

iConsumer 2012 – Brazil

# Rio rising: Leveraging digital market opportunities in Brazil

By Fabian Barros, Paulo Fernandes, Vijay Gosula, and Daniel Swift

This is the first in a series of articles about the Brazilian iConsumer. In 2012, Brazil, along with Russia, India, and China, was added to McKinsey's global iConsumer panel, which is comprised of countries in which McKinsey has been conducting a wide-ranging survey that analyzes the subjective observations of approximately 4,500 Internet-based consumers (aged 13 to 64 years) every year since 2008. The panel also includes countries such as the United States, the United Kingdom, Spain, and Germany.

Is it news to you that Brazilians are among the world's most frequent social networkers? Or that they play more mobile device-based games than consumers in most other developing nations? If the answers to these questions are yes, then the findings of McKinsey's iConsumer survey should make for some very interesting reading. This article shows how Brazilian iConsumers differ from others around the world.

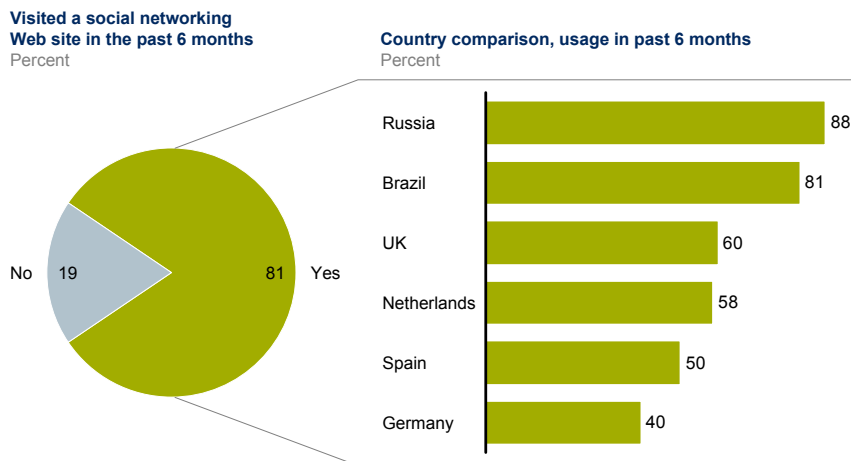
As one of the most attractive developing markets in the world, Brazil has caught the eye of many companies, especially as developed markets appear to struggle. The rise of the middle class has accelerated broadband take-up and is putting more digital products within the reach of consumers. Crafting a solid digital strategy is key for any player wanting to be successful in the country. So what do companies need to keep in mind in order to avoid running astray? Based on iConsumer research, McKinsey identified three key themes that are relevant for enterprises interested in pursuing digital market opportunities in Brazil.

## Social media – you can't afford not to play

If you were to spend 20 minutes having a *chopp* down at any of the bars that dot nearly every street in Brazil, you would soon realize that Brazilians love to communicate with each other. Socializing is a key part of life, and this reflects the openness of the Brazilian culture. Not surprisingly, things are similar in the digital world. Brazil ranks second in terms of social media use, and social networking is the number one online activity among both PC and mobile device users, accounting for an impressive share of 26 percent of total time spent online. Orkut and Facebook are the two most popular social networks (Twitter is also popular), and most users have active profiles on two or more platforms (Exhibit 1).

Social networking activities are not limited to the exchange of text and photos, though; video sharing and viewing is also included. YouTube is the undisputed video platform leader in Brazil, and almost nine out of ten users reported to have used the site in the last month. The country also ranks seventh in YouTube content uploading, accounting for 3 percent of all worldwide uploads.

### More than 80% of Brazilian iConsumers visited a social networking site in the past 6 months



SOURCE: iConsumer 2012; iConsumer EU 2010

Exhibit 1

So what is at stake for businesses? Two key insights on the importance of Brazilian social dynamics were identified:

#### **Leveraging the influence of “word of mouth” family-and-friend networks is key.**

Nine out of ten Brazilians take the recommendations of their friends and acquaintances into account before making a complex purchasing decision – a rate that is much higher than those for other sources of information, such as traditional television, newspaper, and online advertisements.

