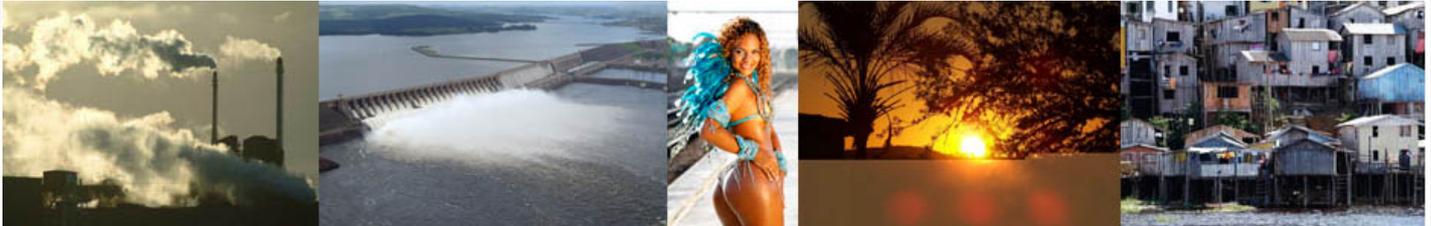


Brazil In Hot Pants

Living in the north of Brazil, facing an estuary of the Amazon river, I blog about Brazil and life in the delta of the Amazon. Serious issues with a wink to the sometimes light-hearted Brazilian society, including its curiosities and a touch of its beauties.



The Struggle for Brazil's Emerging Middle Class

WRITTEN BY ANTON STEEMAN

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In *O Globo* of 02 April 2011, Vivian Oswald wrote an article titled: ["De refrigerantes a seguros: empresas criam produtos específicos para a classe D"](#) (From soft drinks to insurance: Companies create products specifically for the lower-income class). What I write here is a very, very free interpretation of Vivian's article, while I also added some more facts and my personal vision.



Overview of the favela Rocinho in Rio de Janeiro

In my article ["Recycle – Sail the Amazon River with Nestlé and Tetra Pak"](#) I related the story that Nestlé Brasil, with the slogan "Nestlé Até Você a Bordo" (Nestlé Takes You Onboard), launched the first floating supermarket, a 27.5 meter long vessel, to service the ribeirinhos (people living at the river side) of the Amazon region. The vessel is estimated to be able to service a public of 800 thousand people/month, extending the presence of Nestlé brands in the low-income Brazilian (river)homes.

In an emerging market consumer products companies smell new opportunities. Brazilian companies are investing in the expanding purchasing power of class D. With the official minimum salary at BRL 540 (USD 317), class D has a monthly income ranging



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from BRL 705 to BRL 1,126 (USD 440 to USD 700), which increased by no less than 50% between 2003 and 2009, creating an army of about 45 million consumers of whom still little is known about their habits. Consumer goods companies try to imagine what this lower income consumers, hungry for novelties, and seeking to recover for lost time, could mean. Entire market research teams focus on their habits of consumption, several companies even install employees in the favelas (note: a favela is officially translated a slum, but many aren't anymore, they are often emerging working class neighbourhoods) and small towns to understand the needs of their new target.



- We're talking about one fourth of the population. These are people who have pent-up demand and aspirations. It's a new market that is creating new habits. – says Marcelo Neri, head of the Centro de Políticas Sociais da Fundação Getúlio Vargas (FGV = Centre for Social Policies at the Getúlio Vargas Foundation).

As the country grew 7.5% in 2010, sales of the personal hygiene, perfumery and cosmetics grew by 12.6%. One reason for this is the democratization of higher consumption and greater access to products in the Classes D and E, according to the Brazilian Association of Toiletries, Perfumes and Cosmetics (Abihpec).



- This change in the society doubled the consumption of sunscreens, increased the purchase mouthwashes by more than 1,000% and increased the consumption of soap bars and toothpaste on average by 2% to 3% – says Joao Carlos Basilio, chairman of Abihpec.

Mercadinhos

The favelas and small rural towns are dominated by the "mercadinhos", neighbourhood shops and small supermarket-like shops with a limited assortment, typically dominated by the simple day-to-day products. And although, according to AC Nielsen, these mercadinhos cash 40% of the total turn-over of the consumer products market, it has been a market segment completely neglected by the big consumer goods companies and their distributors. Always classified as not-of-interest and too poor.

