INDUSTRY OVERVIEW: AUTOMOTIVE IN BRAZIL
an Online Perspective
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Brazil is one of the fastest growing automobile manufacturing markets in the world. The duel effects of strong domestic demand, alongside tax incentives has seen the country’s automobile sector witnessing strong growth compared with faltering global demand.

Brazil is clearly a leader in the region when it comes to car sales. 2010 saw car sales of 3.52 million in Brazil ahead of all other countries across LATAM.

Despite a global and local economy still fully to recover from the crisis of 2008 sales of passenger cars and LCVs in Brazil are anticipated to post a CAGR of 13% year-on-year for the 2009–2013 period. Passenger cars (at the smaller end) will still dominate the segment in relation to sales, with the car ‘popular’ segment sure to see increased competition from OEMs and new entrants (especially Chinese brands).

Bharat Book Bureau research from March this year also noted that while domestic demand and growth is still strong, the Brazilian automobile industry “faced decline in exports due to appreciation in the Brazilian currency since 2008, but it boosted automotive exports.” Their research indicated that, “…the industry has been feeling marginal effects of the worldwide economic crisis, but the future remains bright in long term.”

This whitepaper will provide an overview of the automotive sector in Brazil. It will examine both macro and micro trends affecting the sector, the competitive landscape, consumer trends and then specific media realities and issues relevant for the market. From this examination, a view as to the strategic realities and necessities for the sector in general will be outlined.
EXECUTIVE SUMMARY

MARKET
The compound annual growth from 2009–2014 for new cars in Brazil is forecast to be 13% year on year. In a largely depressed market, this will continue to drive competition in all aspects of new car marketing and media investment.

Brazil’s Gross National Income per capita has increased 65% in the last 9 years. Continued individual wealth will fuel increased car sales in total and in core urban segments where most of the wealth is concentrated.

COMPETITION
Four major players dominate locally and amongst them held 89.9% of the market in 2010 (VW, GM, Fiat and Ford). Smaller players still have, with such a high growth forecast, real opportunity to increase sales volume in the coming years. Small brands like Hyundai are making strong year-on-year gains. “Popular” vehicles, as they are termed in Brazil, are a highly competitive but attractive segment.

CONSUMER
There is a seemingly insatiable want for compact and flex-fuel vehicles by Brazilian consumers. Increasing urbanisation and levels of wealth will continue to fuel this in the foreseeable future.

Ongoing government incentives in flex-fuel vehicles and an ongoing green-consciousness in Brazil will see the ‘Good to be Green’ segment of car buyers continuing to be an important target.

MEDIA
Search is an increasingly important channel for Automotive search behaviour in Brazil. Rates of growth mean a basis of search should form a mandatory (and arguably increasing) level of digital investment for brands.

Increased competition will fuel the need for auto brands in Brazil to move from tactical digital activity to continuity activity, especially in display and search.
MARKET OVERVIEW

Brazil, the ‘B’ in the world’s BRIC economies, has seen rapid and consistent economic growth for the past decade, turning it into one of the world’s most vibrant and most looked at economies. With an average growth rate of 3.5% since 2000, it was only in 2009, in response to the general cooling of the world economy, that Brazil saw a small contraction of –0.2% in GDP. Given this, Brazil was one of the first emerging markets to begin global economic recovery. Strong domestic consumer demand and investor confidence through 2010 saw an estimated growth rate of 7.5%.

Despite less than stellar economic performance in 2009, there was definite improvement in 2010. New car sales were still robust growing 11% in respect to volume on their 2009 levels. This equated to sales of 3.52 million vehicles. With a population quickly nearing 195 million, and with a greater share of Brazil’s wealth being distributed (however at still slow rates) Brazil comprises 21.1% of the entire new car market in the Americas in relation to value.

While this growth is impressive, market growth is forecast to decelerate slightly over the period 2009 – 2014 with a forecast compound annual growth rate (CAGR) of 9.6 whereas for the period 2005 – 2009 it has been 14.5%.