**Social media can be an effective advertising platform.** An impressive 60 percent of the respondent pool indicated that they would be open to social networking Web sites using information from their personal profiles in order to produce targeted advertisements that matched their needs. Nearly half claimed they would be more likely to consider purchasing a product for which they’d seen a profile or page on a social networking site.

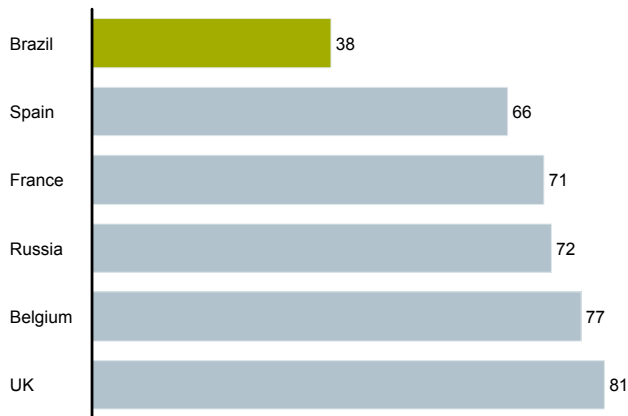
## The three pillars for e-commerce

In terms of online purchasing, Brazil still lags behind more developed nations; just 38 percent of iConsumers have made a purchase in a digital store during the last three months, compared to the global iConsumer average of 64 percent (Exhibit 2). But this figure doesn’t tell the whole story; among the affluent A-class consumers it rockets up to 70 percent – higher than the global average and almost six times the middle-class rate.

## Brazilian iConsumers do not frequently make purchases over the Internet

Share of respondents who made purchases online in the past 3 months

Percent



SOURCE: iConsumer 2012; iConsumer EU 2010

Exhibit 2

In order for e-commerce to take off in Brazil on a wider scale, three key elements must be in place:

- A consumer market and a desire on the part of consumers to buy
- Capillarity of infrastructure – electronic payment, broadband access, and physical delivery
- Online offers that match consumer needs.

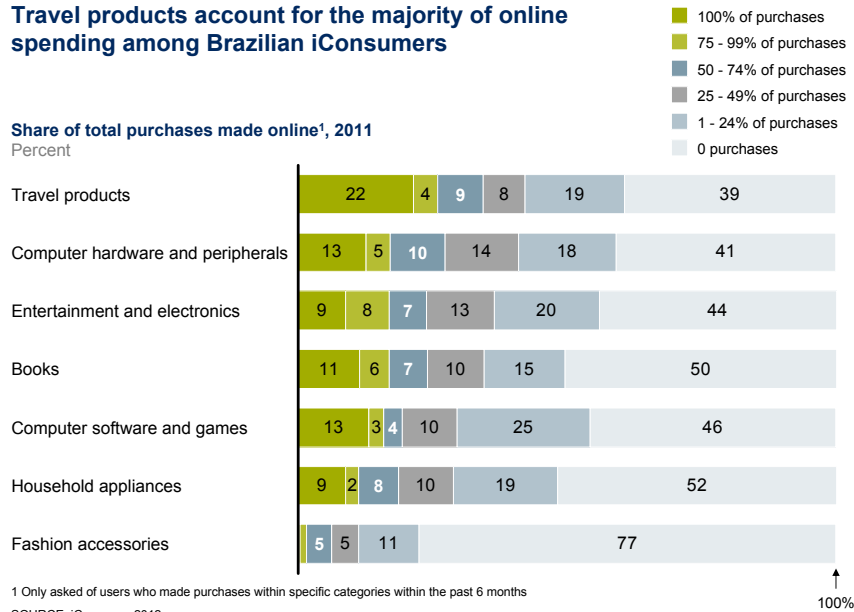
In terms of consumer desire, it seems the market has arrived. Survey results show that a higher proportion of iConsumers in Brazil intend to make purchases online than in other, more developed nations.

With regard to infrastructure, things seem to be coming together. Today, almost 50 percent of C-class consumers carry a credit card in their wallets. Connectivity is improving, and more than 30 percent of households are connected. The Brazilian government has made broadband a priority with a low-cost national broadband plan. Additionally, the host cities for the 2014 World Cup plan to install free Wi-Fi in public spaces.

