

TRAVEL AND HOSPITALITY

Brazilian luxury market needs to reinvent itself to survive

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Brazil's Hotel Rosewood So Paulo in the Cidade Matarazzo complex. Image credit: Cidade Matarazzo

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The glorious years of Brazil's double-digit growth have long gone. Last year ended with a bitter 5 percent growth instead of the usual 11-15 percent from previous years.

Since 2003, corruption scandals have entrapped important Brazilian politicians and influential local entrepreneurs, most of whom helped move millions of dollars into luxury goods from traditional brands established in Brasilia, So Paulo and Rio de Janeiro.

Cut to the chase

Since the end of 2016, so-called federal police investigation Lava-Jato (car wash) has dismantled a criminal scheme of corruption and money laundering, part of which has been largely used to finance the exorbitant consumption of luxury goods in the major Brazilian cities.

According to the Federation of Industries of the State of So Paulo (FIESP) corruption in Brazil represents almost 2.3 percent of Brazilian PIB, resulting in more than \$30 billion in tax evasion every year.

Now, with many corrupt politicians and CEOs already in jail or under police investigation, shopping in luxury boutiques or luxury jewelry stores with the usual bags of cash has become almost impossible.

The direct impact of this pullback on the luxury sector is now being felt.

Luxury brands in So Paulo, Brasilia and Rio de Janeiro are reducing the number of shops, dismissing staff or simply closing. Collections available are also reduced compared to the varieties offered abroad.

Villebrequin and Laduree have decided to close their operations and are leaving Brazil. So are other less well-known luxury foreign brands considering a Brazilian exit.

Sales have dropped and the market is estimated now at \$3 billion annually instead of the usual and once-growing \$10 billion.

The unsuccessful and deceiving leftist governments of Presidents Lula also involved in many corruption scandals and Dilma have led the country into its largest recession and economic crisis in history. The unemployment rate has hit a record 13.7 percent, leaving almost 14 million people without jobs and, worse, without any prospect of improvement.

This negative climate and the low gains in the stock market has made Brazilian ultra-high-net-worth individuals not tainted by corruption scandals cautious with their expenditure on luxury goods and services. They have also the possibility to buy luxury goods abroad, especially at this time of the year which includes school vacation when parents and children travel abroad.

Favorite destinations of wealthy Brazilians are Miami, St. Barth and the French Riviera. Families holding money in offshore companies can enjoy spending with no government taxation or control.

In spite of the recently approved repatriation of illicit wealth law encouraging Brazilians to legalize offshore money probably from bribes, or undeclared gains Brazilians still keep a considerable amount of foreign currency in fiscal paradises.

Brazilians have repatriated and legalized more than \$10 billion in illegal money, generating taxes to the tune of \$1.5 billion. This money is expected to circulate in Brazil and stimulate consumption.

But Brazilians' appetite for luxury consumption is not exhausted, and possibilities of growth still exist.

Shop talk

Hermès, for instance, is investing in a brand new shop in the most important shopping center in So Paulo, Iguatemi, with a 185-square-meter store, conceived by the famous Parisian architecture firm Bureau RDAI under the creative direction of Denis Montel. The shop opened June 4.

Other cities in Brazil signaling the appetite for luxury goods are Pernambuco (Recife), Cear (Fortaleza) in the Northeast as well as Parana (Curitiba) and Porto Alegre in the South.

There is a clear preference by Brazilian luxury consumers for brands such as Louis Vuitton, Chanel, Hermès, Valentino, Dolce & Gabbana, Gucci, Prada, Calvin Klein and Michael Kors. These brands are still harvesting positive numbers, but it is a far cry from the glorious years.

Moreover, luxury hospitality conglomerates still believe in Brazil's potential and are investing heavily in the market.

In So Paulo, the Rosewood Group is building a luxurious complex of hotel-residences and shopping center called the "Cidade Matarazzo" by investor Alexandre Allard and his subsidiary company Cho Thai Fook Enterprises (HK).

The complex includes a residential building with 274 state-of-the-art apartments and a shopping center with 200 luxury shops that should generate sales from Brazilian tourists and business visitors from Latin America and beyond.

The development is led by architect Jean Nouvel, with artistic designing and direction from Philippe Stark. The investment is estimated to reach \$460 million and is expected to open in 2019.

Cidade Matarazzo presents Rosewood So Paulo

The Palacio Tangar, by the Oetker Group and named after a Brazilian rare bird, is also now one of the most luxurious hotels in Brazil, following the group's tradition of renowned hotels such as Le Bristol, Paris, The Lanesborough in London and the Hotel-du-Cap Eden Roc in Cap D'Antibes in the French Riviera. This hotel opened in April.

According to Frank Merrenbach, CEO of the Oetker Collection, the Tangar Palace is another masterpiece in the group's collection.

With a privileged location in the heart of So Paulo, the hotel is surrounded by the highly regarded Burle Max Park, whose gardens were designed by Roberto Burle Max.

The hotel will comprise 141 apartments and 59 suites. The interior design and concept of every room was entrusted to leading Brazilian designers Willina Simonate and Patricia Anastassiadis. Chef Jean-Georges Vongerichten will drive the hotel's dining experience, with a signature restaurant as well.

Another sector presenting growth and future possibilities in Brazil is the yacht industry.

The Brazilian coast's 7,000-plus kilometers of beaches has encouraged the Italian Azimut yacht maker to open in 2010 a production unit in the state of Santa Catarina. The nautical luxury market in Brazil is promising.

THE CURRENT Brazilian President Michel Temer also cited in many corruption scandals is trying to take measures to stimulate the economy and through eventual success in these actions is trying to increase popularity.

The 2018 election is one of the reasons why a change in the political and economic climate may stimulate investment and present some growth until the end of 2017.

In spite of all the fuss of the moment, the luxury market is expected to grow in Brazil during the next five years. Brands will have to see the opportunities outside the Rio-So Paulo axis. There is enormous potential in other areas of Brazil.



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