AUTOMOTIVE INCENTIVES TEMPORARILY BOOSTED MARKET

Efforts by the Brazilian government to stimulate the country’s car sales had a positive effect with new registrations reaching 668,314 units in the first quarter of 2009, up 3.14% from the same period of 2008. In December 2008, the Brazilian government introduced a cut in the Tax over Industrialized Products (IPI) for the sector. The cut was due to last three months, however was extended into 2009 and only came to an end in Q2 2010.

As expected, sales did decrease after the incentive ceased, with new car sales trending back to historical levels.
The Americas, which this report takes to mean (Canada, Mexico, the United States, Argentina, Brazil, Chile, Colombia and Venezuela) is still dominated by the United States and then Brazil when it comes to new car market value. Across these countries, the United Stated accounts for 64.3% of total value of new cars sold and Brazil, as mentioned, is 21.1%. Brazil’s CAGR is forecast to be (on average) 13% over the next 4 years and the United States looks to be considerably lower at 4.9%. This is after a contraction in the last 5 years of 5.4%.

It is clear a considerable portion of global growth in automotive rests on the shoulders of a highly performing Brazil.
A good indicator of economic progress within economies has typically been the strength of their automotive sectors. There are clear benefits driven by the multinational nature of a strong automotive industry in a country. Often, the presence of an automotive sector paves the way for foreign trade reforms which may otherwise stifle and overly protect an economy, it attracts foreign investment and drives exposure, especially for developing economies, onto a broad international arena. A healthy domestic automotive sector also breeds, and brings, the benefits of competition.

The competitive landscape for automotive in Brazil is a story of four main players. The three main contenders in 2010 being Volkswagen with 20.95% share, Fiat with 22.84% share and GM with 19.75% share. The forth place is held by Ford, and while their share is noticeably lower at 10.10%, a global brand the likes of Ford is never to be underestimated. The remaining 26.36% of the market is comprised of other brands including Renault, Peugeot, Citroën etc.

<table>
<thead>
<tr>
<th>Market share 2010</th>
<th>% Change 2009–2010</th>
<th>Volume 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.95%</td>
<td>-7.87%</td>
<td>651,545</td>
</tr>
<tr>
<td>10.1%</td>
<td>0.00%</td>
<td>314,110</td>
</tr>
<tr>
<td>19.75%</td>
<td>-0.20%</td>
<td>614,225</td>
</tr>
<tr>
<td>22.84%</td>
<td>-6.74%</td>
<td>710,324</td>
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<td>2.52%</td>
<td>9.57%</td>
<td>78,372</td>
</tr>
<tr>
<td>2.71%</td>
<td>-0.37%</td>
<td>84,281</td>
</tr>
<tr>
<td>3.18%</td>
<td>34.75%</td>
<td>98,898</td>
</tr>
</tbody>
</table>

Source: Fenabrave, 2011

The competitive landscape in the sector is characterized by two slightly opposing forces. One which increases and the other which decreases competition. On one hand we have the relative market dominance of the Big 4 players, who amongst them have 89.9% market share. In other markets around the world, this would tend to decreased competitive forces, however in Brazil this is not the case.

There is healthy competition between the major brands, with increasing levels of marketing spend, model releases and a culture of offers creating at times a feverish
marketing and communication landscape. Also, the tide is rising for all competitors in the market as strong domestic growth is increasing opportunities across the board. Increased demand fuels competitive activity as all brands try to drive sales volume in a market hungry for new vehicles.

Forces driving competition in new car market: 2009 (Source: Datamonitor, 2010)

As the Forces Driving Competition diagram shows, the degree of rivalry in the Brazilian Automotive market is the highest of all the competitive forces looked at. Lacklustre international performance and increasing individual wealth levels in Brazil are driving automotive brands to enter the market aggressively, as will be highlighted further on in this Insight Document.

The competitive landscape can be broadly looked at in three tiers:

- **Tier 1**: This comprises the Big 4 brands: VW, Fiat, GM and Ford whom in 2010 controlled 73.65% market share.
- **Tier 2**: The 6 mid-weight brands of Renault, Honda, Hyundai, Toyota, Peugeot and Citroën whom in 2010 accounted for a further 20.02% share.
- **Tier 3**: The other brands had 6.33% of the market in 2010.

