

The Washington Post

In Brazil, new airline Azul aims to attract nation's growing middle class

By Juan Forero
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CAMPINAS, BRAZIL - At 19, a tall and gangly Mormon missionary named David Neeleman traveled to northeastern Brazil, spreading the word of God in a region so poor that he still remembers it as "very upsetting to me."

After that two-year stint, a bubbling entrepreneurial spirit led Neeleman back to the United States, where he built airlines celebrated for their innovation.

Neeleman is back in Brazil and once more looking for converts - this time to fly his new carrier, Azul.

The airline's growth, like that of many companies in this booming country of 200 million, is powered by an expanding and increasingly prosperous middle class, known as Class C in Brazil.

"It's really gratifying to see now that you have 100 million people who are now just in the what we call the C class," Neeleman said in a recent interview at Azul's headquarters outside Sao Paulo.

Thirty years ago, when he was ending his missionary work, Neeleman recalled, a fraction of Brazilians, perhaps 30 million, held most of the country's buying power. In

the past eight years, though, the Class C - made up of households earning \$650 to \$2,850 a month, what would be considered lower-middle class in the United States - has mushroomed by about 30 million people.

"It's that group that's really giving the growth to the economy," Neeleman said. "It's not the A and B class, the 30 million that have always existed, that have always spent money."

The millions of new, upwardly mobile Brazilians are helping power an economy, the world's eighth-largest, that economists predict will grow 7.5 percent this year. Their leap into the middle class has prompted Brazil's president-elect, Dilma Rousseff, who won a runoff election Sunday, to say that eradicating poverty in Brazil is feasible.

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Indeed, as the popular, eight-year presidency of Luiz Inacio Lula da Silva comes to a close, this country is undergoing what sociologists call a remarkable social and economic transformation in which 20 million people have risen out of poverty since 2003. Wages went up 5.2 percent a year during his presidency, and income inequality has fallen.

Marcelo Neri, an economist who studies socioeconomic trends, said newcomers to the middle class increasingly enjoy a new stability that includes jobs in the formal economy and benefits such as health care and pensions.

They are also buying at a record rate. Last year, car sales doubled to 4.5 million from 2003. The number of credit cards issued to consumers rose 438 percent in a decade. Airplane boardings also jumped, from 33 million in 2003 to more than 56 million. That means lucrative opportunities for investors, whether they are selling washing machines, new homes or airplane tickets.

"They were used to targeting 10 percent of the Brazilian population," said Neri, chief economist at the Center for Social Policies at the Getulio Vargas Foundation in Rio de Janeiro. "Now they are spreading their reach."

From the United States, Neeleman got a whiff of the possibilities.

After founding JetBlue in 1998, he quickly won recognition for the airline's focus on providing good service at low cost. Then came a 2007 ice storm in which JetBlue blundered, stranding thousands of passengers. The airline's board blamed Neeleman and ousted him.

Neeleman began to look south for opportunities. Having built JetBlue and two other carriers, Neeleman said, it made sense to stick with airlines.

He raised \$235 million for the venture from such big names as Brazil's Grupo Bozano, as well as American investors who saw promise in Brazil. Because Neeleman has Brazilian citizenship - his father, an American journalist, was based in Brazil when Neeleman was born - he can get around restrictions preventing foreigners from holding a 20 percent stake in airlines.

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The numbers looked promising: Dozens of cities underserved by airlines and tens of millions of people who relied on the bus to get across the giant country. Americans fly seven times more often than Brazilians, Neeleman said, and yet plane tickets in Brazil were far more expensive.

"All those factors came together to spell huge opportunities," he said.

Azul, which means blue in Portuguese, began flying in December 2008, serving three cities with three planes.

Many of its potential customers do not have credit cards, so Azul set up a variety of payment options, including direct withdrawal from banking accounts. Because taxis are expensive, Azul offers free bus service from several cities in Sao Paulo state to Viracopos airport here in Campinas, the airline's hub.

"People thought, 'Travel is for the elite, we travel by bus,' " said Jason Ward, Azul's customer services director, who had worked with Neeleman at JetBlue. "So we can help them to realize that air travel is affordable, accessible and that it's for everybody, not just for the rich."

On a recent day, Maria Jose Silva, 50, explained that she was so excited about boarding her first airplane that she could not

sleep the night before.

Standing in line to check in at the Azul counter in Campinas, she said that she was accustomed to a three-day bus trip to visit relatives in the far northeast. But Silva bought her Azul ticket early, and that made it cheaper than the bus.

"Something that used to take 72 hours is now only going to take a few hours," she said. "I am going to leave at 10 a.m. and get there at 1 p.m."

Azul targets medium-size cities of half a million or more, serving 25 of them with a fleet of 23 sleek, new Brazilian jets. The airline expects more than 4 million passengers this year, up from 2.2 million in 2009.

It is only a small slice of the market, which is

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dominated by two bigger airlines, but Neeleman said he thinks Azul could by the end of next year fly to 35 cities and serve 6 million passengers.

"When someone flies, someone who's taken the 72-hour bus ride before," he said, "and all of a sudden they fly for the first time, they're not going back to the bus."

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