Consequently there are no large supermarkets in the favelas. And the mercadinhos are supplied by the Maio-A-Maios, self-service wholesalers with a limited (national) assortment of daily products engrafted upon the people living in that area. Nothing fancy, no novelties, no specialities, no surprises. Only day-to-day consumables for



low-income people. You never saw a representative of Nestlé, Unilever, Coca-Cola or any other of the big boys. Not even the smaller brands with an air of quality. The emerging of this low-income people into emerging working class people, is apparently alerting these businesses. But they have to fight the existing mercadinhos, as the traditional grocery stores (mercadinhos) are still the preferred venues for the consumers living in that neighbourhood or community. Although the large supermarket chain want to go with the tide, and bank on smaller stores to attract consumers, it is a market with peculiarities, seen from a



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view-point of the large supermarket chains. You can't ask an employee of WalMart or Carrefour to fractionate a pre-packaged product, because the original pack is too big or you just don't have enough money. But without any problems you can ask the owner of a mercadinho. He will sell you one box of matches, 1 or 2 cigarettes, half a kilo sugar (after splitting the original 1 kg pack), a cup of cooking oil etc., without blinking.

But the fight is on – Coca Cola

Last year, Coca-Cola Brasil had the best score of all time, not only due to the expansion of the economy in 2010, but also thanks to the income increase of class D, which is now called the emerging middle class (it doesn't sound nice to maintain the classification 'low-income'). The company created the Directorate of Social Affairs just



to take care of this new market segment. Employees of Coca-Cola moved into the favelas. In late 2009, Coca Cola created the "Projeto Coletivo", to qualify youngsters to work in retail: 30% of them leave with a job at Coca-Cola or its partners.

Another 30% open their own business in their own neighbourhood with micro-credit lines from the company. It works out to be a good deal for them as well as for Coca-Cola, which qualifies labour, creates employment and generates new consumers by stimulating bars and other businesses to sell their products. Research has shown that workers from the own community are much better accepted, than a representative from elsewhere.

In three months, workers learn to cope with the world of business, how to please the customer, and how to arrange the shelves of mercadinhos using computer programs.



Edileide Maria da Conceição de Barros, 22, was among the first. After the course, made in September 2009 in Jaboatão

dos Guararapes, near Recife, she became an operator in a call centre of a partner of Coca-Cola. Four months later, she founded her own company:

- It was my first job. I had no experience with anything and now I have. I help at home. I buy what I need. My first purchase was a cell phone -

The program must pay itself in 18 months, starting to generate profit. Four thousand people have already been qualified. Later this month, there will be another three thousand.

Bank Santander: 'It is not philanthropy'

Bank Santander, in turn, decided to boost its profits with microcredit for class D. It installed its first branch in the favela Complexo do Alemão, in Rio and will open its doors in other communities in Rio and São Paul.

- We're not doing in philanthropy, but allotting the creation of new businesses – says Robson Rezende, chief-



executive of the project.



The bank's disbursements grew 30% from 2008 to 2010. Just last year, Santander invested BRL 293 million (USD 144 million) in funding of loans with an average of BRL 1,300 (USD 812), for an audience whose revenue is BRL 40,000 (USD 25,000) annually.

According to the FGV, while the income of the richest 20% of the population grew 1.07% per year, or 20.4% from 2003 to 2009, the income of the poorest 20% rose by 6.8% annually, or more than 50%. In Brazil's favelas, these gains were 6.11% per annum (60%) during this period.

According to Santander, class D wants financial guidance and access to the same products as offered to others. And they seek funds for projects aiming at home improvement and the well-being of their families.

The preference for Life and funeral insurance

Insurers also want a share of that market. A yet unpublished, but obtained by O Globo, study by the Confederação Nacional das Empresas de Seguros Gerais (CNSeg = National Confederation of General Insurance Companies), shows a peculiar market. The survey was conducted from May to October 2010 in the communities Dona Marta, Chapéu Mangueira, Babilônia and Cidade de Deus, in Rio, and Heliópolis, in São Paulo.

The study found that class D prefers a life insurance as well as a funeral insurance and they don't like to buy from somebody who isn't from the community. The survey also reveals that 21% of the people already have an insurance. Of this total, 45% are paid by their employers and 30% by a family member.

- The most important is communication as vehicle to reach this people, teaching that insurance is important, and the price has to be low – says Solange Beatriz Mendes, executive director of CNSeg, who advocates micro-insurance regulation to expand the segment.

- We discovered that the word insurance was associated with something complex, tragic and elitist. Hence the origin of the program "Protection First" – explains Eugene Velasques, chief executive at Bradesco Seguros, adding that from January 2010 to February this year the company sold 700,000 policies, which cost BRL 3.50 (USD 2.15) per month.



We will see a lot more activity in the working class neighbourhoods, in the past avoided and neglected by the national consumer goods companies. Times are changing in Brazil.

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