The competitive landscape is changing amongst Brazilian automotive brands; albeit, slowly. Ground is being conceded from the major players to the smaller players with relatively new entrants like Hyundai already grabbing a 3.18% share of the market, totalling almost 100,000 vehicle sales in 2010.

Besides the overall decrease in market share from the Tier 1 brands, and the relative increase by Tier 2 brands, there has been a substantial increase of on average 36% over the year 2008–2010 by Tier 3 brands (in relation to sales volume). These ‘other’ brands represented 6.33% of all new car sales in Brazil in 2010, up from 2.64% in 2007. Tier 1 brands over the same period saw an overall decrease in market share of 3% while Tier 2 brands saw an increase in market share of 8%.

This 8% increase was largely driven by Citroën, Renault and Hyundai; their respective brands seeing increases in market share (admittedly of much lower bases than the Tier
1 brands) of 9.57%, 23.59% and 34.75% respectively in 2010. In 2009 and 2010, Peugeot saw their market share decline by 11.97% and then 0.37% respectively.

Over this period, as we will see later on, this was achieved by brands pursuing quite distinct media strategies. Hyundai’s increases came largely from increased marketing spend while Renault and Citroën’s by diversifying their marketing mix. The smaller brands seem to be capitalising from the Brazilian economic bounce back more effectively than their larger counterparts.

Change in share of market 2007–2010 of brands by tiers

| Tier 1: Fiat, VW, Ford, GM |
| Tier 2: Renault, Honda, Hyundai, Toyota, Peugeot, Citroën |
| Tier 3: Others |

Source: Fenabrave, 2011

Percentage change – Key brand share of market 2009

Source: Fenabrave, 2011
SNAPSHOT OF PSA

Global HQ: Paris  
Markets: 160 countries  
Revenue change ‘08–’09: –10.93%  
Vehicle production 2009: Brazil 111,200

PSA Peugeot Citroën S.A. is Europe’s second largest automaker with 13.8% of the European market and the sixth largest worldwide with 4.8% worldwide market share. The company makes both passenger cars and commercial vehicles, making 2/3 of its sales in Western Europe. Unlike PSA’s German and Italian competitors, which often sell automobiles under numerous brand names, PSA has just two –Peugeot and Citroën.

For the first half of 2010, Peugeot reported revenues increased 20.8% driven by successful new models, market share gains and favourable demand worldwide. The company saw a turnaround in recurring operating income of €1,137 million compared to a loss of €826 million in the first half of 2009. Peugeot saw a significant recovery in automotive recurring operating income, totalling €525 million for the first half of 2010 compared to a loss of €904 million in the first half of 2009.

Business segments:
1. Automobile Division (79% of 2009 revenue)  
2. Automotive Equipment Division (15.3% of 2009 revenue)  
3. Transportation and Logistics (2.2% of 2009 revenue)  
4. Finance (3.2% of 2009 revenue)  
5. Other Businesses (0.3% of 2009 revenue)

Competitive snapshot:
Unlike other automakers, PSA Peugeot Citroën only markets its products under two brands: Citroën and Peugeot. Citroën is an upscale brand while Peugeot focuses exclusively on the mass market. This focus has been advantageous, as competitors from GM to BMW have been distracted by trying to manage too many brands. In spite of its limited brands, PSA produces vehicles that compete for every niche of the mass auto market, excluding performance and luxury vehicles.

The automakers Renault, now merged with Nissan Motor (NSANY), and FIAT S.p.A. (F-MI) are PSA’s chief competitors due to their focus on smaller vehicles and the Western European market.

Source: www.wikinvest.com
SNAPSHOT OF **FIAT**

Global HQ: **Frankfurt**  
Markets: **153 countries**  
Revenue change ‘08–’09: **11.90%**

Innovation, and delivery of high quality products which are technologically advanced, design driven, and compliant with consumer social responsibility sits at the core of Fiat’s philosophy. These attributes make up the profile of Fiat, one of the fastest growing car companies in the market and sales leader in the Brazilian industry.

