

The Beauty of Brazil



Direct sales of cosmetics are thriving in the world's most beauty-conscious country. Here's what you need to know.

By Tracy Francis, Fernanda Hoefel and Thais Rios

Look at a crowd of Brazilians on the beach, or in the football stands, or strolling along city streets, and one thing stands out: They have style. Brazilians like to be beautiful, and they are willing to invest in it. Even in the poorest neighborhoods, there seems to be a beauty parlor on every corner.

The numbers back up the impression. Brazil ranks first in the world in number of liposuctions performed and second in number of plastic surgeries. In terms of day-to-day spending, sales of cosmetics almost doubled between 2003 and 2009, reaching 53.4 billion reals (\$26.8 billion).

In absolute terms, according to Euromonitor, Brazil is already the third-largest beauty and personal-care market in the world, after Japan and the U.S. From 2006-09, the average amount that Brazilians spent in the sector doubled, to 256 reals per person.

With the economy growing, the currency strong and consumer confidence high, people are beginning to desire things that were out of reach just a few years ago. Wealthy and middle-class Brazilians are trading up to more expensive products,

and buying more of them. Where the cosmetics table might have had two or three lipsticks in the past, now it is more likely to hold five or six. Over the last few years, the "belly of the market," composed of middle-class households that make the equivalent of \$3,200 to \$23,500 a year, has driven growth for the beauty market; today, the belly accounts for 65 percent of consumption of cosmetics.

Poorer people are joining the fun, too, splurging for special occasions. "It is the moment we can stop and take care of ourselves," one woman told McKinsey. "It is for me." Some communities have started what might be called "beauty lotteries." Twenty people chip in one-twentieth of the price of, say, an expensive moisturizer; at the end of the month, a name is drawn and the lucky winner takes the prize.

One natural consequence of these trends is an increased sophistication in terms of products and marketing. So it is interesting that the use of retail channels is still fairly underdeveloped. There are very few specialty stores, for example, and while sales in pharmaceutical outlets

are growing fast, particularly among richer consumers, these are still small. Hypermarkets are much more important, and so is a distinctly old-school technique—direct sales, which is growing much faster than the market as a whole (see box).

Between them, Avon and Natura have more than 95 percent of the direct-sales beauty market, but other players are beginning to make a mark, doubling their share from 2006-08. Jequití, launched in 2006, seems to have found a sweet spot by offering products less expensive than Natura's but more expensive than Avon's. Jequití's profits rose from 21 million reals (\$10.7 million) in 2007 to 180 million reals in 2009 (\$90.1 million). Traditional retailers like O Boticário are beginning to nibble at the edges, too.

Selling beauty via the direct approach is a natural for Brazil, where people love to talk and the personal touch is valued. The activity also represents a significant source of income to the sales reps, most of them women who work part-time to augment their family's incomes.

Here's what companies need to know to succeed:

Fragrance, face, deodorant and makeup are among the fastest-growing categories in the beauty sector—and account for more than 80% of direct-sales revenues. The common denominator is that these are all emotion-driven, rather than merely functional, products, and the human component looms large. Yes, that applies to deodorant, too: Lower-income Brazilians, in particular, sometimes use spray deodorant as a form of perfume.

Direct sales is not about pulling in consumers, but pushing products out. For sales reps to be able to go back to their customers again and again, they need to have something to say. Therefore, a steady flow of new products is required. Natura gets 60 percent of its revenues from products launched in the last two years. Catalog design is also important. The catalog not only showcases new products and promotions—19 times a year for Avon—but speaks for the company when the rep is absent. A dull catalog is not going to attract those looking for style.

Sales reps are crucial. Most reps are willing to change companies, so players need to develop an attractive business proposition in order to recruit, develop and retain an effective sales force. Jequití, for example, offers basic health insurance and entries to money lotteries for its reps, policies that distinguish it from its competitors. Getting sales reps off to a good start is key. Offer incentives to sell easier products—an early win is a great morale boost—and dole out the occasional gift. Multi-layer staffing models can improve sales-force efficiency and also offer reps clear avenues for career development.

Brands matter. Natura and Avon invest heavily to promote their brands and also seek to expand the brand experience. For



example, they are beginning to open up concept stores.

Companies considering the Brazilian health-and-beauty market need to consider their sales-channel strategy carefully. Although direct sales is booming, competition is fierce, and getting it right requires mastering specific skills. These skills are difficult to acquire organically, but partnerships might be an option. An alternative would be to invest in up-and-coming retail channels, such as pharmacies and specialty stores.

Neither option is easy. But given Brazil's love of beauty and increasing prosperity, it's worth figuring it out.

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Door to door beauty in Brazil

Number of sales reps: about 2 million

Share of cosmetics market: 24 percent (in 2003: 19.7 percent)

Compound annual growth rate, since 2003: 19 percent

Share of fragrance sales: 62.5 percent; makeup: 55 percent; hair care: 5.5 percent; oral hygiene: 0

Working hours: 54 percent of sales reps work fewer than 10 hours a week

Turnover of sales reps per year, market average: 80 percent

Sources: Ernst & Young, Euromonitor, McKinsey, Santander