between the age of 40 to 50 and, for the most part, are made up of men who had always fought for their achievements.

Typically, the new rich go through a three-step process:

1. The first stage is when they discover that they have \$1 million. It is a phase of insecurity since they have worked their whole lives and do not want to lose the status of millionaires, so they do not spend a lot of money and are more reserved. They are not yet accustomed to the condition of being a millionaire.
2. In the second stage, they want to be included in upper social circles and they need to show that they have become rich. Lacking a culture of luxury, they do everything to extremes. Buy everything, talk loudly, listen to loud music, do everything to



get noticed because they desperately need to show that they are millionaires.

They will only wear luxury brands with highly visible logos. They drink water in a champagne glass, want to drink champagne for breakfast, but do not know the difference between champagne and cava, or sparkling wine and prosecco, but just know that it is expensive and a symbol of power. This is the stage where luxury brands are liked most, because they have no limit on purchases.

They use Facebook and other social networks to promote themselves, posting the look of the day, pictures of everything that they eat, the vacation, so that everybody knows where they are and what they are doing, because they must always be in evidence.

The new rich have become the laughing stock in scenes from Brazilian television sitcoms. The most famous is *It's a Millionaire*, where the main character becomes rich, thinks that she can buy everything, and always says, 'I can, because I am paying.'

3. In the third and last stage, the new rich have become accustomed to wealth. The luxury is just a part of their lifestyle. They know what luxury is. They have understood that overexposure is over. They become more discreet in their behaviour and attitudes. In this stage they have been millionaires for some years, so they can visualize and observe the excessive behaviour of those who are just entering the millionaire club. They understand more easily the traditional rich and begin to discriminate against the new rich.

There are many examples that professionals working in the luxury market in Brazil are not prepared to alter their behaviour for this country's generation of new rich.

One example is that of a farmer who was buying several farms and so decided to buy an airplane to be able to move between farms. He went with his wife to visit a famous aviation company in Brazil who were carrying out a flight demonstration to learn about the ticketing. During the flight, the unpreparedness of the crew for dealing with this newly rich farming couple was evident. A dinner by a renowned chef from São Paulo was served with Dom Perignon champagne. The farmer's wife did not like the food and found the champagne very acidic. They asked for hamburgers, french fries and beers. They

would not change their behaviour because they were buying a plane for R\$30 million. They lived on a farm and they were not accustomed to drinking champagne, did not need to distinguish between good or bad food. They understood soybeans. In this case the crew needed to understand that the codes of the new rich are different.

In Brazil there are many luxury consumers who live outside of São Paulo, Rio de Janeiro and Brasília. These consumers prefer to make their purchases in Brazil, mainly in São Paulo, as they do not speak English and cannot have the experience they desire if they purchase their luxuries goods in cities such as Paris, London or New York.

#### **4.1.2 A psychological analysis of Brazilian luxury consumers**

A study of consumer behaviour will feature multiple disciplines. At the beginning of the twentieth century, economists sought to understand demand based on a rational perspective of consumer decisions. With complete and accurate information about alternatives of consumption, they saw fit to use fully rational processes concerning choices to optimize practicality or satisfaction from a purchase. Thanks to the appearance of Sigmund Freud's psychoanalytical theory, however, which added the concept of a symbolic context to an individual's consumption, their method was questioned. This led some economists to include in their studies a consideration of consumer reasons, attitudes and brand awareness to define factors of influence over their decisions. As a result, various disciplines contributed to this analysis, among them sociology, social psychology, semiotics, demography, anthropology, political science and history, with the strongest contribution coming from psychology. The consideration of needs and desires was important for a nuanced comprehension of the concept of luxury, considering that these issues must be included in any study of luxury. Placing needs in a hierarchy is a psychological concept used frequently in marketing literature, from basic needs (physiological) to essential needs for human existence (eating, sleeping, drinking, sex) to the most sophisticated of needs (status and self-fulfilment). Notwithstanding, one must remember that needs are inherent to all human beings, independently from their cultures. What is defined by culture is not the demand itself but the means for meeting it.

In relation to hierarchical demands and needs, most people experience only partial satisfaction, while the proportion of their

satisfaction decreases the higher in the hierarchy the needs appear. Therefore, the pyramid can be understood not only as the preponderance of each need but also of each level of satisfaction. According to Maslow, the hierarchy is not as rigid as it may seem and it is possible for the order to be inverted (self-esteem might be more important to someone than love, for instance), or even consider that a need at a higher level rules over others, leading one to deprive oneself of the most basic needs to satisfy the higher. Individuals who can develop a high threshold of tolerance towards frustration would be an exception to this rule.

According to Maslow's theory, there are two kinds of need: absolute and relative. The former refers to universal, unvarying needs, connected to repetitive daily consumption, and seen as vital to one's survival; the latter refers to needs stemming from human imagination, and from the social context in which we find ourselves, which can correspond to an ostentatious range of consumerism, connected to flexible individual expenses.

After discussing the idea of necessity, I would like to establish a limit between need and desire, a fine limit in our society of abundance. Needs should be primary and objective motivations that come from an instinct for the preservation of human life, and are therefore intense and uncontrollable, of a limited quantity, uniform, constant and universal. Desires, on the other hand, should come from a secondary motivation, and so are intentional, unlimited, dynamic, and their causes vary according to one's control over the irrational, dreams and fantasy. Needs and desires are two entities that are essential to performing the act of consuming. Need follows the logic of satisfaction, whereas desire will attend to the logic of longing or a constant sense of dissatisfaction.

All of that leads to negative views on the culture of consumerism and identifies it as a means to exploit, alienate and dehumanize people by treating the public as childish consumers to be tamed for docile and eager consumption. However, when consumption leads to the generation of a meaning, as is often the case, the consumer makes an active, creative and critical effort. A consumer is a desirable entity, but cannot be treated as a simple plaything caught up in a web of seduction or of social relationships. The human imagination needs active involvement to be charmed by the abundant promises made by the market. Nevertheless, to feel free to go ahead and follow

one's desire, a person must understand that it is their justifiable right to do so – implying modern subjectivity.

There are quite a few ostentation to be noted in our consumer society, such as excessive materialism, and even psychopathologies, such as uncontrollable or compulsive consumption. Some of these behavioural deviations come from social pressure, an overvaluation of money or from unrealistic ideals of beauty and success, which create constant dissatisfaction. Thus, searching for meaning in products where there is none or building one's lifestyle exclusively on a material basis are pathologies that illustrate how this process of transferral can go wrong and can harm both an individual and a collective group. On the other hand, in a normal situation, the use of objects are not harmful and can explain the crucial parts of one's *self* and of the world. One must take care not to overdo this use, transforming possession into ostentation or using either of these to become 'someone'.

Another issue related to consumption pathology is its social impact: social-economic inequalities, weak public politics and the saturation of the environment. When one considers the negative aspects (materialism, excessive individualism, waste, hedonism, the loss of spiritual and community values), today's society has some advantages. For example, in pre-capitalist society, meaning stemmed from social convention, blood ties, land-ownership, manner of speech, gender and ancestry. Nowadays, we live in a time where social ascendancy is possible, making it a much more democratic world than that of old and rank no longer imposes social immobility or rigidity.

Furthermore, first-generation wealth is no longer distinguished from fifth-generation nobility. The current system of allocating status favours initiative and success, and is closer to a fairer distribution of social position than before. Although the notion that 'what we have defines who we are' might seem repulsive to many, we would certainly prefer, in purely material terms, to be poor nowadays than belong to an upper middle class of a century ago.

For consumers the act of buying should be the satisfaction of a desire or a dream come true, not merely a purchase. A purchase would be an impulsive act and those who act in that manner are not satisfying a desire so much as releasing their frustration. Thus, the act of buying would make that kind of consumer forget their

frustration or even depression. Many such consumers need to make daily purchases, becoming addicted to buying in the same way that some people are addicted to cigarettes or drugs. There are those who are addicted to luxury products and need to undergo treatment for their addiction.

Moreover, this group includes people whose purchases are made due to psychological factors, some consumers have an inferiority complex and feel they must buy luxury articles to climb the social ladder or belong to a higher social class. This happens in the case of middle class professionals whose success has raised them up the social ladder. It is also the case for some young women, around 20 or 30 years old, married to executives in their 60s or older, and likewise, in an inverse situation, where successful female professionals marry younger men. These younger spouses become part of an age group that does not match theirs, so luxury brands are necessary to make them feel a part of that group, even though it is not the brand that makes one special, but their knowledge.

### **4.1.3 The importance of gay Brazilian consumers**

In contemporary society, one cannot afford to ignore the buying power of the gay consumer (metrosexuals are included in this category because they are classified according to their purchasing profile).

Out Now Global published a report saying that in 2010 there were nine million gay consumers with strong buying power, 80% of whom had shopped online during the last three months of the study. Their average spend on computers in the last 12 months of the study was US\$3.5 billion; they spent US\$8.8 billion on home products; and US\$20 billion per year on trips.

The marketing group Witeck-Combs estimated the buying power of gay consumers in the United States to be US\$835 billion in 2011. There are no estimates for their financial influence in Brazil but it is easy to build up a picture when visiting important shopping areas, such as Oscar Freire Street, Garcia D'Avilla, and the malls Iguatemi, JK, and Cidade Jardim in São Paulo, or Iguatemi Brasília, Fashion Mall and Leblon in Rio.

The profile of Brazilian luxury consumers is made up of 60% females and 40% males. Out of these 40% male consumers, it is estimated that 29% are gay, with 40% of these in São Paulo, 14% in Rio

de Janeiro, 8% in Minas Gerais and 8% in Rio Grande do Sul. The typical profile of the Brazilian gay consumer is: young, successful, with an MBA or is at least a university graduate. A study performed by InSearch in 17 Brazilian states confirms this information and reveals that 39% of gays belong to classes A and B, 30% to class C, and 48% have university degrees. They love to be in fashionable places, restaurants, nightclubs, bars and at fashionable parties. They usually live alone and, as they usually have no spouse or children, tend to spend a lot on trips.

According to International Gay & Lesbian Travel Association (IGLTA), *gay* tourism raises U\$54 billion a year around the world. To attract this audience, the governor in Rio de Janeiro launched an international campaign in May 2011, *Come to Live the Rio Sensation*. São Paulo is also in the contest to win over gay consumers with an annual gay parade, the largest in the world, which attracts more than 3 million people and injects almost R\$200 million into the city's economy. It is the second largest event in the country after the Formula One Grand Prix.

Rio de Janeiro, São Paulo and Buenos Aires all fight for the title of most gay-friendly capital city in Latin America. Gay people spend money on clothes, perfumes, cosmetics, cars, jewellery and so on. They are always up to date on new foreign products and when they go into shops they already know what they want. They are brand faithful and, because they are habitués, often strike up a friendly relationship with the shop assistants. At evening events they are often in the majority because they do not need to hire babysitters. In many cases they are executives with their own businesses and can go out late at night without worrying about getting to work early the next day.

These consumers have a particular feature: they love to be pampered. And when they are, they are often loyal to their favourite brands. The difference between keeping or losing this client lies in the small details, one wrong word is enough to send them away forever. It is essential to train employees and instruct shop assistants to avoid asking about wives or children, for instance. A gift purchase might be intended for their partner and any embarrassment could make the client give up the purchase. Another detail in luxury sales is to take care when calling the client not to make inquiries about a spouse.

One cannot stress enough how important it is to give good service to consumers thinking about acquiring a luxury product or service in Brazil, who are purchasing for a unique experience. A glass of champagne is no longer a surprise, but the sensation of being invited to the opening cocktail party for a particular luxury brand's shop (such as the highly appreciated parties for new shops opening at JK Iguatemi shopping mall in São Paulo), or to a special event, will make them happy.

As mentioned before, this consumer follows fashion trends and so attends or takes part in important fashion parades, such as SPFW (São Paulo's Fashion Week), Fashion Rio and Fashion Business. They know all about the latest collections and like to wear them.

There are currently exclusive offers to satisfy this special consumer: property launches; hotels (the Chili Pepper Single Hotel has three presidential suites); the Rainbow card, called Arco-Íris Card (by JJCL Brasil Cartões); life insurance called Vida Freedom (from American Life Insurance Company); and places such as shops, gyms, travel agencies, nightclubs, restaurants, bars, cinemas, hair salons, health spas and many more.

## **4.2 How to attract Brazilian luxury consumers**

Any service offered to a luxury consumer must have a fundamental feature: charming the consumer. To do so, an extraordinary experience must be supplied when offering assistance; after all, this consumer is looking for more than just a product or service and the practical benefits they can bring. They are hoping for a unique shopping experience that excites all their senses. It is important to evoke aromas, visual effects, the story behind the brand and details of how the product is made.

One example of a successful strategy is the crocodile leather handbags made by Hermès. This leather comes from captive-bred animals that are very well raised; because they are not wild crocodiles, their leather is smooth and has no scratches. Hermès takes care of every detail and each handbag carries the name of the craftsman who made it. To convey this magic to their clients, Hermès brought over a craftswoman to make a handbag at their very own shop in Cidade Jardim shopping mall. Another example, Zegna's men's suits go through the 500 pairs of hands before they are ready to be sold; the sheep that

provide the wool for these suits are from New Zealand, where they are very well treated. Zegna also chose to offer their clients an unforgettable experience and brought a craftswoman to São Paulo to make a tie at their shop in Cidade Jardim shopping mall.

Each luxury offered should play upon the client's five senses (eyesight, hearing, smell, taste and touch) and surprise each one. Desires rather than necessities are being sold and so one must act on both fronts: material and intellectual. Luxury is related to all five senses, with no sense more important than any other. Likewise, all kinds of luxuries are equally as important as each other. One's sight can be stimulated by the luxury revealed by physical spaces or environments (in hotels, in architecture or in nature) or attracted by the seductive beauty of clothes, jewellery and other objects for adornment.

Sounds can fill our ears with sweet music or beautiful words. Aromas are another way to attract interest, as perfumes often synthesize all the seduction of a luxury. One's taste can be touched by the rich and delicious sensation of rare and special flavours. Finally, touch can reveal all the virtues of luxury through the materials of a product. Not only does touching please by the simple act of holding an object in one's hands, but it also symbolizes the possession of a valuable article.

Even so, all that is not enough to surprise and attain the enchantment one aims for with a luxury brand; a client must feel that services rendered can fully interact with him or her, and must feel an empathy and chemistry that results in mutual trust. An assistant offering a service must become a witness to a special moment in the client's life, no matter what kind of service is being offered (in a shop, a hotel, a restaurant, aesthetics treatment clinics, travel agencies and so on). Furthermore, a client must perceive that a salesperson is someone they can consult, who knows a little more than they do about a product or subject, and who can help them become part of the universe of the product. To measure how charmed the client feels offer an evaluation of the brand through phone contact or over the Internet with a form to describe the level of assistance.

Right from the start the brand must impress its clients, from reception, where a valet parks their car, up until they leave. It must be clear that the employees are the representatives of the company and its image and they are the ones who will leave such an impression



on the client that they will favour that brand. That is why service must be impeccable, personalized and capable of making a client feel exclusive. Note that, as key to this charming process and consequently to the success of a brand, employees must have a strong technical knowledge and a good overview of the company; they must be up to date on events in the market; and, above all, they must feel proud to part of the brand. They must be unbiased and unprejudiced in their attitudes and their behaviour must emphasize the exclusivity of the company's trademark and they must know how to react to emotions and stimulate consumption through feelings. To that end, it is vital for entrepreneurs and administrators to train their teams to perform with the excellence necessary in a luxury universe. An extraordinary experience can become a commitment if a luxury brand shows real intent to serve the client's need at that particular moment. When dealing with a client there should be no sales target, only the sincere desire to create something out of the ordinary that adds value at that moment.

### **4.3 How to achieve consumer loyalty in Brazil**

A brand is what gives a company its greatest value. It can be a logo, a name, a term, a symbol or a badge, a design or a combination of any of these, and it must identify the products and services of an organization, setting it apart from its competitors. This definition merely refers to typical elements and excludes the metatheoretical concept of some important aspects, such as knowledge, reputation and pre-eminence of the brand in the market. A logo adds exclusive and specific dimensions to a product, setting it apart from other brands with a similar role (symbolically, emotionally and spiritually) and when a brand or its logo is well created and managed it brings competitive benefits as it becomes an intangible part of a company's assets.

The power of attraction in a brand comes from marketing strategies and from experiences felt when consuming the brand, based on which the client will define how much it meets his or her demands. The role of a brand is to set a standard of excellence to which a client will wish to return due to satisfaction, and brand loyalty means that a company can satisfy its clients' demands in a more predictable fashion, enabling it to raise barriers against competitors entering its

market. It also means that a client is willing to pay a higher price, thus it is important for a brand to strategically sustain its name through marketing campaigns and outstanding behaviour.

Loyalty to a brand means that it has reached its goal, which is to reside within the minds of its consumers. A brand entity should be rooted in reality while reflecting consumers' perceptions and even their idiosyncrasies. That is important to keep it from competitors who might try to copy their production processes and product designs, preventing rivals from achieving the same permanent impression on the minds of individuals and organizations as their own products do. Due to that, the effort of developing a brand can become an advantage in competitiveness. Unfortunately, there are some administrators who cannot understand the damage that can be caused to a brand by using an unreliable design, material or presentation. They believe that the brand itself will guarantee success. However, it is the little 'sins' against a company's brand that can accumulate until the glamour associated with it gradually and unremarkably disappears. It must be very clear to a luxury brand that, in order to increase revenues and optimize results, it is much more important for the company to maintain the perception of it as a luxury product, or even a luxury market, by expanding geographically to locate new clients in other parts of the world than to compromise its portfolio by presenting the market with lesser products or services.

Another issue to address in this process is branding, a process that should establish a brand for products and services, which consumers will recognize by its name or other element of identification as to what the product is for, what it does and why. There are five dimensions to consider in positively associating a brand with its products or services: their attributes; their benefits; company values; the personality of the brand (traits displayed); and those who use it (the type of consumers in terms of their lifestyles etc.). Tools that can be used to strengthen and project a brand's image are as follows:

1. A word or a main idea associated with the brand or its name;
2. Slogans;
3. Colours;
4. Symbols and logos: these can be a person acting as spokesman, a celebrity or a character, an object, abstract design or even the name of the brand in a particular typography;

5. Stories: related to the founder of a company or to the product or even related to a kind of behaviour expected from its clients;
6. Sounds: bring attention to the emotional essence of a brand; the logic behind the decision to purchase is beyond rational and is influenced by emotions and feelings about status, self-esteem, power and self-achievement.

Ideally, brands that want to establish their importance must seek authenticity and must be coherent regarding a product's emotional characteristics and performance. It should be able to represent the 'me' that a consumer wishes to be, meaning that a consumer is not buying the product itself but prestige, comfort, security, reliability, purpose and meaning. That is why producers in today's luxury markets are proud of what they produce and consumers are proud of their desire to consume it.

One aspect not to be forgotten is how demanding and well informed this luxury consumer is: they are cosmopolitan; they have been to many parts of the world and have acquired an eye for detail; they are always searching, observing, measuring and qualifying anything that comes to hand and are therefore more difficult to deceive. Lastly, consuming a luxury product must be a pleasant experience capable of transporting the consumer to a world of new sensations and dreams. Scarcity in the market is a good strategy to guarantee a sensation of exclusivity, very desirable for repeat consumption. Consumer loyalty is the greatest goal of a company.

#### **4.4 The importance of the middle class for the Brazilian luxury market**

The Brazilian middle class has grown recently and is worth companies keeping an eye on as a means of multiplying profits. Over the last five years, 32 million people (the equivalent of twice the population of the Netherlands) went up the social scale in Brazil and, as a result, the C class (formerly called lower middle class) became half of the country's population, with around 90 million Brazilians earning a family income between R\$1,115 and R\$4,807, and becoming the ruling economic class. One can have an idea of the importance of the C class from the important size of its total income, which soared to

R\$500 billion; also, over 80% of the credit cards circulating around the country are in their hands; they account for 76% of national consumption.

Looking at figures that quantify migration between social classes from the end of 2002 to 2009, we can see that 1.146 million families moved up to class B (incomes vary from 10% to 20% minimum salaries) and 7.772 million rose to class C (incomes between 3% and 10% minimum salaries). Considering the increase in their incomes due to migration between classes, we see that: class A doubled its income, class B increased its income by 116% and income for class C grew by 142%.

Class C	81.4	57.71%
Class D	38	23.69%
Class E	24.6	15.30%
Class B	11.3	7.05%
Class A	5.2	3.2%

Figure 4.4 How the classes are divided (millions)

Source: Accenture e Plano CDE.

Improvements in family incomes of the middle class, combined with a strong and repressed demand for luxury products, led them to take advantage of the credit offered in shops to permit themselves the pleasure of experiencing new financial sensations and emotional benefits in their daily routines, which used only to be available to the limited few. These people know what is good, beautiful and sophisticated in a product and are willing to pay for it. Some products or services preferred by people from this class are: trips, jewellery, handbags, cars, perfumes and designer clothes, even if they pay for them over ten instalments. After all, 81.4 million people (50.71%) are a great target for companies. The speedy growth of this middle class is also significant in that it shows a decline in social differences. From 2003 to 2008, *per capita* income of the wealthiest 10% increased by 3.9% a year, whereas that of the poorest 10% increased by 9.6% a year. Even so, Brazil is still on the list of the ten countries with highest levels of social differences, and will

take another 30 years to reach the level of the United States if it keeps up its current growth rate. Still, the country is about to reach the lowest levels of social difference it has ever seen and it is worthy of notice that, between 2003 and 2008, 43% of the Brazilian population, 19 million people, rose from levels of poverty and another 32 million rose to classes A, B and C.

If Brazil keeps up these figures for growth tendency by 2014, when the country hosts the World Cup, poverty figures could fall a further 50.3%, reaching the first target of the millennium established by the UN at a rate five times faster than expected – meaning that 14.5 million Brazilians will rise out of poverty and 36 million will migrate to classes A, B and C.

# 5

## Communication, Advertising and Events

In this chapter we will examine the importance of the ‘communication’ tool for reaching the target luxury market, ranging from the most efficient way to convey a message, to the use of advertising and events. From the start it is important to highlight that successful communication about luxury products depends on a close connection to the feeling of exclusivity, either through the choice of media – prestigious or elitist – or the content of the message – these are becoming more and more metaphorical, linked to imagination and emotion more than reason.

While advertising can be a cornerstone in communication in the luxury segment an advertisement must deliver so much more. Luxury enterprises manage to communicate merely by their presence wherever they want to be identified: in tasteful or trendy venues in high society and in cultural circuits. Some brands even prefer not to use advertisements to communicate, favouring word of mouth and one-on-one meetings between their representatives and the specialized press.

In reality, all forms of communication between a brand and its clients are important, and can range from advertisements, press features or product presentations. Businesses commonly communicate with their customers through events as a way they can be selective and avoid over exposure through mass marketing. Prioritizing public relations, sponsors and parties is a way to target specific audiences.

It should be clear that using both advertising and public relations can be a complementary, not a contradictory, activity. However, the

former boosts the profile of a brand to a wider market, useful in assuring potential clients of a prestigious brand's roots and legitimacy; while the latter reinforces that image to more targeted segments and adds a dimension of excitement, risk and emotion for some of their consumers. Finally, communication should provoke feelings in the consumer to make him or her identify with the company; it should not set out to sell a product but a vision, a concept and a lifestyle associated with the brand. Once this image is created and supported through the communications, it is on its way to success.

## 5.1 Luxury brand communication in Brazil

Communication is an important tool for luxury marketing when companies use it to express the dreams of consumers and to boost a brand with a value that transcends the simple desire to purchase.

A company can use formal communication but informal communication is another important tool by which a brand's loyal customers will shop, then share their opinions and influence new consumers. However, if a luxury brand decides to use this method, money issues should not be mentioned. This is because monetary values only influence 1% of a consumer's decision-making, as was presented in Chapter 4. According to Brazilian legislation, the consumers' defence code demands that companies disclose prices to their clients, so they must find a way to communicate discreetly. What a luxury enterprise should never do is use formal communication tools to divulge special offers or discounts, again because price is not what attracts their audience and its use could tarnish its character and make it lean towards class C. Luxury communication is full of social codes for clients to decode. These codes emphasize equally the product's creation, brand, institution and the product itself. For example, by showing the product's 'creator' (the original founder of the *maison* or a stylist or designer of reputation) shows that creation and exclusivity are driving forces.