Installed in Betim (MG), since 1976, Fiat Automobiles now operates in three shifts with production capacity up to 800,000 vehicles per year. Result from investments of $ 5 billion by 2010, making it one of the largest automobile factories in the world.

The main models in Brazil are the popular and less expensive Fiat Uno that has just been relaunched, the Fiat Palio (also popular and less expensive), the Fiat Strada is the first sales in its category (pick up for work and adventure) and the Fiat Punto (targeted at young successful men).

In July 2010, FIAT has introduced the New UNO. It was “packed” with the trappings of a major release and saw significant media and marketing activity.
SNAPSHOT OF FORD

Global HQ: Michigan
Markets: 153 countries
Revenue change ‘08–’09: –33.10%

Founded in 1919, Ford of Brazil was originally dedicated to the import of vehicles produced overseas. It was the second South American subsidiary of Ford, after Argentina and the first to settle in Brazil. With the nationalization of the production by government, Ford pioneered the local manufacture of vehicles on August 26, 1957. At that time, about 40% of their vehicles were comprised of local parts; the rest, including engines, had to be imported.

Currently, Ford is the fourth largest force in the Brazilian auto market, and the Latin American division of Ford is the most profitable company.

The main models of Ford of Brazil are the Ford Fiesta (positioned as a popular and less expensive vehicle), the Ford Focus (targeted at sporting / young adults), the Ford Fusion (a “classic” vehicle targeted at successful men) and the Ford EcoSport (for the young adventurer).

In September 2010, FORD introduced the New Fiesta. The communication effort comprised of two TV advertisements, and actions in social media. The advertisements were in a documentary style, showing the reaction of “ordinary” people who accepted the invitation to try the new Fiesta.
SNAPSHOT OF VOLKSWAGEN

Global HQ: Frankfurt
Markets: 153 countries
Revenue change ‘08–‘09: 11.90%

Volkswagen Brazil is a Brazilian automotive company. It was founded in 1953 and is a subsidiary of Volkswagen AG. Volkswagen Brazil has five factories in Brazil, Resende (RJ), São Bernardo do Campo (SP), São Carlos (SP), Sao Jose dos (PR) and Taubaté (SP). After China, Brazil is the country where Volkswagen has the largest global footprint outside of Germany.

The company occupies a strategic position at the global level within the organization to be in charge of Volkswagen Fox production for all markets in the world where this model is present.

During its existence, Volkswagen Brazil has developed their own models and variants suitable for various markets in Latin America and Africa, replacing or complementing templates designed for Europe. The main models in Brazil are the popular Gol, Brazil’s largest selling vehicle, the Fox (targeted at young and active women), the Kombi (a work and transport vehicle) and the Golf (targeted towards young successful men).
SNAPSHOT OF **GENERAL MOTORS**

**Global HQ: Michigan**  
**Markets:** 153 countries  
**Revenue change ‘08–’09: –45.82%**

General Motors (GM) is primarily engaged in the design, development, manufacturing, and marketing of automotive products worldwide. The company manufactures vehicles in 34 countries.

In FY2008, GM sold 8.4 million vehicles under brands, including Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, HUMMER, Opel, Pontiac, Saab, Saturn, Vauxhall and Wuling.

Founded in January 26, 1925 in Brazil, GM started importing and assembling vehicles in rented hangars in São Paulo. Today, GM Brazil has three industrial complexes that produce vehicles, in Sao Caetano do Sul (Sao Paulo region ABCD) and Sao Brazil is the second largest market in the world for sales of Chevrolet after the U.S.

GM’s main models in Brazil are the popular and inexpensive Celta (targeted towards a younger demographic), the Corsa Classic (positioned as a family sedan), the Astra (targeted towards young successful men) and the Vectra (which is targeted at successful young men).
THE CHINA FACTOR: AGGRESSIVE INVESTMENT

From one developing market to another, the Chinese car manufacturer, Chery, is planning to launch its first car into the Brazilian market by 2013 (perhaps as soon as the end of 2011).

