Brazil has come a long way in the last three decades. As its economy roared to life, the country transformed from a debt pariah into a rising global star. Between 1988 and 2013, GDP doubled and inflation fell from 5 percent a week to 5 percent a year. More recently, since the late 90s, there has been a middle class boom. More and more Brazilians watched their incomes rise and some 25 million people ascended from poverty into the middle class, which now represents some 70 percent of Brazilian citizens.\(^1\) This thriving group outnumbers the combined populations of France and the UK, and accounts for just over half of the country’s total consumer spending, now a big piece of the country’s economic story.

Brazil’s growth and soaring domestic consumption in the last 15 years have been driven by several factors. These include an all-time low unemployment rate of 4-5 percent, increased consumer credit offerings, a real increase in purchasing power, and a high willingness among consumers to spend their disposable income. When we asked Brazilian middle class consumers what they would do with additional income, most of them said they would spend it. One respondent told us: “I would buy bikinis, shorts, and some summer clothes. I would not invest it for sure!”

\(^1\) Middle class defined as annual household incomes between R$23,000 and R$44,000 (or $8,500 to $16,000)
Yet despite these gains, the further growth of incomes and consumer spending in Brazil is by no means guaranteed. GDP growth has been historically volatile and the last two years have been characterized by intense economy uncertainty. The country has experienced lower growth forecasts, increased inflation, a rise in interest rates, and a potential saturation of consumer credit. As a result, there has been less social mobility than in previous years and the country’s middle class is now more mature, facing very different circumstances than when they first emerged.

So who are these consumers who have been living middle class lifestyles for a decade? How are they changing or solidifying their habits and attitudes? Will they be likely to continue spending if the economy further slows down? To answer these questions we have highlighted seven insights that marketers and businesses should consider when thinking about Brazil’s middle class.

1. Consumption as a proxy for social and financial well-being

Brazilians have always loved to shop, but it’s even more than that: They see consumption as a key indicator of life improvement. Far from being a chore, shopping is an essential part of a rewarding life. Just over half of Brazilian consumers say that it is one of their favorite leisure activities, and 46 percent say shopping is one of the best ways to spend time with their family. One lower income consumer told us: “If I could, I would spend the entire day in the supermarket.”

These consumers aspire to buy in abundance because it signifies a measure of social standing and financial well-being. In this context, indulgence and impulse buying are both a reaffirmation of the “acquired right” to consume and a type of reward for the weight of the daily grind. On average, consumers make personal purchases that serve as immediate gratification once or twice a month, but some do it every week or even every day on their way home from work.
The values Brazilians have around spending money trump those of saving it. Across the board, Brazilian consumers spend more than they put away. They use overdraft checks to the limit or pay the minimum monthly amount on their credit cards, viewing it as resource they now have access to. As a result, the national savings rate in Brazil is much lower than it is in China, the U.S. and Mexico. In recent years, personal liabilities have been growing at a faster rate than assets.

### Spending culture: Brazilians save little compared to other countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>6.92</td>
</tr>
<tr>
<td>U.S.</td>
<td>3.67</td>
</tr>
<tr>
<td>China</td>
<td>3.43</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.29</td>
</tr>
<tr>
<td>Germany</td>
<td>3.07</td>
</tr>
<tr>
<td>U.K.</td>
<td>2.99</td>
</tr>
<tr>
<td>Japan</td>
<td>2.31</td>
</tr>
<tr>
<td>Global Average</td>
<td>3.54</td>
</tr>
</tbody>
</table>

1 Includes investments such as: mutual funds, stocks, savings account
2 Level of personal debt

### Brazilian investment levels have potential to improve

2. From food to leisure: The sophistication of consumption

Ten years ago, middle class consumers’ main consumption ambitions were to have access to more and better quality food. Now that these consumers have settled into their middle class lifestyles, their desires are more sophisticated. One lower middle class consumer told us: “If I won R$ 20,000 I would spend half of it on clothes and the other half on leisure goods, such as skates, rollerblades etc.” Another said she would buy a laptop computer, along with makeup and perfume. This evolution of desires is also evidenced by the more sophisticated offerings of retailers and manufacturers. Riachuelo, one of Brazil’s largest mass-oriented apparel retailers, for instance, recently launched a Versace collection.