Luxury campaigns have an artistic aspect with the goal of creating desire in their consumers, not to demonstrate an impact on sales. The value of a luxury brand lies in the quality of its image rather than the fact that its image is recognized, and it is important to communicate carefully. An advertisement that does not have

enough quality to transmit a message correctly can do more harm than good. Likewise, for an excellent campaign to transmit the value of a brand perfectly and evoke desire, it must be created and launched at the right moment. An issue often discussed in communication is whether or not to use a celebrity to convey the company message. Some enterprises simply prefer not to link their image to that of a celebrity in the belief that their brand is stronger and more attractive than any one actor or singer. Besides, it would be going against the philosophy of some companies, as they understand that a brand should be desired for itself, not because a particular person can arouse desire in others. Other brands, however, follow the idea presented by Jean Noel Kapferer, author of *The Luxury Strategy*, which he calls 'the use of the ordinary by the extraordinary', in which an extraordinary character uses a product, also considered extraordinary, for his or her daily routine. An example of that would be a campaign launched by Louis Vuitton in which they used characters such as ex-Soviet President Mikhail Gorbachev and Rolling Stones' guitarist Keith Richards. Nowadays, a campaign's qualification can make a difference due to increasingly expensive media and newly developed techniques of communication, such as e-commerce, e-marketing and viral marketing. Due to media's high costs, integrated marketing strategies are ideal for balancing resources and harmonizing different communication possibilities. There is also a growing resistance to traditional communication and the use of information technology. Consequently, word of mouth has become one of the most important tools in luxury marketing and is commonly used when a product is too complex to evaluate through objective criteria. Usually, evaluation by other clients is considered more reliable than suggestions made through traditional marketing channels. However, marketing is important to unite consumers with their interests and to encourage their connection to prestigious products and services.

## 5.2 Where should one advertise in Brazil?

In Brazil luxury markets communicate through magazines related to this segment, such as those specializing in fashion, for example *Vogue* and *Marie Claire*. The choice of communication channel is



made at brand headquarters, where they define all the strategies concerning websites, design, worldwide events, fashion shows and more. That is obvious when we look at the magazines in this segment and see that there are not too many advertisements. That is because headquarters are extra cautious with their image and develop local advertisements. There are practically no television programmes targeting the luxury consumer. The media considered most effective in Brazil are magazines, events, public relations, the Internet and newspapers.

Some of the main print vehicles used by luxury companies are: *Isto é Platinum, Cool, Go Where, Luxus Magazine, Audi Magazine, Daslu, Iguatemi, Elle, Folha de São Paulo, O Estado de São Paulo, O Globo, Caffé Magazine, Elite, Época Luxo, Golf Life, Iate Life, Joyce Pascowitch, Luxos, Marie Claire, Oscar, Polo, Polo Life, Public, Robb Report, RSVP, RG, SJP, Spresso, Versatille, Veja Luxo, Vogue and Wish Report*. As well as the websites Chic, Glamurama and Vogue online.

### **5.3 Social media and e-commerce for luxury brands**

#### **5.3.1 Social media**

The Internet has been growing stronger as a means of marketing. According to a study by GFK/MCF, 61% of the companies surveyed used online social media to advertise in 2010, 98% of them on Facebook. Twitter comes second with 71% and Orkut 13%. Facebook is one of the main means of communication for companies due to its high number of active members in Brazil (over 40 million in 2012) – Louis Vuitton, for instance, has over 2 million fans on its official fan page. In the past, brands spoke and consumers listened. Nowadays it is the opposite; through social media, a client is no longer a simple listener and has begun to express an opinion.

To have an idea of the relevance that a consumer's now opinion carries, let us imagine an important online 'character' making a negative comment about a restaurant and how it can harm the establishment's image. Social media should be seen as more relevant than other traditional means of communication; they are a great channel for managing relationships since one can talk directly to the consumer. Once this definition has been established, a luxury brand must maintain its relationship values and plan for those they wish to

introduce. It is necessary to have a solid implementation plan, with clearly defined goals.

Here are some rules to follow:

1. Tell a story about your brand;
2. Inform people where your brand is heading;
3. Find a balance between design and functionality;
4. Resist the temptation to place more stress on technology than it actually deserves;
5. Do not lose your clients' trust by sharing their information with other companies or sending irrelevant emails;
6. Be cautious about taking actions that could reduce the value of your brand, such as special offers and contests;
7. Invest in placing your brand in search engines.

Facebook has definitely become a nationwide habit, and this can be confirmed by the number of Brazilian members, which went from 8.8 million in 2010 to 46.3 million in 2012 (23% of the Brazilian population). Brazil is second in Facebook's worldwide ranking, right after the United States with 157 million members and ahead of India in third place with 45.7 million members (these figures come from Socialbakers, a company that specializes in social media). On Twitter, according to a report by Semiocast, the United States lead again with 107.7 million members, Brazil comes second with 33.3 million, ahead of the Japanese with 29.9 million.

### **5.3.2 Luxury-specific social media**

#### *A Small World (ASW)*

Founded in 2004, it has over 300,000 members, but it really is still 'a small world' compared to Facebook, who may have a similar number of members in just one of its many groups. The site is made up of a network of people who are linked by a maximum of three degrees of separation.

Its idea is to attract companies to develop their brands through this sophisticated, interconnected, interested and educated group of individuals who are world savvy and like to meet others through reliable sources. ASW organizes events worldwide for its members, such as dinner parties, meetings and cultural events. Its numbers are

growing, so much so that it is being criticized for limiting them to maintain exclusivity.

#### *Luxury society*

This social network is an intelligent tool, relevant to the luxury sector, that helps people with their daily routines and their professional contacts. In its first few weeks of operation it acquired 2000 members. Its co-founder, Imram Amed, says:

If you have followers on the web talking among themselves about your brand, consumer loyalty will naturally be reinforced and that impacts on your profits. When people say that it is hard to join social webs and sales, they are right, but they forget one point. What really matters at this stage is not to sell, but to engage your consumer. The luxury industry is based on personal relationships and in the current age of global expansion, personal connections have been lost. Exclusive social webs could never replace those relationships, but can bring companies close to their consumers again, just as the clients will feel closer to their favourite brands.

#### **5.3.3 e-commerce**

This is a sales channel that has been surprising luxury brands. Online sales are undergoing a huge boost as consumers increasingly trust in a worry-free use of credit cards online – the number of cloned cards has reduced significantly. Nowadays, consumers can have so much information to hand that they know what they want even before going into a shop. Regarding automobiles, some consumers even know more about specific details than the salesperson does.

Virtual outlets are in high demand for designer products and are an alternative for those who want to save by finding good offers. In Brazil there are sites such as Brands Club and Coquelux that can only be accessed by registered clients and offer luxury brand items that have been sold out in the shops, with special offers, sometimes slashing off up to 70%. One can only be part of this selective social club by invitation.

#### **5.4 Events**

Events in Brazil are a powerful way for luxury companies to have a relationship with their clients, and to attract their target audience.

In some cases, events account for 70% of a company's means of communication. Brands have understood that they must provide a unique moment for their clients to improve and refine relationships. This kind of event was created in France and replicated in Brazil after 2007. They have been a great success, generating a large volume of free media.

A good example is the LVMH group's annual event, the Promenade Chandon, where Chandon brands are unveiled to their consumers. It happens in August and is located in an area in São Paulo called the Golden Block, or the Golden Quadrangle, that covers Oscar Freire, Bela Cintra and Haddock Lobo streets, in the exclusive Jardins area. In 2012 the event involved 33 luxury brands, 20 restaurants and more than 8,000 people. As this event covered fashion, gastronomy, music and art, the Promenade Chandon offered a pleasant stroll along the scenic streets with an irresistible atmosphere. If there is an event that manages to transmit what Chandon wishes to be it is the Promenade Chandon.

Cartier is another brand that organizes exclusive events for their clients and keeps records of important dates, such as their clients' birthdays or wedding anniversaries. Hugo Boss, using its position as official sponsor to McLaren, organized an exclusive event for clients where they placed a race car from Formula 1 in the middle of a ballroom with their British driver, Lewis Hamilton, as DJ.

# 6

## Distributing Luxury Products and Services in Brazil

In this chapter we assess how a product's distribution helps it position itself as a luxury, we also observe where products are found in the country and, more specifically, which cities lead the market.

In the Brazilian luxury market distribution has improved but it is still limited, which creates an obstacle to companies settling here. This is a setback, as product distribution is responsible for portraying a brand's authenticity and personality, and is an essential part of brand management. Furthermore, the relationship of the chosen distribution network to the product's global qualities and price range will consolidate the product's image or brand reputation.

Most luxury brands have an international distribution system. After all, if they carry out business activities worldwide it is only natural that they should distribute according to the standards of their head office. A product should be of the same quality in a shop in the USA as it would in Japan. Maintenance of quality is crucial in ensuring the value of a brand, whether in the brand's own shop, a franchise or a multibrand location.

The accessibility of a product must be taken into account when deciding how and where to distribute it, and the more selective the distribution, the more distant and difficult is access to the product, which can make it a rare and even unique item. This approach to distribution is part of what makes the product a luxury and will, in turn, influence a client's choice dependant on its exclusivity and the brand. Moreover, there must be a close relationship between the distribution and the specifications of the product or brand; that

means that extremely selective distribution is only applicable for a product of the highest, undeniable quality. For instance, Jaguar has only one representative in Brazil for its luxury vehicles, whereas it is more widely distributed in other countries, such as in the USA and Europe.

The kind of distribution applied follows segment characteristics and market specifications. In the case of high-end fashion, which is totally exclusive, models display to clients inside the *maison* and designs are developed in their own studios. Due to its highly selective nature jewellery also follows that example, being produced in studios to be sold in shops belonging to the brand or franchise. Equally selective are decorative objects – with the best pieces being made in the brand's factories for sale in their shops or franchises – and leather and luggage production, with their dearest pieces (travel bags or handbags made to special order) being sold only in the brand's flagship stores, as is the case with Hermès and Louis Vuitton.

## **6.1 How are luxury products and services distributed in Brazil?**

Localization is so important to a luxury brand that it can affect its whole business and image. Therefore, finding the right shop is crucial to the market as it involves the entire infrastructure surrounding the sales point, and can define how adequately its business will develop. That is the reason a brand will choose to open a shop in a prime location, often where other famous brands are located, in prestigious spaces visited by the higher classes. In fact, for any luxury brand to open a shop it has to be exclusive and be located in the best city neighbourhoods. Therefore, the location will end up reinforcing the brand image with the target audience, adding value and increasing its status. Privileged locations attract those particular consumers who are really charmed by a product. Another issue regarding location is distribution – as previously mentioned, it qualifies a product according to exclusivity – as part of a company strategy to control or even own sales points. That is how they hope to make their brands stronger, to manage the mix of products, to define the merchandising according to the client profile and information on sales and, finally, to standardize

the experiences of proportioning sublime purchases at their shops. There are, however, some luxury brands who do not own their shops and need to rely on independent sales points where they will find it harder to manage the mix of channels, of services and of products and profits.

Therefore, there is a strong tendency to keep tight control over distribution channels, with little variety. Another way out of this problem is to invest in what many brands call flagship or concept stores, where they display a lifestyle connected to their brand to strengthen their image and present the entire range of products inside an attractive and interesting sales environment.

On the whole, there are two locations where brands from this segment could open a shop: traditional streets or beautiful, modern shopping malls. In Brazil, unlike Europe and the USA, there are no department stores. There is an interesting story to tell about traditional high streets. In the 1960s and 1970s, Rua Augusta in São Paulo was the place to find elegant clothes, jewels and accessories. However, due to chaotic population growth and the lack of control over urban development, Rua Augusta lost its charm and glamour and became a street full of cheap shops. This led the better brands to look for a new location nearby, and they moved to Rua Oscar Freire, the best street in the Jardins district, later nicknamed the Golden Quadrangle. Initially, only the best shops found space there and it became the address to find luxury shops, cafés and restaurants and known as a cool place to go to, with night clubs and bars where politicians and intellectuals met. After the 1990s, there was an important moment when the market was opened to foreign goods for the first time. Brazil could now import products from the best brands in the world and Oscar Freire was the ideal place for their shops. So it became one of the few streets in São Paulo where people could go street shopping and where the best and most famous luxury brands are, both national and international. This transition from Rua Augusta to Rua Oscar Freire is an example of how important it is to choose the right place to open a shop.

Luxury stores can also be found in shopping malls, which are attracting more and more clients around the country due to the advantages they offer: good internal customer flow, parking for a large number of vehicles; finding several shops all in one space; the bonus

of it being a safe space; that is also contains restaurants, cinemas, theatres and even health spas. Not to mention that the experience of a luxury purchase must be complete from beginning to end.

Safety is of great importance in Brazil. Tiffany kept its shop on Haddock Lobo street for many years until it finally moved to Cidade Jardim shopping mall, which, despite all its security, was robbed twice in one month, and Tiffany was one of the victims during the first robbery. If armed robbery can occur in a shopping mall, where there is a huge security apparatus, one can only imagine the risks for a street shop. Leaving a street shop with a bag advertising a famous jeweller makes the consumer much more vulnerable than leaving a shop inside a mall.

For a prestigious brand to start selling in the Brazilian market is quite easy: all doors are open and importing difficulties are minimized. For a small or middle-size brand, however, the risks and the need to understand how the market works mean that they most often seek a local partner. A practice that was common among some luxury brands but, in response to the growth of emerging markets, their option was to retrieve the licence granted and operate directly. This was the case with Burberry, who was one of the first international brands to use partners in Brazil and then to transfer to their own operation when they opened their first official shop in March 2010, in the Iguatemi mall in Brasília. Another case is Armani who, after operating in Brazil through their Brazilian partners, announced in 2011 that they would take over the Brazilian operation themselves. It has become a growing tendency amongst international companies.

### **6.1.1 Case study: Hugo Boss**

This famous brand was founded in 1923, after the end of the First World War, in Metzingen, in the Swabia mountains in the south of Germany, by the Viennese tailor Hugo Ferdinand Boss. Initially, it was a small shop trading in uniforms, dungarees, clothes for labourers and military wear. While the country was facing a tough economic crisis, the company grew. It soon specialized in uniforms and rain-coats and the shop was turned into a small factory. However, seven years later the company was paralysed due to the country's postwar economic instability. Although he was constantly threatened with bankruptcy and several financial difficulties, he did not give up his



basic activities and revived the business in 1931, when he became a member of the National Socialist party. After 1933, with Adolf Hitler's growing popularity, he started to produce military uniforms for the Third Reich, especially those for the SS. The enterprise regrets its pro-Nazi past and released a communication in 2011 apologizing to the French and Polish labourers who worked as slaves in the brand's factory during the war.

The brand came to Brazil in 1988, when it was brought over by the ex-driver Emerson Fittipaldi, a Brazilian champion in Formula 1 and Indy, who was one of the commercial partners of the company in Brazil. At that time the nation was still closed to imports, and so most of the pieces were produced here rather than being imported, as were its rivals' products. After 2002, the German brand went through a shaky period in Brazil, including fights with franchisers, and some of its shops closed. This came to a head in 2003, when it closed down its largest shop, on Haddock Lobo street in the Jardins district. This was concrete proof of several strategic mistakes made by the brand. The first of these was to expand without following certain criteria. There was a time when the brand had 20 franchises, sold its product in 80 shops belonging to a variety of brands and opened shops in cities with low buying power. Furthermore, the articles were produced around the country by several different suppliers, making it difficult to control their quality. The brand gradually lost the glamour its clients looked for and was taken over by its competitors, such as Ermenegildo Zegna and Giorgio Armani. In 2005 operations were reduced to one single store in São Paulo and soon after that the company ceased its activities in Brazil. Hugo Boss returned in 2008 with imported goods and stayed away from franchises, operating only in its own shops (with the exception of an outlet store in Porto Alegre).

### **Philosophy**

'I don't care how much you know until I know how much you care'.

The secret to success is in minor details.

### **Sales**

Most purchases are made on credit cards.

### **Distribution**

Controls the entire operation.

Has its own shops inside malls: Iguatemi São Paulo, Shopping Morumbi, Diamond Mall in Belo Horizonte, Park Shopping Brasília and Iguatemi Brasília, Iguatemi JK, Village Mall Rio de Janeiro, Riomar Recife, Outlet Premium, Iguatemi Porto Alegre (franchise), multibranding stores.

### **Communication**

Website in English and German. Advertises in specialist magazines (*Wish Report, Vogue, Robb Report, Duty Free, Polo Yacht, Golf Life, GQ, Alpha*).

*Facebook*: worldwide page with over a million followers.

*Twitter*: channel fed by large quantity of foreign information.

### **Client profile**

Executives who like to travel abroad, young, cosmopolitan, successful, ambitious, value good quality, aware of physical appearance. Executives, physicians, lawyers and publicists are main targets.

A minimum income of R\$5,000 and average spend between R\$1,000 and R\$1,500. Mostly from São Paulo or other Brazilian state capitals.

### **Services offered**

VIP card for the Guggenheim Museum in New York; private sales for major clients.

### **Main rivals**

Ermenegildo Zegna and Armani.

The company is planning to expand to other states over the next few years. Hugo Boss first came to Brazil and ignored the basic strategies for luxury companies, hurting the brand so much that it had to cease operations. It came back with a new administration and is now growing in its segment. It is possible to say that the brand learned from its mistakes and is now a success.

### **6.1.2 Case study: Dona Santa**

In 1995, Recife lacked a space where the best brands could be bought or where fashion news could be followed. As citizens of the world, Lilia and Juliana Santos saw an opportunity and created the Dona Santa, whose name is an homage to the queen of the *maracatu* (a performance genre). Initially, the company had only 570 m<sup>2</sup> and was a multibrand boutique selling exclusive Brazilian womenswear.

Since then, Dona Santa's size increased significantly and it started to serve a male clientele (and added the suffix Holy Man). It gained in sophistication with the addition of international brand collections. Since 2004, Dona Santa/Santo Homem has been situated in a 1600 m<sup>2</sup> space, in a prime location in the upscale neighbourhood of Boa Viagem, Recife south zone, where it brings together the most coveted national and international brands, representing a true, worldwide fashion heritage.

#### **Philosophy**

Quality, excellent service and comfort translate a concept created by entrepreneurs of how to market fashion. They back the philosophy that we need to present the best products, without ostentation, in a space open to all styles.

#### **Store design**

Housed in an airy contemporary space divided into four floors the store attracts attention through its modern design by Santos & Santos Architecture. At the entrance, a kind of tunnel welcomes visitors. The front of the store has large display windows inviting one to enter and discover one of the best stores in the country.

#### **Products**

##### *Brazilian women's brands*

284, Adriana Degreas, Alexandre Birman, Alexandre Herchcovitch, Anamac, André Lima, Andrea Marques, Artsy, Caio Vinicius, Carina Duek, Cat and Dog, Converse, Corporeum Club, Coven, Cris Barros, Dania Reiter, Daslu FIT Flower Gloria Coelho, Huis Clos, Juliana Manzini, Lenny, Luiza Barcelos, Mabel Magalhães, Marcela B., Maria Garcia, Melk Zda Egg PatBo, Patricia Motta, Pedro Lourenço,

Printing, Redley, Reinaldo Lourenco, Richards, Marie Serpui, Talie NK, Triya, Tufi Duek, Vania Nielsen, Vivaz and Vix.

*International women's brands*

7 For All Mankind, Armani Jeans, Diesel, Fendi and Lacoste.

*Brazilian men's brands*

1st Level, Converse, Mandi, Redley, Book, Ricardo Almeida, Rockstter, Sergio K and The Week.

*International men's brands*

7 For All Mankind, Armani Jeans, Calvin Klein, Diesel, Ermenegildo Zegna, Fendi, Gant, Hugo Boss, Lacoste, Penguin and Vilebrequin.

**Communication**

Facebook, Twitter, Instagram, website and blog. Advertisements in specialist magazines: *ffwMAG*, *Joyce Fashion*, *Joyce Power* and *Mensch Magazin!*

**Customer profile**

The clientele of Dona Santa/Santo Homem consists mostly of women (68%) from Recife (88%) within different age groups, but with greater focus between 36 and 50 years. They come from social classes A1 and B1.

It attracts consumers from out of state and the city of João Pessoa is the third in number of customers. Another important group is made up of customers from the capital Maceió, Natal and Joao Pessoa, who form 7.58% of the total.

**Main competitors**

Musa Maison, Adom and Emporium HD.

**Plans**

Betting on the steady growth of both fast fashion and the luxury markets, the company is preparing for the development of both simultaneously by investing in an innovative concept. A new space, in the style of 'a shop in a shop', will be a luxury complex with 5,000 m<sup>2</sup> in front of the current location. The format of the mall will present exclusive brands arranged as individual businesses,

as well as a restaurant, wellness centre, art gallery, wine bar and space for events.

The Santa Dona is an example of the luxury market in the north-east. It shows great potential and promise for the future.

### **6.1.3 Case study: the NK Store**

In 1997, at the age of 21, a college student studying architecture at FAAP, Natalie Klein (daughter of one of the owners of Casas Bahia, a major retail chain in Brazil), noted the need for a store for imports and opened a boutique in São Paulo with a differentiated concept for customers. Thus was born the NK Store.

Everything in the store has a look resulting from the supervision of Natalie Klein. The store is true to the taste of the owner; the clothes sold are pieces she would wear. It currently has about 250 employees, divided into specific areas: sales, production, marketing and administration.

#### **Philosophy**

NK aims to differentiate itself in the world market through its behaviour and lifestyle fashion, valuing and empowering employees to achieve levels of excellence in products and services. NK is seeking sustainable growth by representing international brands and developing national brands.

#### **Values**

Care, consistency, excellence in products and service, and sincerity.

#### **Universe**

The NK universe is represented by the environment, employees and the clothes and accessories sold.

#### **Products**

Two lines of own clothes:

NK – for sale only in the shops of Rio and São Paulo, to maintain the concept of exclusivity.

Talienk – found in 65 retail outlets (business and wholesale) in the best shops of São Paulo, Minas Gerais, Bahia and Espírito Santo among others.

### International brands:

Alaïa, Alexander Wang, Altuzarra, Aurelie Bidermann, Azzaro, Balmain, Blumarine, Catherine Malandrino, Celine, Current Elliott, Emilio Pucci, Fiona Paxton, Givenchy, Giambattista Valli, Isabel Marant, Issa, Lanvin, Malandrino, Marc by Marc Jacobs, Marc Jacobs, Moncler, Phillip Lim, Chloé, Courreges, Etoile, Haute Hippie, Kaufman Franco, Proenza Schouler, Stella McCartney, Sonia Rykiel and Seven.

### **Sales**

70% come from the national line (NK and Talienk) and 30% from international brands. Most sales are made through instalments (up to 10 months' interest).

Discounts are only offered to VIP customers.

Private sales for selected clients, one day before settlement, which occurs in exchange for each collection.

### **Communication**

Advertisements in specialist magazines. Website with selected products, Facebook, Twitter and blog. Commercials, campaigns, look book and direct mail.

### **Customer profile**

99% are women, aged 25–45 years.

They are mostly professionals and have an interest in fashion, music, arts, and travel a great deal. They are derived mostly from São Paulo, Rio de Janeiro and the interior.

Average spend is US\$2,600.

### **Services**

Sellers act as consultants; personal stylist; collection delivered to the customer's house; Veuve Clicquot bar; personal service (house-keeping suitcase and wardrobe).

### **Main competitors**

Some customers buy abroad due to the prices being more attractive. NK has no direct competitors in Brazil, because the store offers a concept and an experience of 'single purchase'.

### **Store design**

Follows the style of Natalie Klein, with her vision and personal tastes. Predominant colours are black, white, grey and bronze. Unique aroma, lots of flowers and custom playlists, which are changed every collection.

NK is a genuinely Brazilian luxury brand, expanding cautiously but steadily and solidly. NK is the Marc Jacobs brand of Brazil. It is a success story and an example for brands that want to enter this segment.

## **6.2 Addresses for Brazilian luxury**

### **6.2.1 São Paulo**

*Rua Oscar Freire and the Golden Quadrangle*

Launched: 1980.

Area: Jardins street shopping district; goes horizontally from Avenida Rebouças to Rua Peixoto Gomide and vertically from Alameda Tietê to Rua Estados Unidos, including streets Bela Cintra and Haddock Lobo.

Shops: 240.

People per day: 30,000.

Main brands: Empório Armani, Giorgio Armani, Cartier, Dior, Salvatore Ferragamo, Roberto Cavalli, Versace, Louis Vuitton and Montblanc.

Among the main luxury shopping malls are:

*Shopping Cidade Jardim*

Launched: April 2008.

Area: 36,000 m<sup>2</sup> built-up area with 180 shops.

People per day: 25,000.

Main Brands: Louis Vuitton, Rolex, Tiffany, Montblanc, Empório Fasano, Daslu, Giorgio Armani, Ermenegildo Zegna, Chanel, Hermès, H. Stern, Pucci, Jimmy Choo and Cartier.

Address: Av. Magalhães de Castro, 12.000 – Cidade Jardim.

Founded by: José Auriemo Neto.

*Shopping Iguatemi*

Launched: 1966.

Area: 120,000 m<sup>2</sup> built-up area with 330 shops.