Lui’s Curi, Chairman of Chery in Brazil has been quoted as saying that a new model, the S18, will be exclusively sold in Brazil from 2013 onwards. With aggressive targets, Chery has been openly quoted as saying that it wishes to grab 4–5% of the Brazilian car market by 2015, with production of 5 million units per year.

Not only is Chery planning to launch the S18 with components made only in Brazil (it is planning to build a factory locally as well) it looks to contribute to the phenomenal growth of flex-fuel cars in Brazil and is developing three engines with flex fuel technology in Brazil to date.

The reality, with seemingly all things Chinese, is that scale and real competition can be assumed sooner, rather than later. The low cost vehicle, which the S18 will undoubtedly be, will cause real pressure at the price conscious end of the market in Brazil and a more crowded media environment.

On March the 18th, 2011, Chinese car brand JAC launched in Brazil across 50 dealerships in the country. The brand has launched selling a sedan and hatchback (the J3 and J3 Turin) at a price of R$37,900 and R$39,700 respectively. In the coming months, a sedan and minivan are also planned to be launched (the J5 and J6).

JAC’s strategy is to offer highly optioned vehicles (across segments) with 6 year warranties at a slightly lower price points.

A strong part of the communication strategy for the brand is social media, unsurprising given the endemic use of social platforms by consumers in Brazil. With a comprehensive range of social properties (Foursquare, YouTube, Twitter, Orkut, Facebook, etc) being developed.

JAC’s J3 is a small compact vehicle and alongside it’s sedan version (the J3 Turin) saw the brands launch in Brazil.

Chery are calling the S18 a mini-compact clearly playing to an urban audience where affordanility is a key driver.
CONSUMER AND DIGITAL OVERVIEW

The art of segmentation is nothing new to the automotive sector. In rapidly developing markets like Brazil, increasing income, new models entering the market and maturing consumer sophistication will drive segmentation opportunities in existing segments and see entirely new segments emerging.

In general, segmentation in Brazil is moving from ‘basic’ to ‘more’: more options, more luxury, more sporty, more efficient and more technical. Segments ‘trading’ up to new vehicles will create an increasingly attractive segmentation opportunity. Also Brazil, who is a clear global leader in flex-fuel technologies (i.e. cars which run on combinations of petrol and ethanol), will see increasing segmentation across target audiences with flex-fuel as a key attribute driver.

Given the relative maturity of the Brazilian automotive sector (when compared to other developing economies) brands have proactively sought and marketed vehicles in “white space” segments which are niches of previously unmet consumer demand for specific products and features. Over the past decade, the large four players in particular have identified and targeted these segments. For instance:

1. **Fiat gained clear market leadership** with cost conscious consumers with the introduction of their Uno/Mille brands.

2. **GM gained success in identifying a space in the small-MPV market** introducing the Chevrolet Meriva.

3. A previously unexplored niche for low-cost SUVs for urban dwellers was effectively capitalised on by Ford through the introduction of the EcoSport.

An approach to Brazilian Automotive Segmentation. Forecast market (sales) of 2.8 million new cars 2011

<table>
<thead>
<tr>
<th>Demographic</th>
<th>URBAN RICH</th>
<th>RICH + RETIRED</th>
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<tbody>
<tr>
<td></td>
<td>URBAN MARRIED</td>
<td>MONEY CONSCIOUS</td>
</tr>
<tr>
<td>Vehicle type</td>
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<td>SUV</td>
</tr>
<tr>
<td></td>
<td>PEOPLE MOVER</td>
<td>HATCH</td>
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<tr>
<td>Value needs</td>
<td>VALUE</td>
<td>TRADE-UP</td>
</tr>
<tr>
<td></td>
<td>HIGHER OPPORTUNITY SEGMENTS</td>
<td>LOWER OPPORTUNITY SEGMENTS</td>
</tr>
</tbody>
</table>

*Havas Digital Analysis. Dark red boxes are sees as potential segments to explore from a product and communication perspective.*
SEGMENTATION CHANGES IN BRAZIL: SMALL AND EFFICIENT, THE WAY TO GO

Automotive has traditionally been one of the most segmented and re-segmented sectors in marketing. As demographic (i.e. ageing population) vehicle type (i.e. the growth of SUV's) and Value Needs (i.e. the want for greater fuel efficiency) change, so do the opportunities to find new ‘white spaces’ for auto manufacturers.