Surprisingly, the third key element – an appropriate online offer – may prove to be a hurdle. To be fair, some goods and services in Brazil have already made the move to the digital world: air travel-related purchases are now more likely to be made on airline Web sites than at brick-and-mortar travel agencies (Exhibit 3). However, challenges still remain; respondents across nine different consumer categories said that the ability to touch and feel a product as well as the desire to own a product immediately are still top reasons to not buy online. The challenge for retailers is to find an integrated online offer that bridges the gap.

### Travel products account for the majority of online spending among Brazilian iConsumers

Share of total purchases made online<sup>1</sup>, 2011  
 Percent



<sup>1</sup> Only asked of users who made purchases within specific categories within the past 6 months  
 SOURCE: iConsumer 2012

↑  
100%

Exhibit 3

## Leapfrogging into the mobile universe

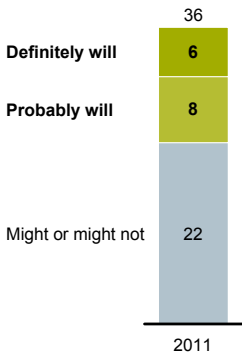
The path to digital consumption in more mature markets has traditionally evolved by moving from fixed communications to a mobile environment. However, with a more affluent middle class and with reduced penetration of fixed-communications infrastructure, Brazil may be leapfrogging fixed digital and going straight to mobile, especially in the low-income consumer classes.

There is strong growth in fixed broadband, but mobile broadband has already caught up and is developing at an impressive and even faster pace: while fixed connections grew by 18 percent in 2011, mobile connections nearly doubled, with 40 million added by the end of the year. The upcoming boom in smartphone sales is expected to cement this phenomenon – a third of iConsumers surveyed already have a smartphone, and 60 percent of them purchased their phones in the last six months. While most smartphones have been sold to upper-class consumers to date, a burst in sales among lower-income consumers is expected in the near future. The iConsumer survey found that 12 to 15 percent of low- to middle-income Brazilians plan to buy a smartphone within the next six months (Exhibit 4).

So, what challenges does this pose to businesses? Encouraging and monetizing the new middle-class smartphone user will not be easy. This is especially true in the prepaid segment, where creative data charging models will be required to encourage usage amongst the lower-income segments.

**14% of all respondents plan to buy a new smartphone in the next 6 months, driven by a desire for Internet access**

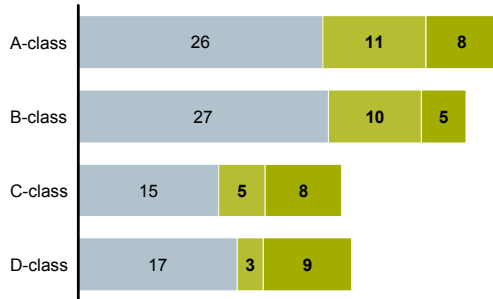
**How likely are you to buy a new smartphone in the next 6 months?**  
 Percent, 2011



■ Might or might not buy in the next 6 months  
 ■ Probably will buy in the next 6 months  
 ■ Definitely will buy in the next 6 months

Percent

Socioeconomic class



SOURCE: iConsumer 2012

Exhibit 4



Brazil is well on its way to mass-market digital consumption and is even ahead of some more developed nations in areas like social networking. As a result, both opportunities and challenges exist. Consumer-oriented companies should act now in order to make the most of the opportunity to leverage social media – consumers are ready and looking for interaction with the brands they crave. E-commerce and mobile digital consumption are on the cusp of great change, making it important to increase investment in online infrastructure in order to benefit from future growth as legacy barriers dissipate.

Encouraging and monetizing new digital consumption has its challenges, however. Investment in the design of innovative offers – both telecommunications and online – will be required to “win over” new middle-class users. At the same time, the increase in digital consumption means that traditional services are under pressure, especially within telecommunications companies. For some time, a balancing act will be required to proactively manage the shift to digital. The key is to start now.

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