People per day: 48,000.

Main brands: Bulgari, D&G, Empório Armani, Hugo Boss, Tiffany, Burberry, Louis Vuitton, Chanel, Gucci and Christian Louboutin.

Address: Av. Brigadeiro Faria Lima, 2.232 – Jardim Paulistano.

*Shopping JK Iguatemi*

Launched: June 2012.

Area: 116,000 m<sup>2</sup> built-up area with 240 shops.

People per day (predicted): 20,000.

Main brands: Bottega Veneta, Balenciaga, Miu Miu, Hugo Boss, Chanel, Daslu, Ermenegildo Zegna and the first Van Cleef & Arpels in Brazil.

Address: Avenida Juscelino Kubitschek, 2.041 – Vila Olímpia

*Specialty shops*

Imported vehicles: Avenida Europa – Jardim Europa.

Boats and jet skis: Avenida dos Bandeirantes – Itaim Bibi.

Furniture and decoration: Alameda Gabriel Monteiro da Silva – Jardim Paulista.

**6.2.2 Rio de Janeiro**

*Shopping Leblon*

Launched: 2006.

Area: 100,000 m<sup>2</sup> built-up area with 240 shops.

People per day: 20,000.

Main brands: H. Stern, Tommy Hilfiger, Ermenegildo Zegna, Salvatore Ferragamo, Lacoste and Carlos Miele.

Address: Av. Afrânio de Melo Franco, 290 – Leblon.

*Shopping Fashion Mall*

Launched: 1982.

Area: 47,000 m<sup>2</sup> built-up area with 160 shops.



People per day: 9,000.

Main brands: Constança Basto, Alexandre Herchcovitch, Bang & Olufsen, Empório Armani, Enoteca Fasano, Ricardo Almeida, Missoni, Cris Barros, Osklen and Eduardo Guinle.

Address: Estrada da Gávea, 899 – São Conrado.

#### *Shopping Village Mall*

Launched: December 2012.

Area: 117,000 m<sup>2</sup> built-up area with 125 shops.

People per day: no data.

Main brands: Burberry, Ermenegildo Zegna, Gucci, Montblanc, Carolina Herrera, Louis Vuitton, Hugo Boss, Cartier and Tiffany.

Address: Av. das Américas, 3,700 – Barra da Tijuca.

### **6.2.3 Brasília**

#### *Shopping Iguatemi Brasília*

Launched: 2010.

Area: 90,000 m<sup>2</sup> built-up area with 240 shops.

People per day: 35,000.

Main brands: Ermenegildo Zegna, Hugo Boss, Ricardo Almeida, Christian Louboutin and H. Stern.

Address: Shin Ca 4 – Lote A – Lago Norte.

### **6.2.4 Curitiba**

#### *Shopping Patio Batel*

Launched: 2013.

Area: 29,000 m<sup>2</sup> built-up area with 204 shops.

Main brands: Ermenegildo Zegna, Prada, Louis Vuitton, Valentino, Tiffany, Burberry, Versace and H. Stern.

Address: Avenida do Batel, 1.868

### **6.2.5 Ribeirão Preto**

#### *Shopping Iguatemi*

Launched: 2013.

Area: 32,500 m<sup>2</sup> built-up area with 200 shops.

Main brands: Diane Von Furstenberg, Osklen, Tommy Hilfiger, Mac, Hugo Boss and H. Stern.

Address: Avenida Luiz Eduardo de Toledo Prado, N° 900 – Vila do Golfe

# 7

## The Wealthiest and Most Powerful Cities in Brazil

In this chapter we present a panorama of the cities with the highest potential for the luxury market. We will show the reason for their potential and the attitude of these cities towards their infrastructure and the population's standard of living. An assessment of the wealth of these cities will clarify their relationship with luxury. In the cases of São Paulo, Rio de Janeiro and Brasília we will look at both the present and the future.

The Brazilian market is still under-explored as 67% of its luxury market is concentrated in the city of São Paulo, which is the richest city in South America and worth comparing with New York and London, the main global centres of luxury.

Figure 7.1 shows the contribution of Brazilian cities (excluding São Paulo and Rio de Janeiro) to the luxury market.

Brasília	53%
Curitiba	7%
Porto Alegre	7%
Salvador	6%
Recife	4%
Belo Horizonte	4%
Ribeirão Preto	3%
Others	10%

*Figure 7.1* Brazilian cities and their contribution to the luxury market

## 7.1 São Paulo

São Paulo is the sixth most populous city on the planet, and the most populous in the southern hemisphere, with over 11 million inhabitants according to the 2010 census. It is considered Brazil's financial capital, as it is the wealthiest in the nation with the tenth highest GDP in the world. It is where most of the nation's business takes place and is home to large companies that keep the national economy going, as in the case of 63% of the multinational companies in Brazil. It is also quite influential in worldwide terms, as it is the fourteenth most globalized city on the planet.

São Paulo is the capital city of São Paulo state. Its inhabitants are the most multicultural people in the country and are among the most diverse in the world, as its population's ethnicity is made up of Italians (with a higher number of descendants than any Italian city), Portuguese, Japanese (the largest community outside of Japan), Spanish, Lebanese and the highest number of Brazilian northeasterners outside of the northeastern region.

The standard of living of these inhabitants and the city's infrastructure are evaluated by the HDI (Human Development Index), which measures access to health, education and sanitary conditions. The HDI for the city is 0.841 (on a scale from 0 to 1), the eighteenth highest in the State of São Paulo and sixty-eighth in the country. This index measures achievements in terms of life expectancy, access to education (based on literacy and school education rates) and a dignified standard of living (based on GDP per capita associated to buying power in US\$). Concerning education, it is quite high, reaching 0.919 (the index for the nation is 0.841), and illiteracy rates as reported by the latest IBGE census (the main Brazilian institution in charge of censuses) were 4.9%, higher than only six Brazilian state capitals. Life expectancy in São Paulo is 0.761 (the national rate is 0.638) and its income index is 0.843 (national income index is 0.723), as the city's income per capita is R\$32,492 and 96 cents.

Another issue, resulting from over-population and the city's wealth, concerns the 7.207 million vehicles around in January 2012, equivalent to 0.655 vehicles per inhabitant. That figure shows that it is one of the cities with the highest number of vehicles per inhabitant, as

the Brazilian average is 0.24. Moreover, the fleet of taxis (32,607) is the third largest in Latin America. This number of vehicles shows the growth in wealth and, at the same time, creates serious traffic problems at peak hours. Despite these bottlenecks, an issue any large city needs to solve, São Paulo is an important cultural centre and, also due to its important role in the country's economic and political history, it is practically an open-air museum with neighbourhoods and buildings of incalculable historic value. The city has an enormous variety of museums and art galleries, with catalogues of the most varied styles, ranging from sacred art to modern, as well as curiosities in science, politics, religion and other themes. Among the most famous museums in the city are: São Paulo Museum of Art (MASP), São Paulo Museum of Modern Art (MAM), University of São Paulo Museum of Contemporary Art (MAC), Brazilian Museum of Sculpture (MuBE), Ipiranga Museum, Museum of Sacred Art, Museum of the Portuguese Language and Pinacoteca of São Paulo State. It is also home to one of the largest zoos in the world, Parque Zoológico de São Paulo. In terms of further education, São Paulo has a public university, USP, renowned in the Americas and responsible for the highest number of Masters and PhDs in the world.

São Paulo is known as a non-stop city. The International Congress & Convention Association (ICCA) reports that the city is the top among those hosting international events on the American continent, coming in twelfth worldwide. These are events that are highly relevant to the country: its automobile fair (Salão do Automóvel de São Paulo), São Paulo Fashion Week, Brazilian Grand Prix in Formula 1, its biennial fair (Bienal do Livro de São Paulo) and others. Moreover, this is a city of great prestige in Latin America as it has been, since the beginning of the twentieth century, the main economic centre in Latin America. São Paulo has a few financial centres, the main, and most famous, one is Avenida Paulista, a central avenue where one can find banks, multinational companies, hotels and consulates. Other areas in the city worthy of mention are: Brigadeiro Faria Lima Avenue, and new districts in Brooklin and Vila Olímpia, in the west, which stand out because of their modern luxury hotels and multinational companies. This state capital was the tenth most expensive city in the world in 2011, according to a study measuring standards of living for expatriates by the consulting firm Mercer, 11 places above its 2010 position and ahead of cities such as London, Paris, Milan

and New York. Furthermore, the city is growing and that quickly increases costs, making the luxury market more and more relevant to the city; so much so, that Mystery Shopping International elected Oscar Freire Street one of the most luxurious in the world. São Paulo is also considered, by *Forbes* magazine, the sixth city in the world in its number of billionaires.

In summary, São Paulo is the country's largest and foremost city and the one that will lead Brazil into the future. In 2025, it will be the fifth or sixth wealthiest in the world, with 21.4 million inhabitants, doubling its GDP over that period to reach US\$782 billion, overtaking Paris and London, for instance. In the luxury segment, it is Brazil's main city, representing 70% of its luxury market, and should grow another 35% over the next five years.

### **7.1.1 Comparing São Paulo to New York**

To try to explain the connection between luxury and New York City, it is necessary to think of the term exclusivity, which could be perceived as hard to replicate. That is why exclusivity is one of the pillars of luxury. It is a filter that allows one to refine one's view to discover what can only be found in New York.

When I asked, 'What is luxury in New York?' I got interesting but polarized answers, from 'Not having to wait', to the advantage of having all of the world's luxury brands in one place, to simply, 'Luxury is Central Park'. This is a small example of trying to define luxury as widely as possible, and not only in New York. The material is tangible and can be measured and calculated, but on the other hand there is the immaterial, the intangible and the subjective to take into account.

Still on the quest to find what personifies luxury in New York, one must travel from the visible, which can be measured and calculated, to what is hidden but there in the detail, out of reach for being less obvious. What is visible and can be seen is in its traditional and boutique hotels with lounges and rooftops that delight in the summer and are just as elegant in the winter; it can be seen in the department stores and luxurious avenues, such as Madison and Fifth, as well as in the many safe, green parks.

It is shown in the wide array of culture, its many museums, concert rooms, concert seasons, operas and ballets or its innumerable art galleries. It can be seen in the private art clubs, for instance the

National Arts Club in the heart of the sophisticated Gramercy area, and in entertainment, such as Soho House. It is in the hip neighbourhoods, in Soho or West Village, or more recently East Village – until another new area becomes the latest fashion – filled with restaurants, obvious or not, its brick buildings and its famous walk-ups. Soho has a charming mixture with most brands in its department stores, and a little extra. An open-air shopping mall, hosting street shops that are icons, such as Prada's flagship store, launched in 2001 in a US\$40 million project by designer Rem Koolhaas, in an area of approximately 2000 m<sup>2</sup> surrounding an arm of Soho's Guggenheim Museum. Across from it, there is the principal unit of the coffee shop chain Dean and DeLuca, a cross between a café and a mini-market, with a huge array of products ranging from edible flowers to an offering of truffled salt. A few blocks away, one can walk into McNally's local bookstore where there is a charming café surrounded by books hanging from the ceiling, and then one can find many charming and almost secret restaurants, small and noisy, but cosy, with exotic and delicious cuisine, such as Café Gitane. This is not to mention the great number of art galleries in the area. It is luxury of the crème close to the crème.

On the list of boutique hotels, Soho has its share, along with those in Tribeca, in its revived Meatpacking District and even on the Lower East Side. Taking the elevators of the Standard Hotel is a ludic experience that takes you up to one of the most sought-after rooftops in town. Still higher, Gramercy Park Hotel is in a residential area where one can find sophistication and a large number of good restaurants, such as the Gramercy Tavern, as well as one of the most charming parks in the city, lending its name to the hotel there, Gramercy Park. The hotel is sumptuously decorated in bright colours in crystals and velvets with sophisticated designs, displaying handmade furniture made by artists from several ages in a powerful combination of elegant traditional and modern styles. Further north, the 52nd floor of the Four Seasons Hotel holds the Ty Warner Penthouse, designed by architect Im Pei for the tycoon Ty Warner, who invested US\$50 million for the hotel suite with the highest daily rates in the world, *Wealth Bulletin* speculates that its daily rate is around US\$35,000. It has a 360° panoramic view of all of Manhattan Island, from Central Park to the Statue of Liberty. On the Upper East Side, in an area containing some of the best and largest museums in the

world, The Mark is a traditional hotel, home to the restaurant Jean Georges. It is possible to live in the hotel, in one of its apartments worth tens of millions of dollars. The Carlyle is even more luxurious and is preferred by people who appreciate art, luxury, sophistication and old-world charms.

Next are the department stores with a profusion of luxury brands and salespeople who are willing to serve you in the city's typical style, pragmatic and straightforward, with no extra niceties, such as offering coffee. Here one can find anything from a cosy restaurant, like Fred's at Barney's, to Chanel cotton-wool boxes at Bergdorf Goodman, where a stop at their café or restaurant will afford you a pleasant view of Central Park. Here, in the north of Manhattan, the Upper East or Upper West Side, there are apartment flats with breathtaking views in one of the safest areas in the world, where prices can easily reach tens of millions of dollars. Back to the south of Manhattan where a 500 m<sup>2</sup> apartment in Soho, with a five metre high ceiling and a spectacular view of the Empire State Building, can fetch US\$50,000 per m<sup>2</sup>.

And restaurants with prize-winning chefs? Yes, there are many. The latest one to open is around the Lincoln Center, where the renowned chef Jonathan Benno cooks, famous for having worked at Per Se, Daniel and other restaurants.

When you go shopping, don't expect to be flattered by assistants offering coffee or champagne. The luxuries found in São Paulo, in the shape of time and friendliness, have no place here. However, if you are in a hurry on one of your few days visiting town, you will certainly appreciate the practicality its assistants. What a New Yorker appreciates is not having to wait.

Going down Madison Avenue you can walk along at least 15 blocks of *flagship* stores of famous luxury brands, from Hermès to Valentino, Dior to Giorgio Armani. But New York is much more than just sightseeing. There are hidden chances to explore in every detail. It is New York's intangible side that complements its identity, just like a product. The city hides surprises everywhere. From restaurants where you have to fight to get a table, to hidden treasures in the streets of West Village, or crossing a bridge to get to a charming area like Williamsburg.

If you have the stamina, you can cross the Brooklyn Bridge on foot, by bicycle or even running. There are hidden bars in attics without



any signs. Visits to the streets on the Lower East Side and its first deli, the Katz Deli, are not known as traditional tourist visits, but can be charming.

Take an modest walk down Broadway and you will see squares that come to life in the summer: Madison Square on the corner with 23rd Street, Union Square on 14th and changing course a little you can reach the very lovely Washington Square. On the other side, at the Upper East Side, an gentle stroll down Madison can be even more pleasant if you have time to spend at a café, around 66th Street, close to where you can find the ubiquitous Central Park, dividing the Upper East from the Upper West.

In the city's central area, there are more luxury stops around Times Square with 42nd Street. Bryant Park, between Fifth and Sixth Avenues is an obligatory stop for a coffee or a brunch at one of the park restaurants, but you might prefer to eat 'city style', buying your meal at one of the town's many delis and choosing a pleasant spot under the shade of a huge tree.

A routine New York working day should include a fast walk while admiring the green colours in the park. The comedy *Morning Glory*, starring Harrison Ford and Diane Keaton, shows the characters frenetically attending meetings there. Movie-going can involve watching films in which you recognize places you have been or where Michael Douglas in *Wall Street* goes down the station at 66th Street, where you can find the Lincoln Center, a must for a cultural stop. What about the initial scenes of *Breakfast at Tiffany's*, where Audrey Hepburn has her morning meal across from one of the most studied jewellers in the world, in a very characteristic New York fashion?

Coffee is drunk standing up, American-watery style. A far cry from the much tastier espresso coffee found in the many enchanting cafés in São Paulo, do not expect to find many of those in New York. Of course, you will find them in the New York fashion: quickly served and go, with a wide range of products that must be sold to pay for the most expensive square metres in the world.

Still going down 42nd Street, just after Bryant Park on the corner of Fifth Avenue, there is the magnificent Public Library. Further ahead is the even more impressive Grand Central Station, completely restored to its original 1913 structure, where there are five restaurants, 50 shops and clothes stores, as well as the heart of New York's public transport. Go in and enjoy a cappuccino at Cipriani Dolci

to admire the huge space. Luxury is in each detail as well as in the experience. During the summer months, the best parks host attractions, including screening open-air movies. The Lincoln Center gives opera samples in its fountain square. And it is all free, safe and slick.

At one of my visits to the city I came across an exhibition in a discreet locale on the sophisticated Park Avenue, it was the Spanish Institute holding an exhibition on Cristóbal Balenciaga. At the Metropolitan Opera House everything is a feast for the eyes, especially the crystal chandeliers that are raised when the curtains open to start the shows. Have you ever stopped to see the lights at the top of the Empire State Building, or know what the colours stand for? Here I digress back to São Paulo, where colours and lights are gradually being added to monuments, traditional towers or bridges, as for instance the new bridge, Ponte Estaiada. Can we compare a view of Central Park to a view of Ibirapuera Park?

Both São Paulo and New York allocate limited and exclusive areas of greenery. Access to them is democratic, except when that access conflicts with some of the few views from above, from buildings across the parks. São Paulo is similar to New York when considering the valourizing of its green spaces. In New York the broad sidewalks limit the space for cars to pass. Cars are replaced by pedestrians walking on sidewalks that are probably double the size of a sidewalk in São Paulo. So, taking a stroll in New York becomes an agreeable event where travel is a minor concern, due to shorter distances and the advantages of an affordable and developed system of public transport, but especially due to security.

When comparing São Paulo to New York, the greatest difference one can observe is in terms of security, a scarce commodity in the former nowadays. So that brings us back to one of the pillars of luxury: scarcity. Delving further into that subject, the subway reflects the two greatest differences: convenience and safety.

Walking along the streets in New York at any time is not an issue for safety reasons. The cold weather might well keep you away from the streets, but not security. A luxury for those living in the unsafe conditions people feel in São Paulo nowadays.

The second luxury to be found in New York when compared to São Paulo is convenience, which means that driving a car is not as necessary, therefore traffic is better and life is more practical. As a bonus,

that saves time. Time, once again, is a luxury article. But then, where is luxury to be found? It is in democracy, in accessibility, security, time, in preserving the anonymity of people considered exceptional to be placed in the same context as someone considered common due to a different name, birthplace or financial resources. Luxury, therefore, is the sum of all these experiences that allows us to appreciate the greatness of the city and its democracy. The city is throbbing with life, just as are São Paulo, London, Paris and Milan. There is a wealth of experiences on offer and the dichotomy between democracy and availability, secret and exclusive, east and west, uptown and downtown, anonymous and total exposure, all make New York the most desired city in the world, where it is said that anything can happen.

### **7.1.2 Ana Teresa Sampaio**

Ana Teresa lived in New York for two years, where she experienced the city's throbbing pulse and discovered the world of fashion when working for fashion and luxury companies, and at New York Fashion Week. With her great character, she was successful at doing what she could and going where she would, and she has shared some of this with us above. She used to work for Van Cleef & Arpels and at the moment, she is working for Bottega Veneta in São Paulo.

## **7.2 Rio de Janeiro**

Over 50 years ago, when this city lost its position as the nation's federal capital to Brasília, it also lost its status, along with the benefits and prestige of being the political capital. After going through economic and social decline over the past five decades, Rio is now looking forward to unique development as a result of hosting two major sports events: the World Cup 2014 and the Olympic Games 2016, as well as the expectation of growth in oil production, making this decade a very special one for Rio de Janeiro. The federal government estimates that the Olympic Games will bring in US\$1 billion of business up to 2016 and 15,000 permanent employment places in Rio. According to the 2008 report by census bureau IBGE, the GDP in Rio is 5.1% of the Brazilian GDP, the second largest in the country, with R\$154 billion. The service sector shows the busiest economic activity, with 74.7%, followed by the administrative, health, public

education and social security sectors with 15.1% and then the industrial sector with 10.3%.

The IBGE census from 2010 reports that the city occupies 0.01% of national territory and has around 6 million inhabitants, 3% of Brazil's population, and is the second most populous city in the country. Of its population, 49.9% are between 25 and 49 years old, an age range considered productive in terms of labour. The IBGE census of 2009 reported that Rio's labour-productive age range is 94.5%, well above the national average, while its unemployment rate was 5.5%. Rio de Janeiro is the capital city of the state with the same name and one of the main destinations for foreign labour coming to work in Brazil. Between 2006 and 2009, two out of five applicants to Brazil obtained authorization to work in the state of Rio, and the figures during that period show a 65% increase.

Rio de Janeiro's population is proud of being *carioca* (from Rio) and its city has a labour force with the one of the highest rates of school education in the country. In 2009, approximately 65% of employees were high-school graduates at least. An interesting point refers to the city's educational wealth, as there are six international schools: two North American schools, Escola Americana do Rio de Janeiro and Our Lady of Mercy; the French Liceu Molière; the German Escola Alemã Corcovado; the Swiss Escola Suíço-Brasileira Rio de Janeiro; and the British school Associação Britânica de Educação. In 2008, 44% of the population between 18 and 24 years old were in further education. The *Financial Times* published its ranking in 2012 of the 100 best MBAs in the world, and the only school in South America was in Rio de Janeiro: Instituto COPPEAD, part of the federal university in Rio UFRJ, which appeared in fifty-first place.

This city is going through its most important decade and its power can be measured by taking a look at its infrastructure. The port in Rio de Janeiro is the fourth busiest for moving containers and eighth for cargo in 2009's national ranking. The two airports placed Rio in second place in 2009 for catering for 20% of the number of passengers on international flights and 18% of the total number of passengers in Brazilian airports, which equals nearly three times the city's population.

The city is home to the greatest media company in the country, Globo, the main national broadcasting company; it is also central to culture, arts and information in Brazil. The state has the highest oil

production in the country, with 85% of national production, and is the largest producer of natural gas, with 49.7% of national production. It is home to the largest Brazilian company.

Rio has grown a great deal recently, particularly in relation to the luxury market. Luxury brands – excepting Montblanc, H. Stern, Osklen and Louis Vuitton – had given up investing in Rio. That changed with the arrival of Armani, Chanel and Daslu; the launching of Leblon Shopping Mall; the revival of Fashion Mall; and, in 2012, the opening of the Village Mall.

There is a peculiar trait of the *carioca* luxury consumer that is typical of only a very few other cities. Bear in mind that the best brands have shops along the shore, they leave the beach in their swimsuits and do not mind going into a jeweller's shop before going home. That shows how the *carioca* consumer has a touch of informality, besides the other common demands pertinent to Brazilian consumers.

### 7.3 Brasília

Brasília is the current federal capital, the political centre of government in the Brazilian Federal Republic, and enjoys the benefits enjoyed by the capitals of all great nations. In 1960 the central government was transferred to Brasília, the geographic heart of this large country. The objective was to stimulate development around the country, removing centralization and distributing industry and trade to regions other than those around Rio de Janeiro, the former administrative capital. Its economy is based on the civil service, giving it the highest income per capita (shares that each inhabitant would earn if the GDP were to be distributed equally among the population) and the highest HDI (Human Development Index) in the country. That brought speedy economic growth to a city that had only existed for 50 years.

The income per capita is more than three times the national average, R\$40,696 against R\$13,515, according to data from 2007. Although Brasília's economic power is based on the high salaries of public servants and politicians, the population living in its metropolitan area is reported by IBGE to be made up of migrants (51.4%), mostly from

the northeast (25.4%) and southeast (14.2%) of Brazil. This population left its original birthplace in search of better standards of living, but due to their low qualifications found jobs offering low pay. The population is also made up of construction workers attracted to the city at the time of its original development who stayed on to benefit from its better labour and residential conditions. The composition of its population put it in sixteenth place among cities with the highest social inequality in the world and fourth in the country. Studies by the United Nations and the IBGE looked at the 30 administrative regions that make up the federal district. Despite the capital's social inequality, social economic indexes are the same as those of first-world countries. According to the latest study by the UNDP (United Nations Programme for Development) Brasília's HDI is 0.844, an excellent rate. Of the 19 administrative regions, 12 showed high HDIs and seven were average, none of them had a low HDI.

The IBGE also reports that in the *distrito federal* (federal district) 98.2% of urban residences have a garbage collecting service, 95.4% are connected to a general water distribution network, 99.8% are directly connected to a sewage system and 100% of the residences are supplied with electricity. This shows that, despite wide social and economic differences, even citizens with low buying power enjoy the quality of infrastructure that cities like Rio de Janeiro and São Paulo only dream of. School education rates are the highest in the capital, where 98% of the children between 7 and 14 are students, which means that illiteracy is only 3.37% against a national average of 8.25%. That is the scene in Brasília, similar to the greatest cities in the world with high-income individuals, represented here by the civil service, the ideal scene for a luxury market. Due to all that, it is considered the most promising city after São Paulo and Rio de Janeiro. Another important aspect about the prosperous period it is going through, especially for the luxury market, is how the population has a growing appetite to consume, however, this is limited as it is still a young city. On the other hand, the capital city has been growing economically, fast enough to put it in a relevant position in the Brazilian market.