Middle class consumers also seem to have a latent need for leisure, even if they struggle to find the time for it. Because of the close association between shopping and leisure, as well as other factors like a desire for safe public spaces, middle class consumers adore malls. They say that going there is one of the main moments of down time they have in their daily lives.
Another embodiment of Brazilian middle class consumers’ desire for leisure time is boat cruises, which have been enormously popular in recent years. A place to rest and be served, and where there are endless food and beverage options and no obligations, cruises are the perfect combination of the middle class need for self-gratification and a break from the busy routine of making ends meet. It is a moment where those who usually serve others can enjoy the luxury of being served and pampered.

3. Multichannel and digitally connected .....via mobile

As the number of mobile internet lines has soared in Brazil (up 110 percent per year between 2008 and 2013), more and more middle class consumers have joined the ranks of the digitally connected. Roughly half of these consumers now own a smartphone, and more than half of Brazil’s internet users come from the middle class.

These middle class consumers belong to a more recent generation of internet users. Their digital behavior has more in common with that of the younger generation than it does with the upper classes and older generations. Compared to upper classes, middle class consumers rely more heavily on social networks than email and have a higher affinity for online videos. For them, the internet is all about social connections and entertainment. E-commerce is already prevalent among middle class consumers, although they tend to be more risk averse and rely heavily on the opinions of friends and family in order to evaluate the reputations of brands and retailers. These consumers are, however, responsive to email offers, since they place great value on the idea of a good deal. Their use of mobile communication apps such as Whatsapp is widespread and sales reps of large mass retailers will frequently close sales transactions through the app.

### Increased internet penetration has been propelled by mobile broadband usage

<table>
<thead>
<tr>
<th>Penetration of smartphones and internet</th>
<th>Smartphones in use</th>
<th>Mobile internet lines¹</th>
<th>Fixed broadband subscriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thousand units</strong></td>
<td>Thousand units</td>
<td>Thousand units</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>2,381</td>
<td>2,492</td>
<td>9,680</td>
</tr>
<tr>
<td>2013</td>
<td>41,841</td>
<td>103,108</td>
<td>20,191</td>
</tr>
</tbody>
</table>

1 Includes 3G, datacard and 4G

SOURCE: Yankee, Teleco, ITU; iConsumer

4. Beauty obsessed, though health and wellness not entirely achievable

The attention Brazilians of all socioeconomic classes pay to their appearance is legendary. Brazil is the country where more liposuctions are performed than anywhere else. It ranks #2 in the world for plastic surgeries (which Brazilians pay for with an average of 10 installments) and #4 for the number of gyms. Clothing is critical too: A majority of Brazilians (59 percent)
say that most of the clothes they buy are for going out, compared to a 27 percent average in Russia, China and India.

Among the middle class, a beauty regime is considered a necessary indulgence and consumers identify key items that they will spend money on no matter what. One consumer told us about buying a $5 shampoo even when their economic situation was challenging. Maintaining good health is equally important, but here consumers run into challenges. Although most know what it takes to be healthy, many find it difficult to regularly incorporate nutritious eating and exercise into their daily routine. They respond to simple hints on how to be healthy without making dramatic changes to their routine or budget, such as the importance of drinking lots of water and the benefits of tea. They take great stock in what they read or hear about health in the media.

5. Education and private healthcare are important aspirations; the big (and unachievable) dream is to own a car and a house

Spending on education in Brazil – in the form of university degrees, exchange programs and/or English language courses – has soared, especially among lower middle class consumers, who now account for 42 percent of all education spending. In total, the number of university students enrolled in Brazil has increased by 77 percent in the last decade, reaching 6.2 million, a figure evenly split between private and public universities. Nearly two-thirds of university students now belong to the middle class. Yet the desire for education can become a trap for many young people in the emerging economic classes, as poor education offerings may prove to be a less fruitful investment than expected.

Many Brazilians also aspire to have private health insurance, since Brazil’s state-sponsored healthcare (SUS) has many shortcomings. Yet for many middle class consumers, private plans can cost as much money as they make, rendering them a luxury, not an attainable reality. As a result, most people tend to approach their healthcare in a patchwork fashion. They try to see the doctors they like through SUS, but when this isn’t possible they find a way to get the money to pay privately. Alternatively, they might use SUS for expensive tests that were prescribed by those privately paid doctors.

