

THE FUTURE OF AUTOMOBILES IN BRAZIL

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GAME CHANGERS



There are a number of factors affecting and transforming the Brazilian automotive market today. On the one hand there is a new generation of consumers more concerned with the environment and less interested in owning a car.

On the other hand, there are new forms of mobility and new modes of convenience entering the market. Not to mention the financial crisis that is reducing the purchasing power of the average Brazilian.

YOUNG PEOPLE ARE REPLACING OWNERSHIP WITH EXPERIENCE

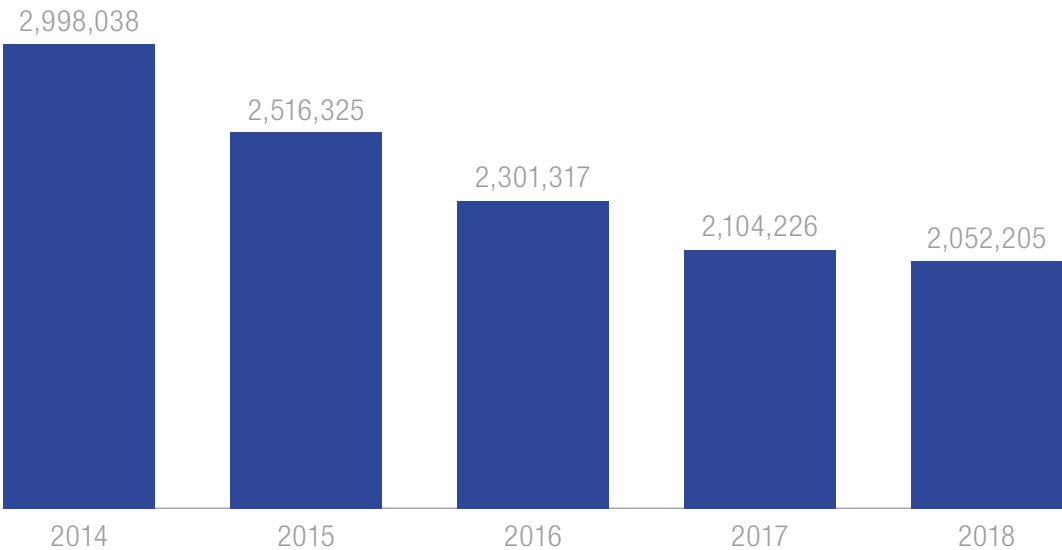
Young people today are acquiring less material goods, such as homes and cars, and prefer to invest in experiences, adventures and travel. This change in behavior highlights that younger generations are more inclined to value sharing more than ownership.

If they need something, they rent it and share it. Mindful of the constant financial crises, they prefer to invest in what brings them the most pleasure. And on what makes them happier, more sociable, and better in social. Talking about a trip, an international experience or an exchange program is more exciting than owning a car, for example. What's more, these experiences can be shared on social media.

With this, ownership of a car is no longer a symbol of status and independence for these Brazilians, who obtain a driving license (CNH) later than those before them. In the last four years there has been a 30% decrease in the number of licenses issued (see figure 1).

Younger generations delay getting a driver's license until their early 30s, when they start a family, have a child and become more stable professionally. This also explains the steady reduction in the sales of entry-level vehicles and the growth in more complete models, including bigger cars with larger trunks for traveling with the family.

Figure 1 Number of licenses issued in Brazil between 2014-2018



NEW MODES OF MOBILITY

There are also new forms of mobility increasing market share, as well as improvements in public transport that help to explain the behavior of younger generations. However, this is a behavior that is also shared by many Brazilians in large cities, regardless of age.

The quality of public transport has been improving slowly in big cities, including air conditioned buses, exclusive lanes for faster traffic and the expansion of the subway system. In some regions, even urban trains are now being used by the middle class.

Mobility apps (Uber, 99, Cabify, etc.), which have been growing since 2016, guarantee individual or group transport at any time and for less money than taxi cabs.

New bike lanes for owned and shared bikes bring convenience and a new way of living and interacting in the city. The newly-introduced electric scooters are already a hit in many avenues of São Paulo, such as Faria Lima, Nove de Julho and others. And electric motorcycles should arrive soon, with the same sharing benefits.

Subscription car rental has also been introduced recently in Brazil, offering the vehicle as a service, as opposed to a product. It promises a brand new car in the garage, with no costs associated with depreciation, taxes/IPVA, documentation, insurance and servicing. This type of monthly fee rental program is offered by Porto Seguro and Unidas.

THE RISE OF CONVENIENCE

Additionally, there is the expanding offer of delivery services, such as Ifood, Uber Eats and other types of food delivery, which make it easy to eat comfortably at home or the office without needing to go out.