At the end of 2009, Park Shopping mall invested R\$130 million to expand and opened a new wing with 78 exclusive, high-end shops, out of which 35 were new to the capital. In March 2010 Iguatemi

Brasília mall opened with a turnover of R\$250 million in its first year. Moreover, the city attracted important international brands to its luxury market, such as Burberry, the British brand for luxury clothes and accessories, which chose Iguatemi mall to open its first shop in Latin America, and Louis Vuitton, whose very satisfactory results from its new shop in the capital mean a new shop may be opened by Sephora, the famous retailer for beauty products belonging to the LVMH group, which opened its first Brazilian shop in July 2012 at JK Iguatemi Mall in São Paulo.

As one can see, Brasília is among the most promising cities in the country and is a priority for sophisticated investors. Its luxury market there already offers chic clothing and accessories, gastronomy for the most refined tastes, elegant decoration and top standard hotels and spas. This market in Brasília is no illusion, as its residents are tired of having to go to São Paulo for their shopping. Brasília is going through a change and offers promise over the next few years.

## **7.4 Curitiba**

Curitiba is an international benchmark in sustainability and urban mobility. It was the most developed city in Brazil in 2012, according to IFDM (FIRJAN Municipal Development Index). It is the holder of the second highest HDI (Human Development Index) in the country, and a major national destination for business tourism. It is a host city for World Cup 2014, a test market for product launches, and all without losing its multi-ethnic and multicultural roots. This is Curitiba, our pride and a source of identity.

According to the 2010 IBGE Census, 2,469,489 people resided in the city of Curitiba. The census revealed 1,381,938 white people (78.9%), 294,127 brown (multiracial) people (16.8%), 49,978 black people (2.9%), 23,138 Asian people (1.4%), and 2,693 Amerindian people (0.2%). In 2010, Curitiba was Brazil's eighth most populous city. In 2010, the city had 359,201 heterosexual couples and 974 same-sex couples. The population of Curitiba was 52.3% female and 47.7% male.

As with most of Southern Brazil's population, Curitiba is mostly inhabited by Brazilians of European descent. The first Europeans to arrive during the seventeenth century were of Portuguese origin. They intermarried with the native people and with African slaves.

Since it was declared the capital of the State of Paraná in 1853, the city has gone through several major urban planning projects to avoid uncontrolled growth and thus has become an international role model in dealing with urban issues, including transportation and the environment. The city contains Brazil's second largest car manufacturer. Its economy is based on industry, commerce and services. For that reason, Curitiba is considered by many investors to be the best location for investment in Brazil.

The city receives more than two million tourists every year. Most arrive via Afonso Pena International Airport, where almost 60,000 flights land annually. According to IPEA data, the GDP in 2006 was R\$32 billion, without including agriculture and livestock (0.03%). Industry represented 34.13% and the commerce and service sectors 65.84%. Cidade Industrial de Curitiba, the industrial district, is home to many multinational industries, such as Nissan, Renault, Volkswagen, Philip Morris, Audi, Volvo, HSBC, Siemens and many well-known Brazilian industries.

## **7.5 Recife**

Recife is the fifth largest city in Brazil with 3,743,854 inhabitants, the largest metropolitan area of the north/northeast region, the fifth largest metropolitan area in Brazil and the capital and largest city of the State of Pernambuco. The population of the city proper was 1,555,039 in 2012.

Recife is located where the Beberibe River meets the Capibaribe River before flowing into the Atlantic Ocean. It is a major port on the Atlantic Ocean. Its name is an allusion to the stone reefs on the city's shores. The many rivers, small islands and over 50 bridges found in Recife city centre characterize its geography and gives it the nickname, the Brazilian Venice. As of 2010, it is the capital city with the highest HDI in northeast Brazil.

The metropolitan region of Recife is the main industrial zone of the State of Pernambuco. The most relevant products are those derived from cane (sugar and ethanol), electronics and food. Thanks to the government's fiscal incentives many industrial enterprises were started in the 1970s and 1980s. Recife has a tradition of being the most important commercial centre in the north/northeastern region of Brazil, with more than 52,500 business enterprises in Recife itself,



plus 32,500 in the metropolitan area. This is a total of more than 85,000.

A combination of a large supply of labour and significant private investment turned Recife into Brazil's second largest medical centre (second only to São Paulo). Modern hospitals with state-of-the-art equipment receive patients from several neighbouring states. Like all other cities in the northeast, Recife is developing its tourist sector. The beach of Porto de Galinhas, 60 km south of the city, has been repeatedly awarded the title of best beach in Brazil and has drawn many tourists. Recife's infrastructure is among the most developed in Brazil for travellers and business people, though there is still room for improvement.

The city is also a renowned educational centre, and home to the Federal University of Pernambuco, the largest university in Pernambuco. Several Brazilian historical figures, such as the poet and abolitionist Castro Alves, moved to Recife for their education. Together with Natal it is the only Brazilian city with direct flights to the islands of Fernando de Noronha, a World Heritage Site since 2001.

## **7.6 Belo Horizonte**

Belo Horizonte is the capital city of the Brazilian state of Minas Gerais, located in the southeastern region of the country. In 2013, the municipality's population was 2,479,175, making it the most populous city in Minas Gerais State and the sixth most populous city in the country. However the city's metropolitan area, the Greater Belo Horizonte, is home to more than 5.15 million inhabitants (excluding the Metropolitan Attach, or the Expanded Metro area, which adds more than 650,000 people), making it the third most populous urban agglomeration in Brazil, after Greater São Paulo City and Greater Rio de Janeiro.

The region was first settled in the early eighteenth century, but the city as it is known today was planned and constructed in the 1890s, in order to replace Ouro Preto as the capital of Minas Gerais. The city features a mixture of contemporary and classical buildings, and is home to several modern Brazilian architectural icons, most notably the Pampulha Complex. In planning the city, Aarão Reis and Francisco Bicalho sought inspiration from the urban planning

of Washington, DC. The city has employed notable programmes of urban revitalization and food security, for which it has been awarded international accolades.

For a long time it was marked by the predominance of its industrial sector, but from the 1990s there has been a constant expansion of the service sector economy, particularly in computer science, biotechnology, business tourism, fashion and the making of jewellery. The city is considered to be a strategic leader in the Brazilian economy. The move towards business tourism transformed the capital into a national hub for this segment of the tourist industry.

# 8

## Challenges for the Luxury Market in Brazil

In this chapter we will assess the obstacles facing luxury products that want to get established in this country. They might be diminishing but they still make Brazil less competitive when compared to other developing countries.

Two of the difficulties faced by the global market are 'banalizing' brands to democratize luxury and product falsification. Democratizing luxury is a company strategy to attract customers through more affordable products; falsification, on the other hand, is out of company hands. Brazil has taken a stand to fight falsification by forming the National Council against Piracy, which Europe and the US hold up as one of the best examples of developing policy to fight this type of crime.

Among the barriers faced by companies in Brazil are, principally: high taxes; the bureaucracy involved in opening a shop; the country's infrastructure, which is still underdeveloped; and social inequality.

### 8.1 Luxury democratization

Democratizing luxury is the process of reaching the average consumer by transforming articles that were once reserved exclusively for the elite consumer, and promoting the purchase of products that are not strictly necessary. This process results the production of globalized postmodern luxury that cannot be sustained purely by its traditional markets.

However, when practising this process, it is important not to forget one of the main features of luxury – exclusivity – to avoid

harming the major brands in the segment through the banalization of their products. In fact, one must take care to keep this process under control, because over-democratizing can affect the market and result in brand banalization. To avoid harming this powerful market, which has been contributing more and more to the economy, an option would be to adopt a policy of communication with smart and refined features focused on offering the target audience the qualified and personalized assistance they desire. Although exclusivity is preponderant in the luxury market, its democratization has a particular cultural aspect in this country: jewellery, watches and fashion are purchased in instalments. It is not something that can be changed, as it is a typical aspect of Brazilian culture, but luxury brands concerned about the future of this market can avoid vulgarizing or devaluing their brand.

To that end, brands such as Ermenegildo Zegna, have chosen to invest in increasing sophistication and in personalizing their products by offering their clients the chance to customize their purchases, allowing them to define certain details, such as placing a client's initials on a shirt. This is a strategy that offers individuality to the consumer and preserves a product's exclusivity while it confers greater legitimacy and prestige to the brand. This sophistication technique is also a response to a market threatened by fake copies, and a good strategy to fight falsification is stressing the idea that only an original product can bring a client the prestige he or she deserves, making them feel special by guiding them towards a fascinating and exclusive product.

Both the growth of this segment of luxury goods and the replacement of handmade goods by industrial manufacturing have contributed towards luxury's democratization by increasing its global presence, bringing luxury within the reach of many more consumers than in the past. However, I must again stress that this process must be done with special care so that luxury brands avoid damaging the exclusivity of their products.

## **8.2 Fighting falsification in Brazil**

Growing at the same pace as the luxury market, the market for fake products has also been surprisingly quick to expand to meet the high demand from consumers. It is an alarming issue because 70% of the consumers of falsified goods knew that they were acquiring illegal

merchandise, revealing the intention and awareness of their acts. Although it is hard to understand what really makes people buy fake goods, it is evident that the most desirable brands are those most commonly targeted to fake, such as Louis Vuitton, belonging to the LVMH group. Although consumers belonging to all classes buy these fake goods, and 70% of them have completed high-school and 23% have graduated from further study, they are not the brand's typical potential clients but are only hoping to gain status from the logos displayed on their fake luxury products.

It is notable that there are two kinds of clients for falsified products: those who are unaware and are attracted to the product itself along with its features and social benefits without understanding the strongly desired object; and those who are fully aware that their purchase of a fake product is an attempt to own the brand they really wish to display.

Logos on luxury products most often act as a label for those using or wearing the brands, a kind of declaration stating that a client agrees with the philosophy represented by that brand; it is the desire to belong to that closed group that makes a consumer (an aware one) buy a fake.

The luxury market is not the only victim, but it is the main target, and represents 5% of the total market for fake goods. Prices are between 10% and 50% of the original products. Fakes both imitate original goods and even include articles that are not found in a brand's original collection. Falsified products can be harmful to the luxury market because they destroy a brand's reputation for offering exclusive goods of superior quality, while they can also banalize its image. Of course they also go against trademark rights made to protect industrial property and pay no heed to the importance of legally registering a logo to protect it.

This market is estimated to represent an annual loss of more than €4 billion, and attracts global attention as an international phenomenon. Besides that, it causes real and intrinsic monetary losses: to the state because it is a clandestine activity and pays no taxes; to companies who lose their share of the market; to the consumers whose fake goods are of lower quality and who are stimulated to act illegally; and to the consumers of the original product whose sense of exclusivity is challenged by seeing a copy

of their own article – with the same logo – sold at a much lower price.

An example of an efficient measure against falsification was when Cartier implanted hi-tech devices in some of their products to certify their authenticity. Brands can do more: they can defend themselves in court by placing lawsuits against fake manufacturers and they can investigate local sales of pirated products. Fake products can be traded over the Internet as well as in shops or by street vendors. To avoid confiscation, shops can still trade fake goods, despite supervision: a client can choose a product from a catalogue and then pick it up from a 'warehouse', outside of the shop. It is harder to control the trade over the Internet because although traders can be ordered by a court to close down their site they can then start another one soon afterwards. Some sites still use a well-known method to influence consumers by naming their goods slightly differently to pass them off as copies instead of fakes, a rough comparison can be found in the market for generic medicine.

In Brasília, pirate goods are mostly traded at fairs for imported products; in Rio de Janeiro, they are traded in the *camelódromo uruguaiana* (a commercial space set apart exclusively for street vendors, called *camelôs* in Portuguese); and in São Paulo, the shops in Galeria Pagé, on rua 25 de Março in the downtown area, are famous for trading in pirate products, which can also be found in a shopping gallery on Paulista Avenue, as well as from the street vendors spread around the city.

A study researching this issue reported that eight in ten people admitted to having bought fake goods, and 55% of *cariocas* (from Rio) and 70% of *paulistanos* (from São Paulo) who bought such goods over the last 12 months knew the difference between an original article and its copy. That shows that most of the consumers have been in touch with the brand and often buy them when travelling abroad, therefore have strong buying power.

These fakes often come from countries such as China, Singapore, Korea and Malaysia (three out of every five batches of pirate goods come from these countries). They are also manufactured in Brazil, in small factories related to organized crime. In Brazil, the estimated trade of fake products totals R\$6.5 billion a year, and represents a loss of R\$1.5 billion in tax evasion.

### 8.3 Difficulties to Entering the Brazilian Market

Despite great prospects for the luxury segment, its growth in Brazil is too slow to make it a centre of international importance for luxury consumption. One reason is the heavy tax burden, around 60% for luxury goods, whereas in China and India the average tax is 20%. In the clothing sector, taxes charged range from 80% to 120% and in the jewellery sector between 28% and 44%. Translating that into currency, a vehicle costing the equivalent of R\$45,000 elsewhere can cost R\$75,000 in Brazil.

Due to such heavy tax burdens the Brazilian trader is unable to compete with trade in the same product abroad, creating an inconsistent situation for this segment, as the local industry needs the challenge of a more competitive international position instead of being protected by duties that reduce the consumption of such goods.

Not only is there the issue of taxes, but also development is too concentrated around the axis of Rio-São Paulo; the market is too bureaucratic and too complex; there is great social inequality and a lack of public safety, both of which inhibit one from freely wearing or carrying sophisticated items and consequently from buying them. Then there is the infrastructure, the main ports are saturated or close to their limit, as in the case of Santos which deals with 70% of the country's imports and exports. These are the many barriers represent a real threat to strong growth in the future by causing delays in decisions and actions by entrepreneurs who would wish to speed up their investments.

These hindrances can be observed in Figure 8, where they are presented according to the concerns they bring to the market and are also presented in segments and nationalities. What can be

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High taxes  
 Human resources  
 Difficulties in importing  
 Size of the luxury market (below 1% of the population)  
 Divulging the brand  
 Other obstacles

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*Figure 8.1* Main obstacles to brand growth in Brazil

understood from the graph is that the greatest barrier in most situations is the high taxes imposed, except in the case of services where there are other main issues to address.

Many of the luxury brands in Brazil face competition from their own brand abroad, as consumers see the product in Brazil where they try it on, but end up buying it when travelling abroad.



# 9

## The Potential of the Brazilian Luxury Market

This chapter discusses contemporary luxury and Brazilian market trends. Higher authorities in this segment dictate the style of this new luxury: European countries, followed by democratic regimes around the world. This new luxury relies more on the senses, based on pleasure and well-being and is not ostentatious. It explores feelings rather than appearances. This remodelling of luxury aims to stop inequality from being externalized by ostentation when wearing or using luxury articles, so as to suit the global democracy.

Before globalization, luxury products in shops and the beauty and infrastructure of those shops all belonged to a specific locale; now, however, the concept of luxury has acquired international scope, meaning that the same product can be found in different places around the world. It also means that companies invest in the layout of all their shops equally in order to affect their clients' emotions and to offer them the same unique sensation in every shop.

We analyse the trends of the Brazilian market and where trade tends towards luxury, commenting on each segment of the market. After all, these issues are crucial for the future of the market: analysing the concept of contemporary luxury while putting it into practice by observing Brazilian market trends.

### 9.1 The age of contemporary luxury

Contemporary luxury was created by a democratic age that exists alongside luxury democratization, a rise in the standard of living of

the middle classes and globalization. To adapt to this era, the new type of luxury must be perceived as having the highest standards of quality, with the best and most beautiful embodied in quality products and brands. This New Luxury represents a break from the former model, as it is associated not only with material wealth but also a general desire for material happiness and good living.

When Gilles Lipovetsky describes it, he explains that expensive brands are no longer bought because of social pressure, but by listening to one's own desires and for the pleasure one expects to gain from them, which will result from enjoying a quality relationship with one's objects and services rather than showing off wealth or position. That shows that New Luxury is linked to a new psychology of consumption that transcends the object itself; luxury consumers are searching for new experiences to which they attribute a greater value rather than seeking materialism as an end in itself.

Nowadays, it is noticeable that many people prefer to spend their money on experiences (restaurants, trips, entertainment) rather than on acquiring tangible goods. Contemporary societies have their reasons for consuming luxury and these are based much more on desiring what is rare, singular and out of the ordinary or on a uniqueness foreign to conventional shapes and standards. Therefore, New Luxury is not defined by possessing an object anyone could own; what matters to the luxury consumer is the experience one gains.

Besides the social, psychological and market forces affecting consumers of sophisticated goods, there are two phenomena that relate to the concept of New Luxury, although on different levels: *trickle down* and *trading up*.

*Trickle down*, according to economists, is a cycle of 'price reduction v. increase in demand', which occurs when the rise in demand for a product or service lowers its price, mostly because it encourages competition and allows companies to operate more efficiently. Although lower prices result in a reduction in family expenditure for those of lower income and allows them to acquire superior and more inessential goods, the effect has only a limited influence on the luxury market.

*Trading up* is when an increase in family income and uniform distribution enables those less economically fortunate to consume more sophisticated goods, so their influence on the luxury market increases.

Consumers are willing to pay premium prices for products and services of better quality than others in the same category, as long as it makes them feel good and contains an aspirational value. Even those from middle-income levels can *trade up* with some products and special services if they save from a *trickle down* in categories of less importance to them. The contemporary luxury market challenges the convention that the higher the price the lower the volume, as one can see that products in this segment have much higher prices than conventional goods but sell much larger volumes than traditional luxury. In fact, *trading up* encompasses so many categories and appeals to such a wide range of consumers that it has become an important and growing segment of the economy.

## 9.2 Trends in the Brazilian luxury market

There is a positive movement towards growth in the country, according to the economic indexes, attracting companies to this promising segment. The results of the past years have been favourable, ranking the country as the seventh largest consumer market in the world.

Economic growth has had important contributions from imports ranging from inputs to supply industries to outputs, including cars, machinery, electronics, cellular phones, clothes and more. Actually, data from 2011 show that the number of imported goods rose above pre-crisis level to a new record, reaffirming their importance for the economy and following a tendency to rise.

This trend is based on the joint efforts of private initiatives and the government to relieve the bottleneck and push the economy forward, which include the following: improving safety standards; flexibility in policies of reciprocal treatment for American visas (there has been a 62% increase in the number of Brazilians who obtained American visas in March 2012 and a considerable increase in the number of visas to Brazil requested by Americans, along with requests for labour visas for Americans wishing to live in Brazil); better conditions in airports and air services; more consistency (for goods and services); and a desire to obtain better skills for qualified labour.

The nation gained from this trend towards investment to improve professional skills in the segment and in recent years there has been a supply of courses for training and educating professionals from

the luxury market, culturally focused and with stronger awareness of the environment and social responsibility, all topped with the natural spirit of hospitality of the Brazilian people, which brings them closer to tourists with strong purchasing powers who are tired of the excesses of consumerism and artificial lifestyles.

However, to fuel the promising future of contemporary luxury in Brazil, one must understand Brazilian consumers, who look for luxury goods and services that give a meaning to their lifestyle. For this kind of consumer an acquisition should tell a story rather than send a message. Furthermore, clients from this segment are: willing to spend more; are more likely to be loyal; will recommend other clients when asked; are indispensable for spreading the word; will pay any price as long as they deem it worth the experience; want unique, sophisticated and exclusive memories; and want to benefit from their fortunes more than to show them off. To attract these clients it is necessary to sell passion, knowledge and exceptional experiences.

To meet the contemporary demands of the luxury market the Japanese *Comme des Garçons* created the position of an atmosphere director, an employee who takes care of the many details of a shop: from its location to its architecture; the music and aromas there will be inside; and the clothes the salespeople will wear in the shops representing the brand. There is a growing tendency to use this type of professional and this will become an important part of the Brazilian market.

There are still many opportunities worth seeking out in the luxury market to attend to the needs of its consumers. Tourism, for example, has only a 14% share of the luxury market, which goes to show that there is a good opportunity in the segment, but first it is necessary to invest in human capital to obtain a team of super-specialized professionals who can offer luxury assistance that will attract clients and keep them faithful to the brand.

There is also room for innovation with a new style of travelling – such as ‘geotourism’, cultural and educational, volunteer work or the new *slow travel* – which satisfy the desire to change one’s lifestyle. There are currently four cities that are exclusive destinations for luxury tourism in Brazil: Angra dos Reis, Búzios, Trancoso and Fernando de Noronha. However, there are other natural destinations which could please these clients: the Amazon, Foz do Iguaçu, Chapada

Diamantina and Lençóis Maranhenses; as well as urban locales, such as São Paulo, Rio de Janeiro, Florianópolis and Salvador.

Another area that requires investment is golf, in which there is global millionaire sport tourism. This tourist's average age is 37 and their annual income is US\$120,000, they seek new golf fields and new scenery for which he or she is willing to pay daily hotel rates above US\$400, plus US\$500 in sports activities, shopping, restaurants and hotel bars.

Another segment with positive tendencies is civil construction, which has put the country in second position as the best place since 2009 for leading construction companies to invest in and bet on high-end real estate investments, according to the Association for Foreign Investment in Real Estate (AFIRE). In the same segment, there is a very strong tendency to expand old shopping malls and build new ones. The current malls are visited by consumers with 79% in classes A and B, added to which is the increase in the buying power of class C, so there are plans to build new enterprises in new shapes: open-air malls, hybrid, closed-space entertainment centres and others. There were 430 shopping malls in the country (the state of São Paulo alone has 145 malls), employing 775,000 with a revenue of R\$108 billion. In 2012, 43 shopping malls were opened around the country.

Apart from this data, there are two facts that potentialize any tendency: the World Cup in Brazil in 2014 and the Olympics in Rio in 2016. The impact of the declaration alone that the Cup would be hosted here, pushed the country from twelfth to seventh position in the ranking of countries hosting most international events between 2000 and 2010, making room for companies organizing events in the luxury segment. The Cup effect will be responsible for increasing investments fivefold and the forecast is for R\$142 billion to be injected into the Brazilian economy over the next two years. Out of this total amount, R\$36.4 billion will be directly invested to guarantee the necessary infrastructure and organization for the event. A further R\$7 billion will be spent on operations and visits and another R\$98.79 billion should be indirectly generated from several sectors of the economy. These investments will certainly speed up growth in the industrial and labour markets. Table 9.1 shows the figures in each segment.

Table 9.1 Effects of the World Cup 2014 – investments

Where to invest	Billions of R\$
Transport	12.7
Stadiums	7.2
Airports and ports	6
Telecommunications	4.2
Security	4.1
Hotels	2.1
Hospitals	1.1
Total	36.4

Source: Valor Economico.

The World Cup will be the largest event ever held in the country. During the competition, the sector to benefit the most from investment will be tourism, with for 8 million foreign tourist visits predicted, taking Brazil 20 positions higher in the global ranking for the most visited destinations, from forty-third to twenty-third place, a 64.4% leap compared to 2009. This revenue is expected to reach US\$8.73 billion in 2014. Of the 12 host cities, Rio de Janeiro will have the highest funds (R\$2 billion) and Curitiba the lowest (R\$720 million).

The Olympics will be excellent for Rio de Janeiro, which should gain R\$11 billion in investment. One of the high points will be the renewal of the port area in the city, based on the revitalization model from Puerto Madeiro in Buenos Aires, and the building of luxury hotels and restaurants. The owner of the Rockefeller Center in New York (Tisham Speyer) alone will invest R\$200 million to construct a corporate building in the area. Investment will also have an effect on the states that surround Rio, and there is a construction forecast for a bullet train linking Rio to São Paulo with a R\$33.1 billion budget.

The World Cup and the Olympic Games are starting trends, and are attracting ‘designer architects’ to Brazil, such as: the German Ralf Amann, responsible for the Amazon Arena project in Manaus; the American Elizabeth Diller, designing the project for MIS (Museum for Image and Sound) in Rio; and the Spaniard Santiago Calatrava, designing the project for Tomorrow’s Museum in Rio. This trend will

*Table 9.2* Effects of the Olympic Games – main advantages

<b>Main advantages</b>	<b>%</b>
Improvement in infrastructure	40.3
Growing tourism	26.3
Improvements in the Brazilian economy	10.1
Increase in employment	10.1
More international presence	5.8
Other advantages	3.3
No advantage	2.2

*Source:* Firjan.

attract many more globally renowned architects to design projects around the country.