While healthcare and education are both expensive necessities for Brazil’s often struggling middle class, the biggest long-term dream is to purchase their own home and car. These represent the essential passports to the good life. Yet these items hold a high degree of unattainability, particularly among lower middle class consumers. Even though they talk with ease about their spending habits and desires in fashion and beauty, these consumers feel paralyzed when it comes to dreaming big. Big-ticket items like a home and car are often perceived to be outside of their reach, and a lack of financial education and long term planning are at the heart of the problem.

6. Limited financial planning: The consumption dream turning into a nightmare

Brazilians have mastered the art of consumption as a form of enjoyment and fulfillment. To sustain their shopping habits, they rely on credit and payment installments that fit their
Sixty-one percent of middle class consumers have credit cards and just over half of all credit card transactions are paid in installments, for items as varied as home electronic products, clothing and books.

But when it comes to long term financial planning, Brazilians have a ways to go. Despite their desire for items that necessitate careful planning, such as homes and cars, many middle class consumers have trouble carefully planning ahead for such major future purchases.

A relatively low level of financial education translates into erroneous notions about the cost of credit. Cost perceptions seem to be influenced not by the interest rates charged but by the size of installments, which explains why mortgages and auto loans (which are less familiar to consumers) are considered the most expensive, even though they have the lowest interest rates. Conversely, credit cards, which carry the highest interest rates, are seen as the least expensive debt option. This practice of choosing credit products based on convenience and from a lack of knowledge often leads consumers to make uninformed choices and take on excessive and unnecessary debt. As a result, many consumers end up not being able to afford their big ticket payment installments, turning their consumption dream into a nightmare.

7. Challenges to repay increasing debts may hinder consumption

While increased credit offerings in recent years have helped propel consumption, they could also end up strangling it. In the last decade, the amount of total personal debt relative to Brazil’s GDP grew by a factor of 2.5, and the average family debt load is now almost half of their annual income. Yearly interest and debts payment gobble up 21 percent of a family’s income, much higher than in other countries like the U.S. (10 percent) and Chile (14 percent).
Many users of credit are aware of the unsustainability of their situation and are willing to take a more conservative approach to spending in the interest of decreasing their debt. In this scenario, consumers state that upscale packaged goods are the first category they would give up, followed by a replacement of their current car or purchase of their first one.

How marketers can win

Be granular
Although consumption may slow down, it will nonetheless remain a defining characteristic of Brazil's middle class, since it is deeply mapped to their sense of well-being and social acceptance, as well as their need for indulgence. And even though optimism levels have decreased (defined as a percentage of people who think next year will be better than the previous one), Brazilian consumers are still among the top 10 most optimistic worldwide. To capture consumption opportunities in potentially difficult macroeconomic scenarios, marketers must invest in the ongoing identification of specific and narrow pockets of growth – geographies/cities, categories/sub-categories and retail channels – and then adapt their go-to-market strategies accordingly.

Be targeted
Despite the generalizations that apply to middle class Brazilians, marketers should keep in mind that not all these consumers are the same. Long gone are the days in which companies could aspire to target “the middle class” as a single group. Identifying and prioritizing consumer sub-segments based on deep understandings of their attitudes and behaviors is what will allow brands to succeed in delivering effective value propositions and messages to this broad group of consumers.

Understand the Consumer Decision Journey
Given the pivotal role that shopping and shopping malls play in the lives of middle class consumers, the emotional involvement Brazilians have with these activities is unlikely to diminish. Information that aids the shopping process can play a key role in engaging consumers and increasing their ticket sizes. To enable this, marketers must gain a deep understanding of the consumer decision journey, including which touch points are the most influential in driving purchase choice and which are the most effective drivers of customer experience. In many instances, certain segments of the middle class will have very specific behaviors and media usage habits. Thus, marketing to them requires a highly targeted approach. By understanding the consumer decision journey of specific segments, companies will be able to align their marketing investments and execution capabilities in a way that drives consumer behavior and yields better returns.

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