Brazil has seen some rapid demographic and value changes in the past decade eventuating in new segments occurring. Increasing levels of personal wealth in urban areas and the need for more fuel efficient (‘fuel flex’ ) vehicles have care sales catering to these segments increasing dramatically in the last few years. Smaller, fuel efficient urban vehicles have seen the most growth in market share from 2005 to 2010. Sales of Small Hatches (+2.19%); Medium Hatches (+2.65%) and Small Sedans (+4.23%) seeing the strongest growth. New soon-to-be-launched small car entrants like the Chery S18 show us that brands are looking eagerly to capitalise on these growing segments.

A deeper look into the segmentation opportunities which these demographic changes are driving from a segmentation perspective will be looked at in the following section.
CONSUMER TRENDS: AUTOMOTIVE

Consumer trends in automotive are a mix of macro considerations (GDP, global consumer preferences, global OEM competitive maneuvering) and micro considerations (domestic inflation, interest rates and country specific demographic trends).

Wrapped up in these trends are many factors which while macro and micro exhibit themselves as broad consumer trends in relation to the types of vehicles which Brazilian car consumers want. The following trends map back against the segmentation viewed previously in this insight and many of them are underpinned by three major considerations.

1. INCREASING LEVELS OF WEALTH

As the economic waters in Brazil rise, the ships of it’s individual citizens do as well. While not evenly distributed, there is an increasing middle and upper class in Brazilian society which seeks the status symbols which cars provide, or more simply, can now afford to enter the car market for the first time. World Bank figures (2011) show that GDP Per Capita in Brazil has risen from $6.5K USD in 2000 to $10.9 USD (est.) in 2010, an increase of almost 70%.

This increasing level of wealth trend sees the emergence of a broad consumer segment of note in Brazil, the Moving Up Segment, explained in more detail following.

2. URBANISATION

Brazil, as virtually all developing economies before it, is seeing a higher concentration of its population in key urban centres. They are moving away from rural areas to congregate within the main centers of wealth creation in country; namely the large cities of the South East. World Bank figures (2010) show the percentage of the Brazilian population living in urban centres since 2000, has increased from 46.7% to 50.3% in 2009. Of note, 68% of the online population in Brazil is also found in the South East region, namely the urban centres of Rio de Janeiro and São Paolo.

This urbanisation trend sees the emergence of two distinct consumer segments in Brazil; a) The Urban Road Segment, and b) the Value Consumption Segment.

3. ENVIRONMENTAL CONSCIOUSNESS (individually and governmentally driven)

A still as yet nascent environmental consciousness amongst consumers, combined with a dedication and incentivisation by government to cut the nation’s dependency on petroleum, has seen the growth of the flex-fuel market from zero in 2002 to comprise 87% of the new car market in 2009 (Brazilian Automotive Industry Yearbook, 2010).

This environmental consciousness trend sees the emergence of one distinct consumer segments worth considering in Brazil, the Good to be Green segment.
We note that while drawing a definite line in the sand between segments is arguable, what this Insight Document would like to present are consumer groups which are a logical outflow of these broader trends as opposed to absolute ways to look at the market.

Trends and Consumer Segments

<table>
<thead>
<tr>
<th>TREND</th>
<th>SEGMENTS ARISING OUT OF TRENDS</th>
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<tbody>
<tr>
<td>WEALTH</td>
<td>MOVING UP</td>
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<tr>
<td>URBANISATION</td>
<td>URBAN ROAD</td>
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<tr>
<td>ENVIRONMENTAL</td>
<td>GOOD TO BE GREEN</td>
</tr>
<tr>
<td></td>
<td>VALUE CONSUMPTION</td>
</tr>
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</table>

INCREASING WEALTH

Underpinning much of the movement and opportunity in the Brazilian new car market is the “BRIC” level growth of its economy.