Rio's city hall, to meet the demands of the Olympics, has offered fiscal incentives to those investing in the hotel segment, granting tax exemption (for the taxes: ITBI, IPTU and ISS) for entrepreneurs launched by 1 April 2016. Through this measure they hope to solve the problem of a lack of 8,000 hotel rooms, many of which would be in luxury hotels. Furthermore, since Rio de Janeiro is hosting the World Cup final and the Olympics, it needs to establish 25 hotels by 2014, investing an estimated R\$1 billion.

These measures for the grand sports events at a time of strong economic growth have prompted the Starwood group – a hotel management with over 1,000 branches around the world but only six in Brazil – to look for partners in the construction of hotels in Rio de Janeiro, Belo Horizonte, Brasília and Fortaleza. The group will make deals with at least one of the luxury brands of Sheraton, Le Meridien, Four Points, St Regis, The Luxury Collection, W and Westin. Besides the Starwood group, there are nine other luxury hotel management groups announcing plans for expansion in the country.

The mere expectation from the events has increased income, expanded real estate credit, reduced unemployment and has brought growth to Rio de Janeiro and São Paulo, as well as the need for more property, which has caused a sudden increase in property prices in both Rio and São Paulo.

In São Paulo real estate sales in March 2010 were R\$1.5 billion, the highest since 2004, higher than the average gains from the main

financial investment portfolios. For at least four more years, the demand should keep pace and during that period property prices should keep going up steadily.

Rio de Janeiro has been hosting a growing number of tourists, both from within the state of Rio and from other states, and the luxury market has been expanding along Rio's lake district (Região dos Lagos, a strip of beaches facing the lakes along the coast of Rio de Janeiro where the *cariocas* go to relax on weekends and bank holidays).

Two luxury resort companies came to the district – in Cabo Frio, Club Med (France); and in Búzios, Breezes Búzios (Jamaica) – making a total investment of R\$270 million. These companies will attract more tourists from class A to the district. Cabo Frio currently hosts two million tourists per year, although it has only 83 hotels or *pousadas* (a term originally describing simple lodging equivalent to a B&B, or a simple hotel, although some have acquired a more sophisticated style). There is obviously a great demand, enough to double this number of guests, and so the Starwood group plans to invest there.

Cabo Frio also needs to expand its international airport to service charter flights from Chile, Uruguay, Argentina, France, Italy, Holland and from other Brazilian states, targeting class A tourists who will stay in Cabo Frio and Búzios.

The country has another strong growth sector in the renting and selling of helicopters. They are no longer a luxury article and, due to their many advantages, they have become a work tool, especially in the city of São Paulo where violence is a concern and the traffic is chaotic. Helicopters are most commonly used to transport executives, for public security services and for civilian defence forces (police, firefighters and public figures), for medical transportation, air taxi companies, offshore services, military missions and media companies.

Another new but steadily growing market is in the marine segment. The Italian group Azimut-Benetti, who manufacture luxury yachts in 67 countries for consumers willing to spend between R\$1 million and R\$3 million on yachts over 40 feet long (around 12 metres), will invest R\$200 million estimating that around 150 yachts of that kind should be sold per year in Brazil. A rival group, Ferretti Brasil, plans to expand operations to triple their production by 2015. A special



addition by this group was the launching of a showroom measuring over 1,000 m<sup>2</sup> at Cidade Jardim shopping mall (in a shop called Tools and Toys) to exhibit yachts, helicopters, automobiles and luxury articles. There is also an American group, Brunswick, preparing to enter the country for a share of the market; and Schaefer has announced an expansion in its production to compete with its rivals.

What one notices nowadays is a tendency for millionaire enterprises to come to unlikely cities, where business can be established between São Paulo and Beijing or Mumbai and Dubai, with unlimited possibilities. Some years ago, practices were different: to build a US\$1 billion sales company it would be necessary to have contacts in New York or London to go through the financial markets and to know the right people to raise the funds required. Unilever do Brasil intends to become the largest branch in the group by 2020. This is the same path as that followed by brands who set up businesses in emerging countries, which branches were then able to help them in times of crisis.

Chanel, for example, has different targets for the Brazilian market because its seventh largest consuming population abroad is Brazilian. Louis Vuitton is following a similar path, with six shops in the country, consolidating operations in São Paulo, Rio de Janeiro and Brasília. Brazilians are in the global ranking of the ten most important clients for Louis Vuitton, and they are expanding operations with the launch of a 1,200 m<sup>2</sup> global store. In this shop, a client will be able to personalize their product by choosing the type of leather, its colour, metallic details and even the pattern of the lining. They have opened two more shops in Rio de Janeiro (Village Mall) and in Curitiba (Pátio Batel mall).

Another important group hoping to overcome their difficulties importing to Brazil is PPR (Pinault-Printemps-Redoute), who launched their boutique shops in São Paulo and Rio de Janeiro in 2012 and will soon be expanding to other Brazilian cities.

Finally, there is a tendency towards VIP luxury that has been growing and gaining support in hidden shops, restaurants away from famous points and beauty salons opening in improbable places. These are a kind of club that only accepts members who have been highly recommended by their only form of advertisement, word of mouth. These establishments have no signs announcing their address and entry is only achieved by ringing a doorbell and being attended

to by a shop assistant with whom the client has a personal acquaintance, or sometimes by the owner. That was how Daslu started. The restaurant Chez Airys in São Paulo also has this profile as it only caters for reservations and selected people and works in the famous chef's own house, where chef Airys Kury offers an explosion of experiences, ranging from the decoration to the menu.

# 10

## Successful Brazilian Enterprises

This chapter evaluates the increase in worldwide respect for the Brazilian luxury market by examining the most celebrated Brazilian enterprises in each sector. Understanding the direction taken by these companies will reveal the secrets of success in the luxury segments. In fashion, the celebrated enterprise is Daslu; in aviation, it is Embraer; in hotels, Fasano Hotel; in jewellery, H. Stern; in the marine segment, Schaefer; in health services, Albert Einstein Hospital; and in the financial segment we survey Safra Bank.

These enterprises have all achieved an excellent benchmark as a reference for other companies in their respective segments and for anyone interested in learning about their corporate success. All of them have features in common: strategies that continually aim to offer excellent service; innovation in product design and meeting client demand for novelty that attracts customer admiration; becoming a reference in their field with a prestigious image.

### 10.1 Daslu

In 1958, Lucia Piva de Albuquerque and her partner Lourdes Aranha started a home business selling products to their friends in a newly developed, elegant, residential neighbourhood in São Paulo called Vila Nova Conceição. In the 1960s this business grew so much it filled the whole house and, now called Daslu, spread to neighbouring houses. The business retained its appealing style as a 'residence' with bright rooms and charming conservatories. There were no shop

windows or signs on the door. Daslu believed in personal assistance for their clients and their only advertising was by organizing exclusive fashion shows, developing catalogues to show their collections and, later, releasing a customized fashion magazine.

Until the 1980s, Daslu traded exclusively in Brazilian brands. After Lucia died, her daughter Eliana Tranchesi took over and proposed changing some aspects of the business, among which was the creation of their own clothes brand. Around the 1990s, Eliana's sense of entrepreneurship led her to bet on the male fashion market and she also included luxury articles and decoration on the list of products for sale.

In fact, Daslu was responsible for bringing important fashion brands to the country, such as: Dolce & Gabbana, Giorgio Armani, Louis Vuitton, Christian Dior, Prada, Chanel, Burberry, Salvatore Ferragamo, Gucci, Fendi, Chloé, Cacharel, Yves Saint Laurent, Goyard, Tom Ford and Tods. Her initiative showed that Brazil was an interesting market for luxury fashion. Nevertheless, as the shop attracted more and more attention, the neighbourhood association in Vila Nova Conceição ordered her to leave that location, a residential area. Thus, in 2005, the enterprise moved to a space that had been built especially for it, in the newly developed area called Vila Olímpia. This 20,000 m<sup>2</sup> space, decorated in a neoclassical style, was named Villa Daslu – a true 'temple for consumerism' – and sold over 60 famous brands. From February 2008 to February 2010 BR Malls, the largest company in the country for administering shopping centres, ran Villa Daslu, a shopping mall containing 70 shops annexed to the Daslu luxury boutique.

Not only was Eliana responsible for opening the way for international brands to become successful in Brazil, but she also helped develop national fashion brands abroad with the showroom for her brand that she opened in Paris, in the hotel Plaza Athénée. When the economic crisis developed in the northern hemisphere, the enterprise started to have trouble. Eliana Tranchesi was charged with tax evasion and import fraud in a police operation called Operação Narciso in 2005, and was sentenced to 94 years in prison. She was arrested but was released soon after it was revealed that she was suffering from lung cancer. Affected by the financial crisis, Daslu officially requested 'court recovery' in July 2010 in order to stay open and pay off its tax debts. In February 2011, Laep Investments bought

the company and invested in a virtual Daslu shop and another branch in Rio de Janeiro's Fashion Mall. When they opened in November 2011, sales exceeded all expectations for that month.

Eliana Tranchesi passed away, aged 56, in February 2012, from complications due to lung cancer.

*Daslu is a marketing case study and was responsible for starting the luxury market in Brazil.*

### **10.1.1 A tribute to the Late Eliana Tranchesi**

On this day, the day of the death of Eliana Tranchesi, it is not enough to keep respectful silence. Women as entrepreneurial, visionary and courageous as she was deserve much more than that; they deserve a majestic casket and an emotional funeral with sorrowful tears. I will not listen to those who report fiscal debts, for the Brazilian Revenue owes Eliana much more than she ever owed in taxes. It owes her for catching the attention of the whole world and opening their eyes to the Brazilian luxury market. Not only did she attract markets for foreign brands – which Eliana brilliantly assembled in a single temple in São Paulo, Daslu, unique on the Earth and unparalleled in any other capital in the world- but the market for luxury produced in Brazil. For one thing leads to another. Once foreign brands were brought here at her initiative, national manufacturers saw the opportunity to produce luxury goods, too, competing for the same market. Soon, they either placed their products at Daslu or dared to invest in their own luxury stores. As a consequence, Brazilian luxury brands sprouted up all around the country, and several multibrand stores followed the example set by Daslu, prospering not only in capital cities but in all major cities.

They are now everywhere, as if they were Daslu's offspring, selling, employing people, producing, and generating revenue; and they are all the fruit of the insights of this extraordinary woman who worked tirelessly, in silent dedication.; a woman who never spoke up to defend herself. She was discreetly and quietly focused on her work during the 24 hours of her days, from early mornings to late nights, dedicating her time exclusively to her true and only 'child': Daslu. She started a pattern, a business model. She even conceived the concept of Dasluzettes (as the female shop assistants were affectionately nick-named at Daslu), and for the first time in Brazil, one could see people with highly respected surnames virtually fighting

one another for the privilege of working as saleswomen in her store. That also brought dignity to the activity which was, previously seen as a second-class profession.

As Eliana's declared admirer, when the world collapsed around her, I took a plane and went to Sao Paulo, expressly to hug and support her. Although I was not so close, I wished to express my sympathy and admiration.

When I arrived at her beautiful store and announced my presence, Eliana interrupted her very busy routine – I know what that costs for such a busy person – and she kindly met me, at the Valentino store, I think. We greeted each other, hugged, spoke of my great admiration towards her and stayed away from the subject in the headlines. She knew, though, why I was there. That was the last time we met...

Eliana collected and spread out pioneering concepts in the luxury and fashion trades, in a country where the entangled laws and bureaucratic maze can immobilize and virtually make it impossible for any special achievement to take plight. I'm not trying to justify the unjustifiable: bending the law. However, anyone in the business knows that it is virtually impossible for a visionary entrepreneur and dreamer to grow and to expand under the heavy burden of Brazilian labour laws and taxes, which often work only when palms are well 'greased' ...

Brazil, however, is changing. It seems that is; hopefully it is. I can only hope that the death of Eliana Tranchesi, a cancer victim of humiliation, will serve as a warning of the urgent need to perform fiscal reforms, as the latter have been comfortably lying in wait in Congress.

### **Hildegard Angel**

Hildegard Angel is one of the most highly respected journalists in Rio de Janeiro. For over 30 years she was a columnist for the newspaper *O Globo*, writing about society, the arts and TV and, for more than a decade, she was responsible for its first column reporting on television programmes. Over the last years, she has had a daily column in *Jornal do Brasil*.

## **10.2 Embraer**

Embraer (Empresa Brasileira de Aeronáutica, or Brazilian Aeronautical company) was founded on 19 August 1969 and was privatized in 1994.

It is now the third largest manufacturer of commercial airplanes in the world, having produced 4,000 airplanes by 2009, with a fleet that flies to more than 60 countries and employing 17,000 people (85% of whom are in Brazil). In 1999 and 2001 it was the largest Brazilian export company and from 2002 to 2005 it was the second largest. The main voting stockholders in the company are the pension fund PREVI (Banco do Brasil) and Companhia Bozano, which own 21.8% of its stock between them.

In 1999, Embraer formalized a strategic alliance with the largest European aerospace companies, Snecma, EADS, Dassault Aviation and Thales, who are now owners of approximately 20% of their open capital. This alliance enabled the company to enter some of the most competitive markets.

The company's success started with the first planes to be popular abroad: the Bandeirante and the Xingu, helical turbines that took over the Brazilian and North American markets in that category and projected the company's name as an international industry for regional and commercial aircraft. However, as a government company it was making a loss, so the federal government auctioned the company in one of the many bids organized by the national bank for development, BNDES, and nowadays it is a powerful and very profitable group in an extremely competitive market.

This Brazilian company now shares 45% of the global market for regional transport jets and has a whole family of successful commercial airplanes. The pioneer craft was the Brasília EMB-120, and soon after the ERJ-135 (a jet for 37 passengers), ERJ-140 (a jet for 44 passengers) and ERJ-145, for 50 passengers, besides the new larger versions: EMB-170/175, EMB-190/100 and ERJ-190/200, for 70, 98 and 108 passengers respectively, and the EMB-195, holding up to 118 passengers. Besides its commercial aircraft, the company has an important role in Brazilian military air strategy, 50% of whose fleet are models manufactured by Embraer. Dozens of other air forces around the globe also use their military aircraft.

This enterprise announced its entry to the world corporate market in September 2001, when it delivered its first executive jet, the Legacy, based on the ERJ-135. Embraer competes for a share in the market for average-size executive jets and has sold hundreds of airplanes. In 2003, Embraer partnered the German company Liebherr Internationale, and they now include Embraer Liebherr

Equipamentos do Brasil S.A., a company dedicated to the segment for landing gear and hydraulic components. Embraer's main activity in 2006 was the certification of the EMB-195, which holds up to 118 passengers and can fly non-stop for just under 4,000 km. Embraer's headquarters are in São Paulo state and the manufacturing plant is in São José dos Campos. Since it was founded, Embraer has been able to convert science and technology into an industrial and engineering capacity, to reach a new standard for industry and technology. As of 2004, when their family of new commercial jets, EMBRAER 170/190, started operations, not only did the company definitively confirm its presence in the executive aircraft market by launching innovative products, but they also expanded operations in air services, establishing a solid basis for developing the company's future. Based on a global portfolio of clients and important partners of international renown, Embraer has contributed to the integration of the world through aviation, reducing distances between people and nations, offering the most modern technology, versatility and comfort in aircraft.

### **10.3 Banco Safra**

If you choose to sail the seas of the banking system, then you should build your bank as you would build your boat: solid, to safely face any storm.

– Jacob Safra

Safra Bank was founded in 1955 by three brothers from the Safra family: Moise, Edmond and Joseph. As they were of Jewish descent, their bank became the favourite among the Jewish community living in Brazil. Nowadays, the institution belongs to Joseph Safra, after he bought out his brother Moise. Edmond sold his share a few years after it was founded then he moved to Switzerland in 1956 and six years later to the United States. In 1966, Edmond founded the Republic National Bank, in New York.

When they started financial operations in Brazil, the Safra family understood techniques that were unknown to Brazilian bankers. The family came from a region where trade and its financial instruments had developed over hundreds of years, whereas in Brazil financial techniques were still just developing in the early 1960s. They were



the first to use bills of exchange and to pay interest to those who deposited their money in their bank, the equivalent of an interest-bearing account. Only two years after the financial company was founded it became the largest in the country.

Philanthropic acts by the Safra family include:

- They bought Einstein's Theory of Relativity manuscripts at an auction and donated them to a museum in Israel.
- Five bronze sculptures by Rodin were donated to the Pinacoteca do Estado art museum, in São Paulo.
- Invested US\$2 million in cultural projects in 2011.
- Constructed the largest synagogue in São Paulo.

Banco Safra ended activities in 2011 with a net profit of R\$1,254.4 million, 19.7% above the R\$1048.1 million registered during the same period in 2010. It is among the ten largest Banks in Brazil and its headquarters are in São Paulo.

#### 10.4 H. Stern

Hans Stern, a young German Jew who had moved to Rio de Janeiro, founded H. Stern in 1945. Nowadays the company owns 165 shops and supplies another 170 sales points in 32 countries. It became a successful Brazilian company for selling jewellery, only behind Tiffany in the *top of mind* survey (41%) among jewellers in Brazil. It is H. Stern who has the strongest influence among consumers under 25 (31%), registering a promising future for the brand. The preference for the brand and its success are due to: their concern with launching innovative designs; daring advertising campaigns; new collections launched frequently; and a social media presence with their blog, Twitter and their Facebook page.

Moreover, hoping to gain the admiration of their public, the business offers a dive into the creative process of manufacturing jewellery by organizing guided tours of their studio where visitors can see the process step by step. The brand is renowned for its quality and its innovative work. Since it began, its demand for quality was almost obsessive, so much so that the founder of the company brought technical experts in jewel-making and stone-cutting from Europe to the company in the 1940s. In 1947, the jewellery company

innovated by launching its international certificate to guarantee the quality of each piece. Besides the enterprise's concern with assuring product quality, H. Stern has always focused on providing excellent service, investing heavily in training its sales teams, and has brought specialized education to their salespeople at their corporate H. Stern University. The school takes staff through several stages, enhancing their involvement with the company, going through steps for understanding their products, all the way to offering the best client assistance. It also offers them updating and refresher courses, testing their knowledge of the company's values and policies.

Their special collections are outstandingly innovative, as they are inspired by elements outside the world of jewellery, especially attractive to youngsters, such as its collection based on Alice in Wonderland in partnership with Disney. Furthermore, the company has been gaining prominence in its work with celebrities, launching campaigns with international personalities in grand events. One case was the eighty-second Oscar Awards, held at the Kodak Theater in Los Angeles, when the actress Kristen Stewart, who starred in the *Twilight* movie series, wore a Marquis bracelet in white gold and diamonds by H. Stern, worth US\$224,000, placing their brand in first place among desirable objects. On the same occasion, the singer Mariah Carey wore their Floral Top bracelet in white gold with 452 diamonds of almost 40 carats, priced around US\$720,000, and actresses Hayden Panettiere, Zoe Saldana and Marisa Tomei also represented the collection. H. Stern understands how the global luxury market works and grows along with it. The brand's 67-year history has always included a great concern for creativity and production, specialized design and attentive service, all of which became the basis on which to build their traditional prestige and image, as well as their access to celebrities, resulting in a strong impact.

## 10.5 Hospital Israelita Albert Einstein

The Hospital Israelita Albert Einstein (HIAE) was founded by the Jewish community in the neighbourhood of Morumbi, São Paulo, on 4 June 1955. It is one of the most highly-regarded hospitals in Latin America and one of the most important in Brazil. There are around 4,500 doctors registered, working in all the key areas of health care: prevention, diagnosis, examination, treatment and rehabilitation.

The hospital performs outstandingly in highly complex procedures. It is also the most modern private hospital in Latin America. In 1999 it was the first health institute outside of the United States to be recognized by the Joint Commission International (the most important certificate in the world for health services).

Their philosophy is to believe that their job is not only to cure illness but also to take care of people. This company, along with other successful enterprises, shows excellence in giving service, by constantly aiming for the best and focusing on the following: humanized care practices, creating specific programmes to keep patients and family close to the hospital; the best professional clinicians and assistants, continuously updated; constant investment in technology since the 1970s when the hospital owned the first two sets of magnetic resonance scanning equipment in Latin America. It still holds its leading position and in July 2007 it acquired the da Vinci Surgical System – a robotic system that translates the movement of a surgeon's hands into millimetrically precise, real-time movements of surgical instruments.

Hospital Israelita Albert Einstein is the largest centre for liver transplants in Latin America, performing around 120 liver transplants a year, almost 30% of the national average. Partnerships with the Ministry of Health and the Health Secretariat of the State of São Paulo enabled the hospital to democratize access to highly complex medicine. Over 90% of the liver, kidney and pancreatic transplants performed at Einstein Hospital between 2002 and 2004 were paid for by the government's SUS public health system. It is important to stress that this democratization did not compromise the quality of the transplants in any way. On the contrary, infection rates registered over 2002–03 were lower than those in North America. Also, patient survival rates one year after the transplant were over 90%, equalling the results of the best surgeries in Europe and the USA.

In order to offer clinical assistance to its SUS patients, both before and after surgery, the hospital opened its Albert Einstein Transplant Centre in 2002, an exclusive, independent branch on Brasil Avenue in São Paulo.

Its emphasis on highly complex procedures does not disqualify Einstein as a General Hospital, capable of attending to all the demands of the prevention, diagnostics, treatment and recovery health cycle. Also worthy of mention is the social welfare programme developed

in a poor community called Paraisópolis, not far from the hospital. The HIAE is renowned in Brazil and internationally and is continuously and permanently innovating to improve its performance. Here are some examples:

- A new programme implemented in 2003, called 'Einstein Acolhendo Você' (Einstein welcomes you), to achieve an even warmer and more polite relationship between the staff, patients and families – over 3,000 employees went through rigorous training to enable them to incorporate the policies and regulations of the programme efficiently into their daily routines.
- A new welfare model to achieve a stronger connection with clients and to optimize services. It is called Enfermeiro de Referência (case-managing nurse), because it integrates the whole nurse team on a case, centralizes medical instructions, follows the patient's progress step by step and offers the patient and family the kind of comfort and security that can only be offered by a spokesman with great respect for humanity and a solid professional background.
- Integrated welfare programmes: a forward-thinking initiative in line with the most recent trends in international medicine, offering assistance to highly complex patients with multidisciplinary and multiprofessional features to optimize the prospects of a cure.

## **10.6 Hotel Fasano**

Hotel Fasano, a highly successful Brazilian enterprise in the hotel management sector, was built to become one of the most exclusive hotels in São Paulo. It was designed by architects Isay Weinfeld and Márcio Kogan and received a R\$50 million investment for its construction in English brick-style. One of the objectives of a luxury hotel with international standards is to constantly invest in the quality of its amenities and service. This establishment joins the best to be offered in service and design in a luxury hotel. Fasano's secret for success is in the richness of its exclusive details.

The inside of the hotel strongly features symmetry, refinement and rigorously high-quality material, such as travertine marble and wood, and the decoration includes chairs designed by Hans Wagner and armchairs brought directly from antique dealers in France. The

exhaustive details go from the shapes and patterns of small sign plates to the buttons on bells. It is preferred by many celebrities and has also become a reference point for those who seek sophistication and total discretion.

The enterprise is home to two bars, two restaurants, a convention centre, administrative areas, a gym, a massage parlour, a swimming pool and 64 apartments. The first floor hosts the hotel restaurant, Nonno Ruggero, where one can eat breakfast or brunch. The 64 apartments are distributed over 19 floors: the first 14 floors each have four smaller units; the next three floors have average-size rooms dividing each floor in two; the next two floors have one suite each. On the three top floors of the hotel there are the gym, the massage parlour and the swimming pool, the latter inspired by the Therme de Vals in Switzerland. The hotel's main attractions are the Fasano, one of the most sophisticated restaurants in town due to the family's gastronomic tradition, and the Baretto, an intimately refined bar, renowned for hosting exclusive shows with artists such as Caetano Veloso, Maria Rita and Edu Lobo.

The hotel is in the west zone of São Paulo, on a small, enclosed street in the elegant Jardins area. It was designed from a mixture of several styles, including protomodernism, art deco, minimalism (Peter Zumthor style), small details from old Anglo-Saxon buildings and influences from spatial elegance by Aurélio Martinez Flores, all done in a nostalgic fashion. However, its appearance has proto-modernist roots, a movement from the beginning of the twentieth century that mixed classical elements (such as symmetric plants, compact volume, relating the building strongly to the street, many windows with small openings) as well as modern roots (unadorned curves and enclosed windowsill). Finally, to reinforce the impression, the tower is crowned by a clock.

## 10.7 Schaefer Yachts

Schaefer Yachts is a Brazilian company founded by Márcio Luz Schaefer in 1992 in Palhoça, Santa Catarina, and is a national reference for high-end yachts. The company headquarters are in Palhoça, a municipality of Greater Florianópolis, covering a 15,000 m<sup>2</sup> area where it provides 600 direct jobs and another 1,500 indirectly. The production is largely vertical but includes its own sectors: engineering

and developing new products, coating, parts in fibreglass, carpentry, modelling, seat cushioning, as well as electric installations and information technology.