The ever-evolving e-commerce sector eliminates the need to go out to purchase almost anything - appliances, clothes, accessories of all types, fruits and vegetables, groceries, pharmacy items.

Professionals also drive less than before, thanks to flexible work schedules that allow them to move around at convenient times, along with some companies' home office practices and the widespread use of communication tools, such as Skype and conference calling by video or smartphone.

“The mobility options offered today promise to move us faster, more safely and in a more convenient and economical way than in the past”

THE IMPACT ON THE AUTOMOTIVE INDUSTRY

The automotive industry is experiencing a period of major changes, impacted mainly by the introduction of new technologies.

The poor traffic experience, with a fleet of 64 million units in 2018 (54% in the South East region), the highly compromised management of large cities' mobility, and the cost of fuel and taxes that drain the financial resources of Brazilians who choose to own a private vehicle, have only added to the automotive industry's problems.

For the consumer, not buying a car means eliminating negative aspects associated with it: accidents, traffic jams, air pollution, fines and large expenses in a time of crisis and uncertainty in Brazil.

The mobility options offered today promise to move us faster, more safely and in a more convenient and economical way than in the past. And this is seducing consumers.

All this results in a drop in new car sales because of consumers:

- **choosing not to own a car**
- **postponing trading in their cars as they are used less**
- **choosing not to buy a brand new car (the cost-benefit of used cars has become more appealing to consumers)**



THE CHALLENGE

One thing is certain: the consumer experience of cars is changing. The function of the car as individual property will be transformed - perhaps into pleasure or luxury? This raises the question: twenty years from now will owning a car be considered 'old fashioned' or a luxury?

Where is the automotive sector going? We must adapt to this new scenario and the industry must think of alternatives to serve the market with projects that are in line with the times.

It is a great challenge for the automotive industry to re-adjust to consumers' behavioral changes and offer different dynamics in order to stay active in the coming years.

- **New business models in the automotive market?**
Shared vehicles? They are already being gradually integrated into our reality, through startups, most of which have a fleet of their own cars or are the middleman for people who rent their cars. They use the same logic as bicycle rentals (point by point through an app), with the entire transaction taking place online. This includes, Moobie, Olacarro, Target, Turbi, Urbano, VAMO, Zascar and others.
- **Connectivity? Mobility services?** These services are improving greatly in Brazil. Vehicles connected to the internet will be even more useful with 5G technology, capable of processing mobile data faster, and new mobility services and intermodal connections are advancing in large Brazilian cities.
- **Electric/hybrid vehicles that are less expensive and more sustainable?** The industry has been working on the supply of electric and hybrid vehicles for some years now, but the cost of the options available is still very high. This is still very expensive in Brazil - Audi, BMW, Ford, GM, Jac, Jaguar, Lexus, Mercedes-Benz, Mini, Nissan, Porsche, Renault, Toyota, Volvo among others are examples.
- **100% autonomous cars?** Autonomous cars are still a little far from the local market, without predictions of how they will be introduced due to high cost, infrastructure and legal problems, among other issues.

POINT OF VIEW

There are many conversations taking place in Brazil and the industry needs to adapt and offer alternatives, in order to win over increasingly connected and independent generations.

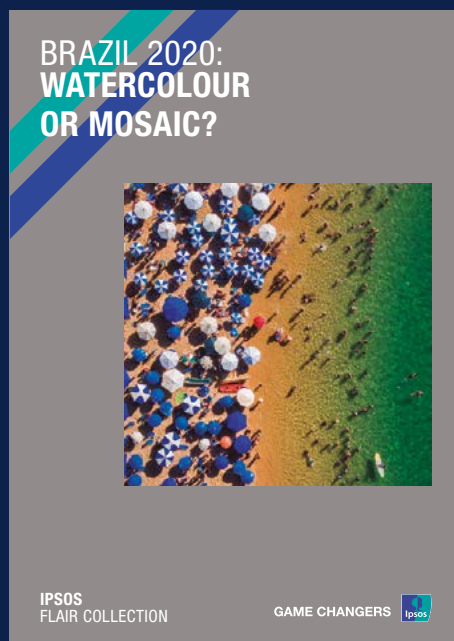
The automotive industry is not the only one affected by changing consumer behavior and purchase habits. Consumers today seek convenience and use digital means to make purchase decisions - the buying process starts on

the internet and leaves the POS empty. Consumers often go to the store having decided what they want and ready to close the deal, needing only to test drive the car and discuss payment conditions.

Therefore, dealerships need to become more efficient and offer faster service, while the websites of car manufacturers need to be as complete and intuitive as possible.

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