Increases in personal income leads to consumers who want to “move up” to newer and better vehicles and also consumers being able to be more discerning in relation to the type of vehicle they want. Moving up to newer and better vehicles may be a first new car purchase, or indeed moving up to a newer vehicle, depending on demographic. Regardless, it offers car brands opportunities at the lower (more economical) and throughout their range to target online communications which target this need and place their vehicles in these consumer’s consideration set.

Moving Up: This trend covers a broad economic change affecting two major consumer segments. The emergence of an increasingly significant middle and upper class in Brazilian society is driving the newly affluent to move up into more luxury car segments, and the new middle class entrants to undertake their first new car purchase.

URBANISATION

A growing number of the population in Brazil is moving to its major urban centres. They are seeking and gaining the benefits of an impressively growing economy. As the economy’s fortunes rise, so do theirs. With this movement, comes increasing disposable income and the want to spend this disposable income on items of necessity and desire. Car purchase falls into both these categories.

A reality is that urban driving differs greatly from that experienced in rural areas. Congestion, small parking spaces, stop-start driving and short, high frequency trips, call for a different type of vehicle than that required for open roads and more rural terrain. We see this trend encapsulated by a group of consumers we call “The Urban Road”.

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Also, an increasing GDP per capita means that consumers once outside the bounds of being able to afford a vehicle are entering the market and looking for vehicles to meet their urban driving needs and their newly increased, yet still modest, wallets. As noted earlier, new car sale growth in Brazil, year-on-year, has been significant and without doubt, this is being fuelled by an increased ability for a larger proportion of the population to afford cars. But it must be kept in mind that those with new car buying ability, still have a modest initial entry point. Therefore we see this group as encapsulating the trend of “Value Consumption”.

The Urban Road. An increased percentage of Brazilians living in urban areas underpins a trend for smaller, fuel efficient vehicles. This trend will not likely abate in the coming years due to the likely increase in rural populations entering urban centers to capitalise on the economic growth the country is experiencing.

Value Consumption. As Matt O’Leary, the Product Development Director at Ford South America has been quoted as saying, “Economic Crises imbed themselves in the memories of those who live through them.” This trend looks at the value for money consumer segment where, especially in developing markets like Brazil, the gap between first time buyers and replacement (or second car buyers) is still significant.

ENVIRONMENTAL CONSCIOUSNESS

In other more developed markets, namely the USA, alternative fuel vehicle preference can be over 50% (Deloitte Automotive Survey, Deloitte Consulting LLP, 2008) however the willingness to pay is significantly lower at 28%. Brazil seems to have overcome this through government dictate – the effect is a greener car buyer and a continuing trend worth noting.

Good to be Green. The Brazilian automotive landscape has embraced the concept of flex-fuel cars enthusiastically. Directly linked to government incentives to reduce the countries dependence on petroleum imports this is a significant consumer trend for enviro-friendly vehicles.

Sustainability, in its broadest context, is rapidly coming to the fore as one of the major drivers of brand relevance and value for consumers. Havas Media has over the last several years specifically looked at concepts of sustainability, including environment, in its Brand Sustainable Futures® study covering dozens of countries, brands and interviewing over 30,000 consumers globally. This study looked at the role and importance of sustainable practices with brands and how brands that were perceived as more sustainable were also those who tended to perform better. For instance, in Brazil the study showed that brands such as Peugeot and Citroën were ranked in the top 20 most sustainable brands by respondents. Such a favourable positioning should be maximised by brands such as these in ongoing communication activities.
THE BRAZILIAN DIGITAL CONSUMER

OVERVIEW

As has been evidenced in the rest of the developed internet world, and referenced through all out LATAM market insights, the increased penetration of broadband, coupled with a longer time spent online is **building trust and familiarity with online channels and Brazil is no exception.** This is translating into consumers spending more time online and undertaking a wider range of online activities.