The owner's experience in building boats and his closeness to the sea enabled him to run a company building luxury yachts of high-quality design and performance that tell of a lifestyle on the water. In its first years the company started the production of its Phantom line, a name that still appears on these yachts. Schaefer Yachts manufactures vessels up to 60 feet, and has a strong presence along the whole national coast and in several countries in North America, South America, Europe, Africa and the Middle East, with 2,000 yachts afloat – practically 15% of its production is exported to countries such as Norway, Sweden, USA, Italy, Jordan and Angola.

Nowadays the Phantom line consists of seven models: 260, 300, 360, 385, 500 HT, 500 FLY and 600, and the new 800 will be launched soon. All these products were fully conceived by the company and were made especially to sail the tropics. It is the only Brazilian company in the field with that particular specialty.

In 2010 Schaefer Yachts launched a revolutionary technology in yacht manufacturing in the country: a digitalized milling machine, the fifth in the world, able to cut each model in a fully computer-monitored system, precisely reproducing the project and drastically reducing manufacturing time. All these features set the company ahead of any competition, free to produce approximately 25 units per month, with yachts between 26 and 50 feet.

# 11

## The Future for Brazil and Its Luxury Market

This chapter assesses Brazil's future in the light of recent developments, which have caused much excitement over Brazilian trade; the question is, however, is this just a temporary condition or are there solid prospects for the future of the national market? To answer this question, we will examine general data on the country as well as on opportunities in the luxury market. These opportunities are expected to reflect a new awareness of the environment and the issue of sustainability. Therefore, we will also take a look at what companies are doing to satisfy this issue.

However, such a future is only imaginable if there is a good prospect of the country achieving it. The central attraction for business investors is the prospect of national consumption and, according to forecasts, Brazil will have a R\$5 trillion market in 2020, 130% greater than the current one, and will be the fifth largest consumer market in the world, behind the US, Japan, China and Germany. If that turns out to be true, at least 72% of the population – a total of 144 million people – will be part of the lower middle class in four years time.

This analysis of consumerism is based on rapid upward social mobility with the country relying on a high degree of consumption by a new middle class. Between 2000 and 2008, 35 million people attained a higher social class. Over that period, 23.5 million Brazilians moved from classes D and E up to class C, and it is in class C, that consumption really takes place. Brazilians now consume a sufficient volume of products and services to establish a market that no longer can be ignored. The intensity of growth in the Brazilian

market is greater than that in the United States, Europe and Japan, all traditionally voracious.

Besides the opportunities in the internal market, the nation's reputation has made it possible to internationalize several Brazilian enterprises, particularly those in the luxury market, which is still limited to the market in traditional countries. This is exemplified by important names in the following sectors: H. Stern in jewellery; Isabela Capeto in fashion, along with Ronaldo Fraga, Cecília Prado and stylists Cris Barros, Alexandre Herchcovitch and Carlos Miele; Adriana Degreas from Lenny in beachwear, along with Osklen; Alexandre Birman in footwear; and Fasano for hotels.

These are clear indicators of the current position of the Brazilian market and its appetite for consumption, sending Brazilian trade into the global market, in which Brazil is gaining more and more custom and respect for its luxury segment.

### **11.1 Is Brazil a promising market?**

That question was the indirect reason for writing this book. More directly, it means we need to remove any doubts. With a realistic look at the country, some might say that the answer has been around since the first term of 2008 when Brazil was given a position by Standard & Poor's and Fitch, the two agencies responsible for qualifying a country's risk levels. Since then, when Brazil was included on the list of safe countries to invest in, the nation has been enjoying a high degree of investment.

Unlike after the financial world crisis of 1994 – which caused enormous harm to the Brazilian economy – the global financial crisis in 2008 signalled to the whole world that the Brazilian market was now strong. This time, the effects of the global crisis on Brazil were hardly noticeable when compared to other countries with only a 0.2% decrease in the GDP and 7% decrease in industrial production. Another advantage for Brazil was that it felt the effects of the recession later than other countries and recovered earlier, as there was only moderate devaluation of the national currency, which was soon turned around; plus, the national Central Bank was able to reduce, for the first time in decades, primary interest during an external crisis; furthermore, there was no question of the country being capable of paying back its financial commitments towards internal



and external debts. Currently, comparing Brazil to the rest of the world, it is in a very good position.

Added to that, the country has the advantage of political and economic stability. For the past 19 years, inflation has been under control and the country has shown a respectable economic responsibility, based on flexible currency exchange along with fiscal responsibility and inflationary targets. Another issue that makes investors trust the market is that Brazil is a representative democracy in full bloom, offering legal safety and showing no risk of constitutional ruptures.

The growth in Brazilian GDP can be interpreted as a 'welcome to the future'. Growth expectation for the next few years is 4%, higher than expectations for growth in the USA or any European country. This welcome sign should convert potential issues into opportunities for profitable business, even though these issues might be seen as difficulties in other countries. Bottlenecks in infrastructure, such as the notorious problems in airports, railways and seaports, can be seen as potential for growth since, according to the government, they need investments of up to R\$840 billion.

A recent factor that will become a driving force in the country is the demographic index, which shows the percentage of the economically active population (between 15 and 64 years old). Every country currently considered a developed nation has, at one time or another, benefitted from changes in their population profile, allowing them to reach higher levels of income and better standards of living. In China, a demographic surplus is supposed to have been responsible for 30% of the GDP increase over the last decade. For Brazil that is a great prospect, for there should be 20 years of a demographic surplus from which the country could continue to benefit. According to the World Bank, the GDP per capita before this demographic surplus was US\$315 and it has now grown to US\$4,000.

In 2010, when the Brazilian population was 193 million, 67% (130.6 million people) were economically active (aged between 15 and 64). That percentage will keep growing until the peak of the curve in 2020 when its population will reach a total population of 207 million, out of which 70.7% (146.4 million people) will be economically active. After that, projections are that rates will start to decrease due to the current low birth rate (considering the age group from birth to 14 years old: in 2010 birth rates were 26.6%,

49.4 million; in 2020 the rate should be 20.1%, 41.5 million; and in 2050 it will be 13.2%, meaning 28.3 million). In 2050, the population will be 215 million of which 64.1% will be economically active, meaning 138 million. The demographic index is important and is supposed to account for 2.5% of GDP growth, meaning that the country should have US\$3.3 trillion in 2030, 50% above current figures. At the current growth rates of 4.5%, the GDP would reach US\$4.8 trillion – more than double the current figure – equalling current income rates in Portugal.

Markets have opened up in previously unimaginable areas, such as the northern region where there is very poor infrastructure, because of this great potential for economic growth and the opportunities it offers. This territory was, until recently, isolated in mid-forest, battered by torrential rain and extreme heat. However, its history is changing along with the new impulse to its economy. This is a new moment for the northern region, resulting from the huge amount of infrastructure construction started a few years ago. Presently, there are more than 50 highways, railways, bridges and steel mills appearing in the northern region of Brazil, and investment in these projects has exceeded R\$13.4 billion.

This feature has a noticeable impact on the economies of the social classes. Since 2005, 20% of northerners have risen from classes D and E to class C, fuelling the consumer market. Over this period, the total percentage of northern inhabitants belonging to classes A, B and C increased from 60% to almost 80% of the regional population.

An example of that development in economic terms and consumerism can be seen in Belém, the capital city of the state of Pará. During more than 15 years, no important commercial centres opened in the city. In November 2009 Boulevard Shopping was opened and its new shops attracted 45,000 consumers, a figure that stimulated the executives of that project to launch yet another mall in Belém, the Parque Shopping. The two projects received a joint investment of approximately R\$700 million.

Therefore, it is important to realize that Brazil has been going through a period of good prospects related to economic and political advances over the past two decades, and can also count on a demographic surplus that has also been responsible for propelling so many countries forward. A good sign of the times is related to the nation's extensive territories that were considered an obstacle for

many years. Development was concentrated practically only in the southeast region, but now the country's great economic development has enabled other regions to transform those obstacles into opportunities, attracting investment to regions in which consumerism has a long way to go in a market that needs projects developed.

## 11.2 Brazil over the next ten years

With its historical and cultural heritage, Brazil can help create model global contributions, and Brazilian intellectuals, keepers of these contributions, can give this model a universal dimension.

There are still many problems in Brazil, such as the distance between rich and poor, illiteracy and corruption, however, we have to highlight the strengths and positive factors that we offer: a positive attitude to life, warmth, sensuality without a sense of guilt, receptivity, friendship and aversion to war.

What happened in the world in 2008 is a sign that economic models need to be adjusted. The current global economic crisis demands a redistribution of wealth to make the rich less rich and the poor less poor. Brazil lies in the transition zone between the European and American models and a new model that emerging countries are creating. In a global world it is not possible for just one country to create this model, it needs everybody's contribution. Brazil should learn from the best of all Eastern and Western models and from that resource select, update and mould, we must define the values that can guide our post-industrial society, stating the goal and the route.

The world is experiencing the biggest racial mixing of all time, given the physical and cultural levels of migration, the media and the Internet. Everyone is turning *mestizo*, but only Brazil has experienced integration for so long and so deeply. Brazil is seen as an open and changing country, one that tempers reality with a positive feeling, even in the worst moments. In the past, the country has contained two elements. The first is the widespread awareness of being a nation of purposeful people capable of profound change to their interior and exterior. The other is a social movement that could be found in various forms in plazas, on the Internet and in shopping malls over the last year. Brazil is just one of many expressions of that movement. The social protests that took place in Brazil in 2013 were caused by disorientation and psychosocial confusion caused by the

lack of a reference model. So it is that we are living a historic moment in Brazil.

Brazil is an early post-industrial nation. In some cases the protests came hidden in music, soccer and *capoeira* in the carnival. In others, it came more explicitly, through artistic movements and political and religious leaders. Today it arrives in virtual form on the Internet and in physical form in the demonstrations in the squares, in the looting of shops and vandalized banks, considered the mother of all economic disasters. Brazilians have shown limited patience and knowingly tackled common ailments. It is likely that some of the protesters were motivated by consumerism, but the vast majority wanted to increase equality and justice by combating violence, corruption, illiteracy, the distance between the exploiters and the exploited. All this was carried out in a very peaceful way – remember how the eighteenth-century bourgeoisie seized power by guillotining over 20,000 nobles.

Total GDP grows about three or four percentage points each year. For centuries, this growth was advantageous to the first world, at the expense of the third world, while today it especially favours emerging countries. Between 1982 and 1987, the ten largest contributors to global growth were the USA (30%), Japan (10.3%) and China (9%), followed by the UK, Brazil, India, Germany, South Korea, Italy and Canada. An IMF study and the McKinsey Global Institute tell us how the scale will change between 2012 and 2017. First comes China (34%), followed by the USA (14%), India (9%), Brazil (4%) and then Russia, Indonesia, South Korea, Mexico, Japan and Turkey. Richer countries will become less wealthy and poorer countries become less poor. This process, which the countries of the first world conceptualized as a crisis, is actually a redistribution of wealth in the world.

All these changes that are happening in Brazil are very important and will determine our relevance in the G20 group. Yesterday we were called a third-world country, today an emerging country, tomorrow we will be called a developed country. We still have a lot to learn, but the teachings are coming from the model of the United States and Europe. I believe that among the emerging countries Brazil will come out ahead in the adaptation and implementation of this new model.

The next ten years are very important as they will define who we really are. Luxury conglomerates are investing in Brazil and planning

to expand to other cities in Brazil. That fact alone already puts us in a favourable situation.

### **11.3 Opportunities in the Brazilian luxury market**

Opportunity, this word describes the Brazil of the future. Today's Brazil has become much larger than it was five or ten years ago, it has turned into a reliable market, appropriate for developing new products in several fields to service different social classes. There are many market opportunities to address the demands of luxury consumers, as these have various consumer profiles and demands that are growing at all levels.

As an example of these good times, 50,000 Brazilians have recently amassed capital equivalent to US\$1 million as a resource free to invest. Interpreting this estimate from another angle, one could say that a new millionaire was being created every twenty-seven minutes in Brazil. In 2016, São Paulo will contain more millionaires than London and Paris.

With a more entrepreneurial view for opportunity, the repressed demand in the luxury market is predicted to reach 40%. In 2013, revenue was R\$23.5 billion, in 2012 it was R\$20.5 billion and the market is predicting growth in 2014 to be around 10% to 15%. However, taking a look at the events of the past decade, when Brazilian GDP was registered at 3.5%, there is evidence that the luxury market was highly profitable, showing 9% average growth (almost three times the growth registered for the national economy).

Apart from the benefits of economic growth, the increase of the luxury segment in the country is partially because of a characteristic trait in this kind of consumer, impulse buying. These circumstances attracted the first brands to open a shop in Brazil and soon they were opening more shops, particularly so in São Paulo, where there is a concentration of several shops of the same sort of brand, unlike in comparable cities, such as Paris and Milan.

All these prospects caused famous brands to establish their own operations in Brazil. In 2013 alone, over 40 luxury brands came to the country and those not yet here will be coming in 2014 and 2015. This market in particular still has a low concentration of enterprises in this segment, thus leaving the market free of competition, creating

opportunities to finance a business, making the market attractive to international companies.

All predictions for the luxury market are optimistic, as it needs skilled labour and shows opportunities outside of the axis made up by São Paulo, Rio and Brasília, exemplified by the success of the shopping mall Pátio Batel in Curitiba, in which Louis Vuitton reached its monthly target in just one week.

The marine market is also undergoing ample expansion, turning Brazil into one of the main investment targets in the yacht industry, because of high salaries, an extensive seacoast and the hot climate. In 2013, company presidents and directors earned higher salaries in São Paulo than in London or New York. Ferretti, an Italian boat manufacturer, has its eye on the Brazilian super-rich, especially after sales to their traditional Mediterranean clients fell drastically. Ferretti's revenues in Brazil tripled over the past three years. Excellent opportunities also stem from the fact that there is still very little competition in this under-explored marine market. The country's fleet contains only 63,000 yachts whereas in the USA it is over 16 million. This market should be able to take a share of middle-class income – placing a yacht in the same category as a second car or a beach house – and there are projects underway to build new marinas along the whole coastline.

The service sector has enormous potential, among which are gastronomy, spas and hotel management. It relies on a unique factor of the Brazilian labour force, a combination of technical expertise and a humanized approach towards clients, offering careful and attentive service that is not seen elsewhere.

The hotel management market is full of promise for this decade, and will soon be joined by the Jumeirah, Hyatt and Four Seasons chains. This last has plans to open three branches, one in Rio de Janeiro predicted to open before the Olympic Games in 2016. In Bahia, hotel Missoni plans to open on Cajaíba Island (the first hotel belonging to this new chain was launched in Edinburgh in 2009). Méliá Hotels plan to launch a high-end tourist and real estate complex named Guarajuba, 38 km from Salvador, in 2015. This project predicts the construction of three hotels, with an approximate total of 1,200 rooms, as well as a high-end residential development with approximately 3,500 tourist residences. This is one of the largest investments by Méliá in the world. Méliá also plans to open new luxury branches

in the northeast and in other Brazilian state capitals. The Canadian group Four Seasons Hotels & Resorts is opening its first branch in Brazil. They planning to open a hotel in São Paulo and an urban resort in Pernambuco, with investment calculated at US\$235 million, and both are expected to open in 2016. In São Paulo the idea is to build 240 suites and the building will be inside the Parque da Cidade, where there are corporate and residential buildings and a shopping centre, in the southern region of the town. The chain is planning to construct 153 apartments at Reserva do Paiva in Pernambuco, a planned luxury neighbourhood under construction on the south coast of the state. This segment is so attractive that some international enterprises, among which are Louis Vuitton and Armani, are planning to open hotels in Brazil.

The market for civil engineering has become an excellent investment, and the increase in value is 22% a year, behind China's 30% increase and Singapore's 25% over the same period. However, the luxury market for real estate is still in need of 100,000 new residences a year for the A class, double the capacity of construction companies. In Brasília, for example, there are few plots of land available because of the growing number of civil servants. The price of a square metre in an apartment under construction in prime areas of the political capital can reach R\$10,000. The American building company Related has understood this potential and is arriving in Brazil, planning to invest US\$1 billion in the next three years.

These markets can be stronger in the city of São Paulo and that often means that consumers need to travel to that city to meet their needs. However, that is changing. Rio de Janeiro, influenced by the World Cup in 2014 and the Olympic Games in 2016, has been attracting more international luxury brands and is becoming an alternative destination for shoppers. Brasília, as the political capital, has the highest income per capita in the country and is also going through a prosperous phase as home to an elite of civil servants, very willing to be luxury consumers.

Some cities receive special attention because of their strategic participation in their country's economy, as in the case of the cities in the interior of Rio de Janeiro state and also Santos, an important port city in São Paulo state. Rio's countryside will become a market for luxury cars and high-end property, as a consequence of the benefits from petrol and gas production. Santos, the largest port in Latin

America, will receive R\$160 million in investment for a new port harbour to manage the heavy flow of cruise ships during the World Cup in 2014, among other events. The port will also see investment to enhance its expansion and increase its capacity for absorbing cargo, which is expected to triple in volume by 2024. Furthermore, by 2014, the city will receive R\$5 billion in investment and that will certainly push up real estate prices, resulting in the construction of even more luxury buildings, restaurants and bars to serve an A-class public.

Another locale worthy of attention is the interior of the state of São Paulo. To cater to their consumers, Iguatemi shopping mall launched its successful new branch in Ribeirão Preto, in the countryside interior of São Paulo, in October 2013.

As well as the southeastern region, there are other territories where the lack of infrastructure represents an opportunity. One example is the central western region, which presents an opportunity for luxury brands such as H. Stern (jewellery), and another is the northeastern region, which has already been promised a new shop by the same brand, despite the low number of inhabitants. Moreover, the north and northeast have potential for the luxury market due to the strong desire of the local population to consume luxury products. In fact, the Brazilian northeast has seen the best growth of the decade.

The perfect marriage between the northeastern inhabitants, avid to consume, and the luxury segments who wish to sell products and services, is represented by: the expansion of the local market in luxury property; the construction of luxurious resorts and condominiums; the growth of luxury tourism in Pernambuco; and the new attitude to local gastronomy and the opening of new restaurants.

Among the northeastern capitals, Recife is the city with highest sales of luxury cars and yachts, as well as the curious fact that it is the city with the highest consumption of whisky per capita in the world (according to *Whisky Magazine*). In October 2012, Recife opened its new shopping mall Riomar. This business is attracting famous brands, such as Hugo Boss, Prada, Burberry and Diesel, to Recife. In the south of the country, Curitiba opened the first luxury shopping centre in the southern region, Pátio Batel. This mall is responsible for bringing Louis Vuitton, Hugo Boss, Tiffany, H. Stern, Ermenegildo Zegna and Burberry to Curitiba. This mall was the impetus for luxury brands to settle in Curitiba, and created new opportunities for other segments



in the luxury market to come south, freeing up the São Paulo–Rio axis and creating opportunities for other state capitals to attract the luxury industry.

The poor population in Brazil also aspires to luxury. Brazil is one of the countries in which a passion for luxury is quite evident. More philosophically, it is a display of sensual status and the idea of sensuality is still strong in Brazilian culture. Brazilians like to show off and quite passionate about their appearance, their bodies, wealth, and pleasure. In the next five or ten years we will see Brazilian luxury brands rising, in fashion and in cosmetics; there is a huge potential for luxury tourism; and the number of luxury consumers in the country will increase. This market is in full ascendance.

#### **11.4 The World Cup effect**

The World Cup brings huge opportunities for Brazil and for every Brazilians. It behoves us to turn these opportunities into reality. We host the World Cup because the economy has improved and the economy improves because we host the World Cup. Obviously the World Cup alone will not change the country, but in addition to affecting the economy and creating businesses and jobs, the Cup will bring in new technology and will help our companies to learn to plan long-term and its spotlight will expose Brazil to the world. The World Cup should raise the Brazilian GDP by 1.5 percentage points over three years. The sectors that will benefit most will be hospitality, transportation, communication, aviation and retail. The official government estimate is a total spend of R\$36.46 billion on infrastructure for the World Cup, with an emphasis on transportation (R\$12.7 billion). Furthermore, there has usually been an increase of 30% in exports of countries that previously hosted the World Cup.

Because of the World Cup, there will be a substantial improvement in the logistics of the infrastructure of the country, which is desperately needed. In terms of jobs, in addition to many temporary services during the World Cup, 250,000 new permanent jobs must be generated by the event.

Brazil has two big advantages over South Africa. The first is the domestic popularity of football. The biggest problem for the South

African World Cup stadiums was their lack of use after the World Cup. In the Brazilian case, the popularity of football and the strategy of building multipurpose arenas – which can host concerts, shows and other events besides football – should prevent this. Second, being a country of continental dimensions, the transportation infrastructure problems are more significant in Brazil than in South Africa, which in practice means that the earning potential for the country via investments in infrastructure is also more significant.

Tourism is increasing worldwide. There are a billion people moving around the planet, some for as long as 30 days. People are richer, more educated and more stressed. And while tourism increases in quantity, its quality is also increasing. Today there is a more sophisticated tourism, which is interested not only in natural beauty but also in culture. People today want, besides the sea and the mountains, museums and concert halls. In Italy, 11% of GDP is generated by tourism. In Spain this figure reaches 12%. In Brazil the figure is only 2%.

This happens for two reasons. First, because the Brazilian government has never been interested in developing tourism. For example, railroads do not exist, which is truly insane. How does one explain that there is no decent train that joins Rio de Janeiro and São Paulo? Belo Horizonte and São Paulo? Today, London to Paris takes three hours, as does the journey from Brussels to Amsterdam. Second, tourism does not thrive in Brazil because of the violence, which amazes many tourists and is really unfortunate. Italy receives 35 million tourists per year, Brazil could welcome at least 100 million people per year.

## **11.5 The Olympic games effect**

A budget of R\$7 billion is allocated to the 2016 Olympics in Rio de Janeiro.

The city of Rio de Janeiro has always been complicated from the administrative point of view, because it was the federal capital, capital of the Empire. These are complications that do not exist in São Paulo, Belo Horizonte or other big city. Rio was mismanaged and uninvested in for decades. When the magic envelope was opened in 2009 saying that the Olympics were coming to Rio de Janeiro, there

was no time to delay. It was a great chance for change. The Olympics are transforming the city for the better and, even more importantly, turning it into a city of the future.

The transformations justify the investments that have been and continue to be made up until 2016. The port project Wonder, which is revitalizing the entire city centre, is highly ambitious as well as quite old, an idea that was not realised 20 years ago. The change and improvement in the quality of the city are indisputable, although some neighbourhoods, which took two decades to create, are being completely redeveloped.

All cities that have hosted major sporting events have had a natural increase in rental values and in the buying and selling of real estate. With stock of 4.8 million square feet of office space, of which 1.2 million are of a high standard, Rio is the second largest market segment in the country, behind São Paulo. The games represent a favourable real estate expansion scenario. Since 2008 the price of a square metre in Rio de Janeiro has increased tremendously and is considered one of the most expensive in the world.

The Olympic Games in Los Angeles, USA, were considered the most successful of all in the history of the competition with a profit of approximately \$250 million.

In Atlanta, profits were more modest, about \$10 million, but still a success from the economic standpoint. According to critics, commercial strategies could affect the image of the Games and the Olympic ideals.

In Spain in 1992, the Barcelona games achieved a profit of about \$5 million according to estimates after the event. A low figure compared to the billions invested in the structure necessary to host the games. But for the population of Barcelona, with the renovation of the city, such as the port region, improvements in the transport system and a better quality of life, the gains fall into the intangible category, that which is seen and felt by people but is difficult to measure in direct financial returns to the organization. Moreover, the increase in tourism to the city and nearby regions continues to benefit today's local economy, even with the strong financial crisis affecting Spain.

In the case of Greece, birthplace of the Olympic Games, the opportunity to host the event for the second time in the modern era brought prestige and had the country reliving moments of glory.

But the high cost of their Olympic adventure, with little oversight of funds in preparing the capital, Athens, to host the event in 2004, was a signal for the severe debt crisis that was to come, which ended up by punishing the country and spreading throughout the euro area.

Experts said a combination of factors, such as investing €9 billion, about £21 billion, to achieve the 2004 Olympics and then joining the loose fiscal policy of the euro, with little control over public spending, eroded the foundation of the Greek economy, which collapsed in 2009. Since then, the country has depended on the support of creditors and agencies like the International Monetary Fund (IMF) and European Central Bank (ECB) to try and prevent widespread catastrophe.

The country was also the first to host the Olympic Games after the terrorist attacks in the United States in 2001. This, according to experts, magnified security costs for protecting tourists and foreign delegations who attended the event.

The budget for the London Olympics in 2012 was £9.3 billion (about US\$26 billion). Most resources, about £6 billion, came from the coffers of the British government, a further £2 billion from the lottery and the remainder, something close to £1 billion, from the private sector.

The Olympics are the greatest event in the world. The World Cup is also major, but much more for television and visibility than as a city transformer. Furthermore, The World Cup takes place across the whole country, whereas the Olympics centralize in one or few cities, with 46 events on at the same time. In London, there were millions of tourists walking around for four weeks. In Rio, the prediction is for a much higher number. Brazil will be a showcase twice over, for the World Cup and for the Olympics, Rio de Janeiro will be the main focus, and both international and domestic tourists will send their images, experiences and stories home.

This is a time when we should be proud to be Brazilian. The country has never before been in such a good economic and political position. It can stop being the 'country of football, samba and the Amazon forest' and become the powerhouse of Latin America.

This is the feeling worldwide. It is said in Brazil with a twinkle in the eye and an idea of a booming economy, gorgeous landscapes and prosperity now and in the future. This is a result of the development of our economic policy, our ability to produce and consume.

## 11.6 Sustainability in the Brazilian luxury market

Sustainability is a concern that Brazil has only recently become aware of, and there are presently many supporters of this idea, wanting to build a more sustainable future for our social well-being. In fact, in future, it will no longer be a concern since it will already have become part of a company's routine activities. This concern with finding sustainable solutions for a company's products is in response to one more demand made by increasingly aware clients. Clients who do not wish to be seen in a negative light by wearing a fur coat for which an animal had to be sacrificed, or in any other situation seen as ecologically or politically incorrect. Thus, it is safe to affirm that it is vital to practice sustainable actions for contemporary luxury.

Indeed, sustainable practices by a company should go beyond the simple addressing of a client's demands, and be a special feature of the brand, adding value to it and improving the company's image. This kind of practice shows more care for the environment and should be consistent across all phases of manufacturing a product – be it in the choice of less polluting machinery, in the adequate disposal of any waste generated, in improving the use of recyclable or renewable material, as in the choice of raw materials – right through to distribution and the means of communicating with clients, such as using a recyclable folder when advertising.

This market is quite recent, it only started to affect reputations a decade ago, being adopted by brands who understood its importance in increasing sales. The media in general has contributed to informing and instructing the public and was very important in this culture change in. Once a client was only concerned about the appearance of a product and the pleasure it would bring; now, however, clients' concerns go beyond the product itself. If a client considers an article harmful to the environment, they may rethink their decision and choose to include sustainability in their personal identification as they are aware that their choices bring consequences to themselves and to all around them.

For luxury companies, this change in client culture is not a simple matter because it starts a complete internal transformation, implying product reformulation while retaining the sensation of luxury. Some segments have had to be reinvented, in terms of their nature, in themselves aggressive to the environment. That is so in the case of

contemporary jewellery, which nowadays uses material that were once only found in custom jewellery, such as wood, plastic, glass, resin and even some pieces made out of paper and rubber. H. Stern set an example in the international jewellery segment, making pieces with lower-cost Brazilian stones and selling them at one of the most admired addresses in the world – La Croisette, the famous Cannes shop window display – and in 165 shops worldwide. Tiffany also adhered to the new culture by using minerals extracted, processed and worn in a socially and environmentally correct manner. As one can see, contemporary jewellery no longer has its value related to the set of materials used to make them, but to the creative capacity of the maker to conceive and shape an idea in which values other than monetary are emphasized.

Another luxury segment going through a reformulation is fashion. An interesting case is a main raw material used in this field, fish-skin leather, mostly from the tilapia fish, which lends sophistication and quality to the final product. Fish-skin leather is both strong and beautiful enough to be used in fashion and pieces are sold at US\$140 against their equivalent in leather from cattle hide sold at R\$100, representing a 200% increase in value for fish-skin leather.

Osklen is an outstanding brand in terms of sustainability. It is sold in Brazil, Europe, the USA and Japan and merges the exuberance of Brazilian nature, culture and society with a strong sense of aesthetics. This attitude enabled Osklen to gain a share of the market, not only as a brand, but also as a vehicle to transmit this lifestyle as an authentic, genuinely Brazilian style that is also contemporary and cosmopolitan. The business reflects this ethos throughout, as special care begins with the production process when picking cotton and goes all the way to developing technology to treat the material until it becomes a piece of clothing, using sustainable organic fibres (silk and fish-skin leather), fibre from recycled bottles made of PET and other ecological material with a low-carbon footprint.

For one of its collections, Osklen developed a special line of accessories made from peach palm as an alternative to using wood. Fibra design engineers created a composite wood made from palm trees that are widely used to produce sustainable palm. When the trees, grown for the production of palm hearts, reach an adult stage, they become too costly to maintain due to their height and a decrease in fruit production. To maintain profits, producers are forced

to cut them down and these abandoned trees are used to extract peach palm. Some pieces of leather and wool are dyed with natural colouring as an alternative to using chrome salts, a highly toxic and pollutant component.

In the gastronomic segment, Chef Alex Atala has become increasingly famous. He believes that before using an ingredient, one must know it completely, learning as much as possible from those who know a lot about it and where it is from, such as fishermen, farmers, native Indians and so forth:

When you choose food, you embrace a cause that can be based on conservation as much as on destruction. Therefore, you must learn all about the productive chain of each element, since its origin. Sustainable products link food and gastronomy to preservation. Where is this food from? Was its production responsible for causing any environmental harm on the way? For example: hearts of palm extracted from trees in the rain forest (*locally known as Atlantic rainforest, or 'Mata Atlântica'*), shrimp and seafood taken during the spawning period when fishing is banned. Or even food that comes from far away and has to be transported by pollutant means. The proposal that has been spread by more and more people nowadays is to look at all that surrounds us and is part of our lives to assess the environmental impact for consumption to be practiced with greater awareness. To practice constructive consumption rather than destructive. The food we eat has to be good for the planet as well as for those who eat it.

In hotel management, Txai resort is making a strong name for itself. This hotel in Bahia relies on a complete sustainable programme to cater for all stages, from the food for its employees and guests to recycling water and the disposal of solid waste. The concern here is to use but not exhaust resources, and the responsible use of water has been a priority at Txai since the beginning. All the water used in the hotel is treated with a modern filtering system and is returned to nature without impurities. Waste disposal is also taken seriously and garbage is correctly disposed of. All residues produced are taken to a centre for inspection and selective collection; organic residues are used to make organic compost used on local farms and vegetable gardens; recycled materials are sold to an environmental scrap

processor and the money made is sent to pay for material used in recycling workshops for schools and community projects (organized by a programme for Environmental Education and Solid Residues), or is reused as packaging material in a programme developed by the hotel group called the *Companheiros do Txai* project.

Going further still, Txai is also concerned for the native population and prefers to hire people from the local community. Everyone is given a career proposal to enable them to grow within the company, and offers language courses and professional improvement training. The hotel has a space called *Shamash Healing Space* and the team working there is mostly made up of natives who are given professional training skills to develop holistic therapy. As part of the company's sustainable programmes, the *Shamash* spa uses herbs and flowers grown in the hotel's own vegetable garden to make tea and aromatic baths. The hotel gastronomy is also included in its sustainable principles: the dishes are based on Brazilian cooking and prioritize local ingredients, mostly produced inside the resort.

In civil construction Rem Construtora was awarded the 2005 Holcim prize for sustainable construction (international recognition of fuel changes in the field of civil engineering viewing the reduction of environmental impact), for launching the Gran Parc Vila Nova complex. The award called attention to the construction company Rem, who emphasized that the building complex was the first ecologically correct building in Brazil and who hoped to stimulate the development of new projects with those characteristics. Gran Parc Vila Nova is in the newly developed neighbourhood in São Paulo called Vila Nova Conceição and features: keeping rainwater in a retention well to be reused in gardens, toilets and car-washing by future residents; treating the water with ozone rather than chlorine; solar heat pumps to recycle water to avoid residents opening taps for long periods before it becomes hot enough; and selective waste disposal in partnership with the project at recycling institute Instituto Recicle Milhões de Vidas.

This eco-friendly market has affected advertising campaigns, which needed to be reformulated to achieve an approach that was related not only to fashion, as in the past, but also to environmental concepts for consumers and this kind of product. São Paulo Fashion Week launched a campaign involving the participants in Movimento SPFW, to defend the preservation of natural resources and awareness



during consumption, shown by simple gestures to guarantee a better world in the future, such as walking instead of driving or simply opening a window. What caught people's attention, more than the latest trend of the season, and reflected on the event itself and on the brands participating, was an initiative that introduced a movement that was relevant and exempt of frivolousness.

One must also be aware that sustainability affects more than just the environment, and involves other aspects, including: working conditions; methods of disposing of products; internal company changes to save material; performing research and development to achieve less aggressive measures for the environment; and social projects with real relevance and meaning.

Sustainability is a concept that the luxury market has already welcomed along with a series of alternatives to obtain sustainable products, reducing the carbon footprint from producing luxury items. Taking into consideration that this is a subject of the future, it is possible to predict that those companies unwilling to adapt to this concept are not only missing out on an opportunity to show a different attitude, but also exposed to a negative position, possibly even compromising their future success. There is no doubt that sustainability is related to a better standard of living and will allow future generations to enjoy the best of what our planet has to offer: nature.

Sustainability is currently in vogue and is the subject of several means of communication. Much more than a temporary trend, sustainability must be practised and not only seen as a theoretical concept.

## **11.7 Luxury brands with a Brazilian identity**

The luxury market is growing and not only for the benefit of foreign companies; there is room for Brazilian luxury brands, too.

Brazilian luxury brands need to acquire their own identity, to shake off the old mentality of imitating foreign production and to start developing their own excellent products and services. Developing a really strong brand is linked in every way to offering products and services with their own identity. Whether your company exclusively serves the Brazilian market or whether it exports products, it needs

a strong identity to display cultural elements, staying away from copies and commoditizing to enhance the value that can be offered to your clients. Even in fashion, where it is quite easy for a creative designer with some knowledge of cultural aspects to develop his or her own creation and to launch a brand with a well-defined identity, there are only a few companies willing to bet on their own ideas and create according to a particular identity.

Servicing luxury consumers requires knowledge of the client's consuming behaviour. That might be the reason why so many enterprises prefer to invest in the ordinary, doing the same as anyone else. However, luxury consumers are the clients who most appreciate products that reflect their own personality.

In this country there is a great deal to offer and some national brands have started to invest in that. Others may follow, and they might take over the market, both in and out of the country. Osklen is a good example of a Brazilian enterprise with Brazilian DNA. In other segments besides fashion one may ask how it is possible to develop this specific identity. A brand's identity is closely related to the cultural understanding of its founders and also to its business proposal. It is possible to develop strong brands with a marked cultural personality among an infinite number of different business profiles.

One may mention as an example that typical Portuguese ceramics can be of many different kinds. Why not develop a ceramic with a typically Brazilian influence, or even characteristic of specific region? It can be done without appearing caricatured, even with legitimately national products such as 'cachaça', a Brazilian liquor made from sugar cane. Why not invest in Brazilian tourism for foreigners who want to go to places other than Rio de Janeiro and the northeastern coast? Brazilians and foreigners alike can learn much about another Brazil that is out of the ordinary, as there are several beautiful cities in all corners of the country.

Even when communicating with one's audience through digital or conventional media one can transmit their identity. Then, it is easy to take it another step forward, extending it to another business area. Authentic personality can add value to any company.

The time has come for the new brand called *Brazil* to emerge.

# 12

## Participating in the Market as Entrepreneur or Employee

This chapter focuses on how to administer a business in the luxury market. Issues range from partnerships to establish a business in the country, through the internal functioning of a company, to hiring the right kind of staff. These are essential to start up and develop a company in the luxury segment. We will also look at existing luxury companies.

An interesting aspect of this book is that it is based on the relationship between companies and consumers, emphasizing the features of each. After discussing the profile of companies in this sector, the next step was to link the companies with their consumers. This chapter addresses that idea and seeks to introduce companies from all segments of the luxury market.

Not only is it important to present this list to consumers (including both physical and virtual addresses with sites and blogs), but it is also of relevance for future companies to learn about their rivals, as this is the first time a map of this sort has been presented. It is worth mentioning that these companies did not undergo any selective process – the only criteria being that they must belong to the luxury segment – and therefore the list contains both national and international enterprises from a variety of segments around the country.

### **12.1 How to run a business or work in the luxury market**

The Brazilian luxury market is going through a golden phase and there is a suppressed demand waiting to be set free; the market should

grow strongly and therefore will require skilled labour. Furthermore, there are many Brazilian cities going through improvements in their infrastructure to supply international brands in all segments, hotel management, cosmetics, fashion, aviation, civil engineering and so forth.

To qualify for entrance into the labour market for luxury brands one must understand how the market works and how its consumers think or act when hoping to gain a positive sensation from buying. Services supplied have to be extraordinary, as this market will accept no less; however, extraordinary does not only mean attentive, which should go without saying. In Brazil there is an excellent level of friendliness but one must do more, and there is a lot of service improvement possible. It is quite evident that when someone like Suzy Menkes, the famous English fashion editor, goes into a restaurant, everyone knows who she is, and certainly two waiters, the *maitre d'*, the house manager and the chef will attend to her and she will find the service excellent. However, for this kind of service to be considered excellent it should be unvaryingly the same for everyone. It has to be extremely good, both for Luciano from the southern city of Curitiba and for Taisir from the northern city of Manaus, or even for Aginaldo from Salvador; it must not matter where the client is from, or what his or her surname or business is.

Service must also be consistently excellent from the very beginning, starting with the parking valet and maintaining those standards until the bill has been paid, whether in a restaurant, a hotel, a spa or a jewellery shop. It must be complete. Someone working at a BMW car dealership does not have to own a BMW, but he or she does have to know all about luxury management tools in order for the shop to reach its target and to keep the customer satisfied with the car and the service offered.

Therefore, anyone intending to work in this market must understand all these mechanisms and must take courses, study hard and undergo training. Depending on the position wanted an MBA in luxury management is an important option. For those wishing to work in five star hotels, resorts, spas and restaurants, there is also an MBA in luxury hotel management, which includes classes taken at the hotels Fasano, Sheraton and Sofitel, as well as an international stage in Paris, where classes are taken at famous hotels of the French capital.

After learning about the market and its consumers, the next step is to look for luxury brands. The ideal candidate has the following features: is polite, in action and in speech; has an exemplary attitude; speaks fluent English and possibly another language; has spent some time abroad; and, above all, is committed to anything he or she does. This person has to speak the same language as the brand, know its story and its products; in summary, he or she must take part in the brand's universe. A consumer has to feel that the employee incorporates the brand in their DNA and is the channel of communication between the consumer and the brand. The luxury market has been growing in the country year on year and employees working in this segment have to know its particularities, in the same way that entrepreneurs have to know how to invest in it.

Salespeople in the luxury market should know as much as a salesperson in a popular market should, but there is a risk that they might feel they are in a similar position to the client. That should not happen. When dealing with products and services to inspire dreams and wishes, it is not uncommon for employees to become consumers, too, and in some cases they might start feeling as if they are a target as consumers. It is very important for them to understand that their behaviour has to be different and to know that at work they must have a different outlook. Furthermore, salespeople must shed any prejudice or concepts concerning a client's spending, income and investment in products and services that they do not need, but do desire.

The main objection directed at salespeople in the luxury market concerns price. Many clients complain about the high price of luxury products and services and, on such occasions, salespeople must emphasize that these products and services focus on standards of excellence and that the prices are particular. For that reason, it is very important that they thoroughly understand the production process and the details of each product on sale, to be able to support the stories that determine the features of the brand, product and service. For example, how much does a handbag cost when produced by French craftsmen? Is it expensive? What it costs is not what one pays for a similar product but what one pays for the brand from which it gains prestige.

After commenting on issues concerning services undertaken by staff, we can now look at what it takes to run a business with a luxury brand. First of all, one must keep up with fiscal obligations.

When an important luxury brand comes to Brazil, they already have an idea about companies to work with. If you wish to do business with small or average-size companies, you must research the brand, and it would not hurt you to find among your networking contacts someone who can connect you to representatives of the company. In Brazil, things are much easier when there is someone to introduce and recommend you.

Those wishing to bring an international brand to Brazil must make a detailed business plan and research the acceptance of their product or service in the state and city where it will be launched. Keep in mind that Brazil is a single country but habits and customs vary strongly from one state to another. Analyse all opportunities, for a product may be very successful in Recife, Belo Horizonte or Curitiba but can fail in São Paulo city where competition is intense and the product might not have the impact you wish it to have. On the other hand, this same product might be a great success in other cities in the state of São Paulo, such as Ribeirão Preto, Campinas or other city with strongly concentrated incomes where consumers will feel they are receiving a privilege. Then there is the fact that in a different region, your product might be a novelty.

The Luxury Marketing Council helps companies to connect with their associate companies and encourages networking strategies among them.

*There are two things to always keep in mind:*

1. *You must have a total commitment towards achieving excellence, along with a long-term commitment to persevere.*
2. *Working within this market requires continuous investment, generally higher than average.*

## **12.2 Useful websites for the luxury market**

Luxury Marketing Council, [www.luxurycouncil.com](http://www.luxurycouncil.com)

Maison du Luxe, [www.maisonduluxe.com.br](http://www.maisonduluxe.com.br)

FAAP – MBA Gestão do Luxo, [www.gestaodoluxo.com.br](http://www.gestaodoluxo.com.br)

Silvio Passarelli, [www.silviopassarelli.com.br](http://www.silviopassarelli.com.br)

Roberto Miranda Educação Corporativa, [www.urm.com.br](http://www.urm.com.br)

LuxuryLab Consultoria, [www.luxurylab.com.br](http://www.luxurylab.com.br)

ABRAEL – Associação Brasileira das Empresas de Luxo, [www.abrael.org.br](http://www.abrael.org.br)

Angel News, [www.angelnews.at.ua](http://www.angelnews.at.ua)

Blog do Luxo, [www.blogdoluxo.com](http://www.blogdoluxo.com)

Luxury Infinity, [www.luxuryinfinity.com.br](http://www.luxuryinfinity.com.br)

Go Where Luxo, [www.gowhere.com.br](http://www.gowhere.com.br)

Robb Report, [www.robbreport.com.br](http://www.robbreport.com.br)

Gloria Kalil, [www.chic.com.br](http://www.chic.com.br)

Cristina Pitanguy, [www.cristinapitanguy.com.br](http://www.cristinapitanguy.com.br)

Web Luxo, [www.webluxo.com.br](http://www.webluxo.com.br)

Infinite Luxury, [www.infiniteluxury.com.br](http://www.infiniteluxury.com.br)

*Luxus Magazine*, [www.luxusmagazine.com.br](http://www.luxusmagazine.com.br)

### 12.3 Luxury companies operating in Brazil

*Table 12.1:* List of companies in the luxury segment in Brazil.

*Table 12.1a* Segment: arts

Company	Location	Origin
Coletivo Amor de Madre	SP	Brazil
Fortes Vilaça	SP	Brazil
Luisa Strina	SP	Brazil
Ovo	SP	Brazil
Romero Britto	SP	Brazil

*Table 12.1b* Segment: airways

Company	Location	Origin
British Airways	RJ and SP	UK
Embraer	SP	Brazil
Emirates Airways	SP	Arab Emirates
Global Aviation	RJ and SP	Brazil
Líder	Brazil*	Brazil
Singapore Airlines	SP	Singapore
Tam Jatos Executivos	SP	Brazil

Table 12.1c Segment: beverages/liquor stores

Company	Location	Origin
Bacco's	SP	Brazil
Casa do Porto	SP, BA and ES	Brazil
Decanter	SP and SC	Brazil
Diageo divisão Reserve	Brazil*	UK
Eisenbahn	Brazil*	Brazil
Expand Store	Brazil*	Brazil
Grand Cru	Brazil*	Argentina
GRM Cachaça	Brazil*	Brazil
LVMH Wines & Spirits	Brazil*	France
Maison du Vin	SP	Brazil
Pernod Ricard	Brazil*	France
Perrier	Brazil*	France
World Wine	SP	Brazil
Zahil	Brazil*	Brazil

Table 12.1d Segment: fitness and leisure

Company	Location	Origin
Academia Estação do Corpo	RJ	Brazil
Amaryn The Spa	SP	Brazil
Anacá Corpo e Movimento	SP	Brazil
Country Club do Rio de Janeiro	RJ	Brazil
Club Athletico Paulistano	SP	Brazil
Kurotel Spa	SP	Brazil
Luiza Sato	SP	Brazil
Reebok Sports Club Brazil	SP	USA
Sett Nandi Coaching Spa & Hair	SP	Brazil
Spa Cidade Jardim	SP	Brazil
Studio W	SP	Brazil
Unique Garden	SP	Brazil

Table 12.1e Segment: communications

Company	Location	Origin
Cosac & Naify	Brazil*	Brazil
Época Edição Luxo	Brazil*	Brazil
Glamurama	Brazil*	Brazil
Gloria Kalil	Brazil*	Brazil
Go Where Luxo	Brazil	Brazil
Gagnani	SP	Brazil
Isto é Platinum	Brazil	Brazil
Luxus Magazine	Brazil	Brazil
Marie Claire	Brazil	Brazil
Nielsen	SP, RJ and PR	USA
Veja Edição Luxo	Brazil	Brazil
Wish Report	Brazil*	Brazil



*Table 12.1f* Segment: civil construction

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Adolpho Lindenberg	SP	Brazil
Alphaville Urbanismo	SP	Brazil
Cyrela	Brazil*	Brazil
Idea Zarvos Plan Imobiliário	SP	Brazil
JHSF	Brazil*	Brazil
Lopes Private	SP	Brazil
Souza Lima Construtora	SP	Brazil
Tranchesi Engenharia	SP	Brazil

*Table 12.1g* Segment: events and consulting

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Cristina Pitanguy	SP and RJ	Brazil
Doria Associados	SP	Brazil
Maison du Luxe	Brazil*	Brazil
MCF Consultoria	SP	Brazil
Michael Page International	Brazil*	UK
Noctua Recruitment	Brazil*	Brazil
Pazetto Events & Consulting	SP	Brazil

*Table 12.1h* Segment: Cosmetics and perfume

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Anasuil Amazon Exclusive	Brazil*	Brazil
Anna Pegova Paris	Brazil*	France
Carita	Brazil*	France
La Prairie	Brazil*	Switzerland
Lancôme	Brazil*	France
LVMH Parfum & Cosmétiques	Brazil*	France
Monalisa	Brazil*	Brazil
Phytá	SP	Brazil
Royal Opera Luxury Brands	Brazil*	Brazil
Sephora (ex-Sack's)	Internet	Brazil
Tânia Bulhões	SP and RJ	Brazil
Vizcaya	Brazil*	Spain

Table 12.1i Segment: education

Company	Location	Origin
Escola Americana	Brazil*	USA
Escola Dante Alighieri	SP	Brazil
FAAP MBA Gestão do Luxo	SP	Brazil
Maison du Luxe MBA Gestão do Mercado de Luxo	Brazil*	Brazil
Roberto Miranda	SP	Brazil

Table 12.1j Segment: entertainment

	Location	Origin
B4 Lounge	SP	Brazil
Cinemark Cidade Jardim	SP	Brazil
Cinépolis	SP	Brazil
D. Edge	SP	Brazil
Disco	SP	Brazil
Lions Club	SP	Brazil
Mokaí	SP	Brazil
Pacha Búzios	RJ	Brazil
Set Disco	SP	Brazil
The Week	SP, RJ and SC	Brazil

Table 12.1k Segment: finance

Company	Location	Origin
American Express	Brazil*	USA
Banco do Brazil Private	Brazil*	Brazil
Bradesco Prime	Brazil*	Brazil
Citibank	Brazil*	USA
Chubb Seguros	Brazil*	USA
HSBC Premier	Brazil*	UK
Itaú Personalité	Brazil*	Brazil
Mastercard Black	Brazil*	USA
Safra	Brazil*	Brazil
Santander Van Gogh	Brazil*	Spain
Visa Infinity	Brazil*	USA

*Table 12.11* Segment: gastronomy

Company	Location	Origin
A Bela Sintra	SP	Brazil
A Loja do Chá	SP	Brazil
Amadeus	SP	Brazil
Antiquarius	RJ	Brazil
Aprazível	RJ	Brazil
Arturito	SP	Brazil
Baby Beef Rubaiyat	SP	Brazil
Bar Full Jazz	PR	Brazil
Bar Número	SP	Brazil
Benjamin Abrahão	SP	Brazil
Brigaderia	SP	Brazil
Buffet Fasano	SP and RJ	Brazil
Café Del Mar	RJ	Spain
Camamo Beijupirá	RN	Brazil
Casa Santa Luzia	SP	Brazil
Chez Airys	SP	Brazil
Chocolat du Jour	SP	Brazil
Cipriani	RJ	Brazil
Clandestino	RJ	Brazil
Confeitaria Colombo	RJ	Brazil
D.O.M.	SP	Brazil
Durski	PR	Brazil
Edvino	PR	Brazil
Empório Central	SP	Brazil
Empório Diniz	SP	Brazil
Empório Santa Maria	SP	Brazil
Eñe Restaurante	RJ and SP	Spain
Es Vedra	PR	Brazil
Figueira Rubaiyat	SP	Brazil
Galani Restaurante	SP	Italy
Garcia Rodrigues	SP and RJ	Brazil
Gero	SP, RJ and DF	Brazil
Havanna	PR, RS and SP	Argentina
ICI Bistrô	SP	Brazil
Île de France	PR	Brazil
Isabella Suplicy	SP	Brazil
Jardim de Napoli	SP	Brazil
Jum Sakamoto	SP	Brazil
Kosushi	SP	Brazil
La Casserole	SP	Brazil
Laurent Suaudeau	SP	Brazil
Les Amis	SP	Brazil
Manekineko	RJ	Brazil
Maní	SP	Brazil
Manu	PR	Brazil

*Continued*

Table 12.1l Continued

Company	Location	Origin
Marius Churrascaria	RJ	Brazil
Mocotó	SP	Brazil
Mosteiro	SP	Brazil
Nespresso	Brazil*	Switzerland
Neuhaus	SP	Belgium
Nonno Ruggero	SP	Brazil
Olivier Cozan	RJ	France
Olympe	RJ	France
Paty Piva	SP	Brazil
Payard	SP	France
Pobre Juan	SP	Brazil
Restaurante Blason	RJ	Brazil
Santo Grão Café	SP	Brazil
Satyricon	RJ	Brazil
Sheridan's	PR	Brazil
Skye	SP	Brazil
Spot	SP	Brazil
Sushi Leblon	RJ	Brazil
Suplicy Cafés Especiais	SP	Brazil
Terra Madre	PR	Brazil
Tre Bicchieri	SP	Brazil
Varanda Grill	SP	Brazil
Vindouro	PR	Brazil
Zea Mais	PR	Brazil

Table 12.1m Segment: home products

Company	Location	Origin
Bang & Olufsen	SP and RJ	Denmark
Baccarat	SP	France
Cassegrain	Brazil*	France
Domici	Brazil*	Italy
Espaço Santa Helena	SP	Brazil
Jorge Elias	SP	Brazil
Juliana Benfatti Antiguidades	SP	Brazil
Kitchenaid	SP	USA
La Lampe	Brazil*	Brazil
Luxaflex	Brazil*	Holland
Mickey Home	SP	Brazil
Pavillon Christofle	SP	France
Renée Behar	SP	Brazil
Spicy	Brazil*	Brazil
Tramontina	Brazil*	Brazil

*Table 12.1n* Segment: hotels

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Ariáú Amazon Tower Hotel	AM	USA
BC Hotel	RJ	Brazil
Caesar Park Ipanema	RJ	Mexico
Cataratas	SC	Brazil
Club Breezes Búzios	RJ	USA
Club Med	RJ and BA	France
Convento do Carmo	BA	Portugal
Copacabana Palace	RJ	USA
Crowne Plaza	Brazil*	USA
Emiliano	SP	Brazil
Fasano	RJ and SP	Brazil
Grand Hyatt Hotel	SP	USA
Hilton	SP and PA	USA
Infinity Blue Resort	SC	Brazil
L'Hotel	SP	Portugal
Marriott	RJ and SP	USA
Melia	DF(Brasilia)	Spain
Nannai Resort	BA	Brazil
Pestana	Brazil*	Portugal
Ponta dos Ganchos	SC	Brazil
Refúgio Ecológico Caiman	MS	Brazil
Renaissance Hotel	SP	USA
Santa Tereza	RJ	France
Sauípe Premium	SP	Brazil
Sheraton	SP and RJ	USA
Sofitel	SP, RJ and SC	France
Terra Vista	BA	Brazil
Tivoli Mofarrej	SP	Portugal
Txai	BA	Brazil
Unique Hotel	SP	Brazil
Windsor	RJ	Spain

Table 12.1o Segment: jewellery

Company	Location	Origin
Ana Rocha & Appolinario	DF, RN and SP	Brazil
Antonio Bernardo	Brazil*	Brazil
Ara Vartanian	Brazil*	Brazil
Brumani	Brazil*	Brazil
Bulova	Brazil*	USA
Bulgari	SP	Italy
Cartier	SP and RJ	France
Casa Leão	SP	Brazil
Chopard	SP and SC	Switzerland
Collection Joias	Brazil*	Brazil
Cristovam Joalheria	SP	Brazil
Francesca Romana Diana	Brazil*	Brazil
Frattina	SP	Brazil
H. Stern	Brazil*	Brazil
Jack Vartanian	SP, RJ and NY	Brazil
Manoel Bernardes	MG and SP	Brazil
Montblanc	Brazil*	Germany
Rolux	SP	Switzerland
Sara Joias	SP	Brazil
Silvia Furmanovich	SP and DF(Brasilia)	Brazil
Swarovski	RJ and SP	Brazil
Tiffany & Co	Brazil*	USA
Van Cleef & Arpels	SP	France
Vianna Joias	BH	Brazil

Table 12.1p Segment: literature

Company	Location	Origin
Livraria Cultura	Brazil*	Brazil
Livraria da Vila	SP	Brazil
Livraria da Travessa	RJ	Brazil

*Table 12.1q* Segment: decoration and porcelain

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Armando Cerello	Brazil*	Brazil
Artefacto	Brazil*	Brazil
Collectania	SP	Italy
Conceito Firmacasa	SP	Brazil
Entrepasto	SP	Brazil
Etel Interiores	SP	Brazil
Grifes & Design	SP	Brazil
Jacqueline Terpins	SP	Brazil
Marcenaria Baraúna	SP	Brazil
Montenapoleone	SP	Italy
Ornare	Brazil*	Brazil
Passado Composto	SP	Brazil
Saccaro	Brazil*	Brazil
Scandinavia Designs	SP	Brazil
Vermeil	SP	Brazil

*Table 12.1r* Segment: fashion

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Adriana Barra	SP	Brazil
Alexandre Birman	SP	Brazil
Alexandre Herchcovitch	SP	Brazil
Avec Nuance	RJ, SP, DF	Brazil
Bazaar Fashion	PR	Brazil
Blue Gardênia Bed & Bath	SP	Brazil
Burberry	Brazil*	UK
Capoani	PR	Brazil
Carlos Miele	SP	Brazil
Carolina Herrera	Brazil*	USA
Catherine Malandrino	RJ, SP, DF	USA
Chanel	SP and RJ	France
Christian Louboutin	SP, DF	France
Constança Basto	RJ and SP	Brazil
Clube Chocolate	SP	Brazil
Conte Freire	RG	Brazil
Cris Barros	SP	Brazil
D&G	SP	Italy
D'Arouche	SP	Brazil
Daslu	Brazil*	Brazil
Demi Queiroz	SP	Brazil
Diane Von Furstenberg	Brazil*	Belgium
Dior	SP	France

*Continued*

Table 12.1r Continued

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Dona Santa	PE	Brazil
Eduardo Guinle	RJ	Brazil
Ermenegildo Zegna	Brazil*	Italy
Fogal	Brazil*	Germany
Giorgio Armani	Brazil*	Italy
Gloria Coelho	SP	Brazil
Gucci	Brazil*	Italy
Hermès	SP	France
Hugo Boss	Brazil*	Germany
Huis Clos	SP	Brazil
Isabela Capeto	Brazil*	Brazil
Isabella Giobbi	SP	Brazil
Jeans Hall	RJ and SP	Brazil
Jimmy Choo	SP	UK
Kate Spade NY	Brazil*	USA
La Perla	Brazil*	Italy
Left São Paulo	SP	Brazil
Lita Mortari	SP	Brazil
Longchamp	SP	France
Lool	SP	Brazil
Louis Vuitton	Brazil*	France
Magrella	DF	Brazil
Maria Bonita	Brazil*	Brazil
Mguia	SP	Brazil
Missoni	DF and SP	Italy
Namix	PR	Brazil
NK Store	RJ and SP	Brazil
Oma Tees	SP	Brazil
Oscar de La Renta	Brazil*	USA
Osklen	Brazil*	Brazil
Pelu	SP	Brazil
Reinaldo Lourenço	SP	Brazil
Ricardo Almeida	Brazil*	Brazil
Roberto Cavalli	SP	Italy
Ronaldo Fraga	MG and SP	Brazil
Salvatore Ferragamo	SP and RJ	Italy
Trousseau	Brazil*	Brazil
Versace	SP	Italy
Wolford	Brazil*	Germany
Yves Delorme	Brazil*	France



*Table 12.1s* Segment: marine

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Azimut Brasil	SC	Italy
Ferretti Brasil	Brazil*	Italy
Regatta	Brazil*	Brazil
Schaefer Yachts	SC	Brazil

*Table 12.1t* Segment: eyewear

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Luxotica	Brazil*	Italy
Marchon	Brazil*	USA
Safilo	SP	Italy
Wilvale	Brazil*	Brazil

*Table 12.1u* Segment: health care

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Blue Life	Brazil*	Brazil
CGPA	SP	Brazil
Hospital Albert Einstein	SP	Brazil
Hospital Sírio Libanês	SP	Brazil
Lincx	Brazil*	Brazil
Omni CCNI	Brazil*	Brazil

*Table 12.1v* Segment: shopping malls

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Shopping Cidade Jardim	SP	Brazil
Shopping Iguatemi	SP, DF ,BA	Brazil
Shopping JK Iguatemi	SP	Brazil
Shopping Patio Batel	PR	Brazil
Shopping Rio Mar	PE	Brazil
Shopping Village Mall	RJ	Brazil

*Table 12.1w* Segment: tabbaco

<b>Company</b>	<b>Location</b>	<b>Origin</b>
Davidoff	SP	Switzerland
Lenat	SP	Brazil
Puros Habanos	SP	Brazil
Tabacaria Caruso	SP	Brazil

Table 12.1x Segment: tourism

Company	Location	Origin
Matueté	SP	Brazil
Prime Tour	SP	Brazil
Teresa Perez	SP	Brazil

Table 12.1y Segment: vehicles

Company	Location	Origin
Aston Martin	SP	UK
Audi	Brazil*	Germany
Bentley	SP	UK
BMW	Brazil*	Germany
Bugatti	SP	Germany
Ferrari	SP	Italy
Harley-Davidson	Brazil*	USA
Jaguar	SP	UK
Lamborghini	SP	Italy
Land Rover	Brazil*	UK
Maserati	SP	Italy
Mercedes-Benz	Brazil*	Germany
Mitsubishi	Brazil*	Japan
Porsche	Brazil*	Austria
Subaru	Brazil*	Japan
VW Premium	Brazil*	Germany
Volvo	Brazil*	Sweden

Table 12.1z Other segments

Company	Location	Origin
Au Pet Store	SP	Brazil
Ford Models Agência de Modelos	SP and RJ	Brazil
Onofre Farmácias Farmácia	Brazil*	Brazil
Paul Natan Impressão	RJ and SP	Brazil
Tools and Toys Veículos de Alto Padrão	SP	Italy

Note: \* Presence in more than three states considered nationwide: Brazil.  
Research performed between 01/2012 and 01/2013.

Monthly salaries in the luxury market can be R\$8,000 for salespeople, R\$14,000 for a sub-manager, R\$18,000 for a store manager, R\$40,000 for a director and can sometimes reach R\$60,000 for a styling director. Besides that, there are also indirect benefits from working with luxury brands, as some staff discounts can be up to 50%. Above all, there are the training courses, most of which are given in France and the United States.

# 13

## Conclusion

The luxury market in Brazil is still at an embryonic stage. It is happening and it is being shaped now. It should not be compared to the luxury market in European countries or in the United States, which are at a well-advanced phase. Brazilians and Chinese alike, as well as Indians and Russians have not yet developed a culture towards luxury and they still buy luxury items to gain social position; therefore a logo is very important.

The brand called Brazil has strongly increased in value over the past decade and has become just as expensive as luxury items, without the benefits pertinent to luxury. Brazil has finally woken up and the rest of the world has discovered this country. Due to that, we have been awarded two great global events, the World Cup and the Olympic Games, but at a high price for the population, as the cost of living has increased enormously, making it very expensive to live in Brazil.

This country is undergoing construction, as we do not yet have enough airports, railways, highways or transport. In summary, there is no infrastructure as a country (prices have risen but the structure is still precarious). The nation is closed for repairs. Brazil has become a huge worksite. Although the usual timespan for building a country is between 50 and 100 years Brazil, according to research, will be ready by 2053. Then there will be adequate airports, highways, marinas and decent means of transport (which will free us from the constant traffic jams of São Paulo, as there will be underground stations everywhere, as in London and Paris).

On the other hand, the fact that we are under construction and desperately need resources means there are clear opportunities. That is why 1,000 foreigners arrive every day to work here. One can understand this by thinking of two plots of land: one plot with several houses and buildings on it and another with practically nothing built on it. Brazil would be the empty plot and Europe would be the one with buildings. The average income per capita in Europe is US\$36,600 whereas in Brazil it is US\$10,700, meaning that the average income per person in Europe has reached its peak and will tend to decrease in coming years, but in Brazil and other emerging countries, prospects are quite optimistic regarding future income per capita. For now there is still a great deal of room for growth. Luxury ignores a crisis and keeps growing, principally in these emerging countries. In about ten years, there will be several Brazilian luxury brands.

About five years ago, Brazil was internationally commended as a leading country for investment in the luxury market, and this has been confirmed by the arrival of the most famous luxury brands, lavish malls exclusively for luxury brands, with the presence of equally famous traditional brands that are still unknown to the Brazilian public, but which are gradually being assimilated and amassing faithful followers.

Those who came to Brazil earlier are already reaping the fruits of a much higher profitability than in their home countries. Shops here offer an advantage that Brazilians cannot find abroad, the sale of luxury products in instalments by credit card.

Working with the luxury market in Brazil requires networking within this segment as well as commitment and an understanding and respect for the client. As cultures are different, particularly in Brazil, anyone who has a less than extensive knowledge of the market will miss opportunities. It is a market with some peculiar features.

Credit Suisse published a report in which Brazil was rated second as a country with the greatest potential for creating millionaires (after South Africa). Therefore, we have to make the most of this favourable moment, for chances will become scarcer once the country is organized, as in Europe. Here, the luxury market is very specific, while the European market sells to consumers in Europe, the USA, China (the Chinese are responsible for over 50% of sales in Paris and Milan) and, of course, Brazil. The luxury market in the USA sells to

Americans, Chinese, Mexicans, Brazilians and Europeans. In Asia it reaches Chinese, Japanese and Europeans. In Brazil it only sells to Brazilians; Europeans and Americans do not make purchases here as prices are higher than in their own countries, due to high import taxes.

Since 2012, Angolans and Argentines have started buying here. The reason for Argentine purchases is that their president established a law forcing importing companies to produce products in Argentina. The solution for luxury brands was to leave the country as they had no wish to manufacture in Argentina. For Angola, the advantages are related to easy access, due to direct flights, and speaking the same language, Portuguese.

Another peculiarity to be understood is that the Brazilian population with low incomes also has strong aspirations for luxury. This is where the passion for luxury is most evident. Nowadays, luxury is more connected to wellness than to the brand. Even people living in *favelas* know luxury brands and desire them. The 'hyperconsumer' wants more than simply eating and clothing and people here buy products because today's society has no room for repetition, craves novelty, and consuming brings novelty without risks and means excitement. More philosophically, it is a display of sensual status and the idea of sensuality is still strong in Brazilian culture. The Brazilians like to show off more and are more passionate about appearances, their bodies, wealth and pleasure.

To prove that, Brazil is ranked second in the world for plastic and reparative surgery, performing around 2,000 operations a day. The Americans, who are leaders in this field, perform double that. It is quite an impressive figure, particularly when considering that almost all of these operations are simply for aesthetic reasons. Classes C and D have not yet accessed plastic surgery or health spas. However, that does not stop the 4,975 surgeons registered in Brazil from attending to a market of more than R\$600 million per year. In the 1960s, that kind of surgery would be exclusive to kings and queens.

The demand to keep young has become an important factor. In the past, it used to be important to show one's wealth; now it is to show youth. In the United States, women spend more on hydrating creams, Botox or plastic surgery than on make-up. In Brazil, it is not common to see a woman with white hair and Brazilian culture tells women that they must hide their age by dyeing their hair. Girls

aged 16 are already undergoing liposuction and women aged 30 are applying Botox or having their first plastic surgery. At the age of 60, a person is considered elderly in Brazil and has official rights equal to those granted to people with limited capacity. By law, they have priority for parking spaces, a special queue in banks and other places and pay half fare at cinemas and on public transport. On the other hand, the message nowadays is that we are living longer and it is not uncommon to live to a hundred. Until the last decade, Queen Elizabeth used to send signed birthday cards to each British person who reached that age, but as the number of them increased, that stopped. If you ask a 70-year-old Brazilian if he or she would prefer wealth or youth, it is very probable that the answer would be youth. That accounts for the success of the Brazilian cosmetics segment, as we are on the way to becoming the largest market for cosmetics in the world.

Any luxury brand wishing to establish itself in Brazil must understand how the Brazilian luxury market works, who the luxury consumers are, what they think and how to attract them. Therefore, it is crucial to understand Brazilian customs and habits. Luxury conglomerates would sell much more if they understood local attitudes and culture.

A luxury consumer in São Paulo has a different purchasing behaviour from a consumer in Rio de Janeiro, only 460 km away, and they also think differently from consumers in Brasília, who in turn have a different behaviour from those in Curitiba, in the south. That goes to show that the famous manuals written in France on correctly approaching a market do not apply to Brazil and need to be adapted to Brazilian reality.

Analysing behaviour, it is safe to emphasize the Brazilian culture of purchasing when abroad and the impact these purchases have on the local luxury market. Due to the main enemy of the luxury market, high import taxes, the difference between buying a luxury product in Brazil and in the USA or Europe used to be 120%, making it very expensive to buy them in Brazil. That meant that, until some years ago, the main competition for luxury brands were airline companies, as Brazilian consumers saw the product in their country but bought the same brand in New York or Paris. That brought heavy losses to the luxury market. However, in recent years, luxury brands understood that reality, saw that the government would not reduce taxes,

and so reduced their profit to keep prices lower to enable them to compete against the foreign market.

Nowadays, the difference between buying in or out of the country is not so high. Louis Vuitton now applies only a 15% increase for buying a product in São Paulo against buying it in Paris or New York, and the advantage is that you can split your expenses in Brazil by dividing a purchase into five instalments free of interest (only for credit cards issued in Brazil). Chanel applies 20%, Cartier 16%, Ermenegildo Zegna 25% and Van Cleef 0%. After calculating exchange rates, Van Cleef offers a piece of jewellery in Brazil at the same price as in France and you can still have the benefit of buying in ten instalments.

The Brazilian government, trying to reduce foreign consumption, has recently started to apply a 6% tax rate on purchases made abroad, and that has been very helpful to the local luxury market.

In 2013, Brazilian consumers abroad spent heavily, becoming the seventh largest group of luxury consumers in the USA and the tenth in Europe. That caught the attention of luxury brands, who started paying special attention to Brazilians, and some even hired Portuguese-speaking employees to attend to Brazilians abroad.

The trend for 2014 and 2015 is to keep on buying outside of their own country, but at a slower pace, because there is a greater local opportunity than in the past. The expectations for 2014 are that the luxury market will be consolidated, with nearly 85% of international brands operating in Brazil (in fashion) and the other 15% should arrive by 2015.

This is a country in which there is not a high risk of terrorist attempts, or natural disasters such as tsunamis or earthquakes, on the other hand it is liable to social movements that can affect retail sales. As an example, there were protests in June 2013 that kept the country paralysed for a whole week and affected sales in the luxury market in June and July. The economy showed a retraction, due to security issues, as consumers felt uncomfortable about entering shops to buy luxury items. Luckily for the market, the protests stopped or lost their impact and the country went back to normal in August. This phenomenon required new quality parameters from the market, constantly raising standards demanded by clients towards premium products and services. This new perspective is a constant threat against businesses and new brands settling here, as it requires



them to continually improve services and products to reach those standards.

Sales in December 2013 were 8% to 10% higher than in 2012, which is considered quite a good rate for luxury conglomerates, and even more so knowing that sales in Europe did not show such good figures. And 2014 is a very untypical year for Brazil, as Carnival, the main holiday, it was in March. For the country's economy, it is better when Carnival is at the beginning of February as business is very slow after New Year. It is a common notion that the calendar year really only starts after Carnival in Brazil. Besides that, we expect changes regarding the World Cup, as the country will practically come to a stop during most of that month. Following that, there are presidential elections, which always bring a couple of months of instability to the country. Therefore, such an outstanding year will be a difficult one for some segments in luxury, but it will certainly be excellent for tourism in Brazil, particularly for luxury hotels, executive aviation, the marine segment and high-end gastronomy.

That shows us the need for sensory marketing, which is becoming the norm in luxury hotels. Music, aromas, colours, everything planned to arouse sensations of well-being and a connection to the luxury in the surrounding environment. What we usually take home from a hotel as a guest are memories, and there is nothing better than investing in provoking the guests' senses of hearing, taste and smell.

Copacabana Palace offers its guests Biscoito Globo cookies and Mate Leão tea, traditional, old-fashioned local products. These are the most successful amenities offered by the hotel management. The luxury guest is no longer surprised by a chocolate made at a French pâtisserie or by Perrier water, so why not offer a good old treat? However, the crucial detail in this strategy is the card left beside the tea and cookie, explaining the importance of these products to the local culture and Rio de Janeiro's identity. Genius!

'There is nothing to replace our home and if we must pay for a hotel room, we want something that goes far beyond what we have at home.' The same applies to a restaurant, where we usually want to taste something that we cannot cook at home.

When we leave cheaper hotels and venture into high-end hotels, a client's expectation is about location (19%), cleanliness (43%) and security (11%), the three main items when making a decision where to stay. Prices account for 23% and the remaining 4% is related to

lesser items, such as breakfast or Wi-Fi. This kind of guest is buying comfort, and wants to be pampered or spoiled, left feeling that they are receiving special care and that they are unique.

A country's strength comes not only from economic growth, but also from its capacity to distribute wealth, labour, power, knowledge, opportunities and protection equally. The challenge in Brazil is to reduce illiteracy, violence and inequality and it must perform this distribution more uniformly than other countries and keep a good balance between economy and happiness.

Everything becomes much easier for international luxury brands once they have done their homework of learning to understand Brazilian habits. It is not enough to speak the same language; the brand has to comprehend the ins and outs of each country it targets so that it can reach a client's heart before his or her mind. One must always remember that luxury purchases are mostly motivated by emotion and desire. Then a brand can speak the same language as its consumer and achieve brand fidelity.

The luxury market's future must include a greater concern towards issues of sustainability, extending the brand and constantly democratizing consumption. These tendencies are part of a series of changes that have already started showing in the industry and in consumers' behaviour, and the same is true in the resulting growth in the number of high-end stores and companies, and the range of people who can access items from these brands.

Brazil is not yet as famous or as well regarded as it should be. This country is almost as large as China, but it is a political democracy. It is almost three times the size of India and has almost the same number of ethnic groups and religions, but it is at peace both internally and with the countries on its borders. Brazil is four times the size of the Euro zone, but has only one government and one language. In Brazil there is the highest number of Catholics in the world, although the population lives in a pagan style. Lastly, Brazil is the only country in the world where its culture is still strong on solidarity, sensuality, cheerfulness and receptivity.

Thank you for having read this book.

I hope the Universe will keep on conspiring to favour you.

Tons of luck!

– Claudio Diniz

The Planet of luxury is no longer unitarian. For many years in history, luxury was relatively homogenous, except when one distinguishes profane luxury from religious, church luxury from noblemen, castles and courts. It was the luxury of materials, gold, masterpieces, precious gems, and silk. Nowadays, luxury has become more accessible to a significant part of the population, as it can now represent industrialized products, manufactured in large quantities and affordable, such as cosmetics and perfumes. Even in *new luxury*, as the Americans call it, there are products of a brand, of *mass prestige*: H&M with Karl Lagerfeld or Viktor & Rolf. Inside this luxury turned plural one can see a situation of dichotomy. Ostentatious luxury never dies. There are several 'nouveaux-riches' in Brazil, Russia and China who wish to show off. However, there is another kind of population that has left this behaviour. They are so wealthy that, when in search of a product, they seek an exceptional, exciting experience, not necessarily to show off. These people live in small groups, closed social circles and all they want to consume is the experience of something rather crazy. That is what I call 'emotional luxury'. Not every luxury will become emotional, but I believe that some tension will be present.

– Gilles Lipovetsky

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