As mentioned, supporting the growth and importance of online, is the **rapid increase of broadband penetration in Brazilian households.** By the end of 2011, it is forecast that 14.5 million Brazilian households will have broadband. This equals 23.6% of all households and a 5.7 million household increase since 2008. This coupled with online usage between 90 and 110 minutes per day across all ages, will see the Brazilian consumer bringing digital increasingly into the core of their day-to-day. On average, across all age groups, the online Brazilian spends 44.59 hours a month online.

When compared to European consumers, **Brazil consistently spend more time, doing more things online.** This includes general surfing where Brazilians spend on average 5.8 more hours a week than Europeans; social networking activities where they spend 2 more hours a week or using their mobiles, which they were glued to for an extra 1.5 hours a week. What was sacrificed? Largely, the use of traditional channels like TV which, across the board, sees lower levels usage when compared with Europe.

**Brazil’s mobile penetration and take up rates are equally as impressive as their internet statistics.** With 174 million mobile consumers, this equates to 90% of the population with a mobile phone. Not only is penetration high, data intensive and internet surfing via mobile is also significant. 16 million Brazilian mobile consumers use their phone to access the internet, with 23% using it to download music and videos and 60% using it for texting.

Such high levels of penetration and use has motivated many of the key automotive brands to increase investment in mobile as a marketing channel. VW increased investment by 85% in 2009, GM by 75% and Citroën by 56% over the same period. Fiat was also noticeable in a decrease of 28% in their mobile activities between 2008 and 2009; however we envisage this to increase again this year as smaller brands keep taking market share and the established brands seek to re-invigorate innovative online marketing approaches and activities.
### Time spent: on and offline activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Brazil</th>
<th>European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surfing the web on a computer (personal interests)</td>
<td>13.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Watching television (Free to air pr Pay TV)</td>
<td>9.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Surfing the web on a computer (Social Networking)</td>
<td>5.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Sending instant/text message</td>
<td>5.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Listening to radio (AM/FM)</td>
<td>4.2</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: Deloitte, 2009

### Snapshot of Brazilian and Other Key Latin American Markets re: Online

<table>
<thead>
<tr>
<th>Top 5 Social Networks</th>
<th>Brazil</th>
<th>European Union</th>
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<tbody>
<tr>
<td>Banking: 18.3%</td>
<td>105.3%</td>
<td>354.3%</td>
</tr>
<tr>
<td>News: 37.6%</td>
<td>40.2%</td>
<td>255%</td>
</tr>
<tr>
<td>Social: 77.6%</td>
<td>4.2%</td>
<td>193.2%</td>
</tr>
<tr>
<td>Search: 88.5%</td>
<td>4.2%</td>
<td>38%</td>
</tr>
<tr>
<td>Use of the internet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking: 18.3%</td>
<td>1.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>News: 37.6%</td>
<td>4.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Social: 77.6%</td>
<td>9.8%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Search: 88.5%</td>
<td>8.8%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Source: comScore, 2010
MORE SOCIAL THAN YOUR AVERAGE ONLINE CITIZEN

Across the LATAM region, and particularly in Brazil, the reach and use of Social Networking continues to be very high. Amazingly, even given the high reach of Social Network use in Brazil, the category is still seeing significant growth.

While Orkut is still the leading social network in Brazil, the ever present Facebook has seen spectacular growth in the country in the last 2 years. In 2009 to 2010 Orkut saw unique visitor growth of 28% to 31.3 million unique visitors while Facebook, off a much lower base, saw growth over the same period of 258% to 12.1 million unique visitors. If not for Brazil, it is arguable if Orkut would exist, with over 90% of its page views originating in the country. However Brazilians are loyal to their local social champion, visiting the site, on average, more often than the world visits Facebook.

SOCIAL NETWORK CHANGE IS IN THE WIND?

Orkut cannot be underestimated in Brazil. However, one important trend, suggesting the initial, however noticeable slide away from Orkut and towards Facebook is becoming increasingly evident.

Between 2009 and 2010 the percentage of people who went to Facebook and then went to Orkut is decreasing. Where in 2009 94.8 percent of people who went to Facebook then went to Orkut, suggesting profiles on each and a strong correlation of use between each site, this figure dropped by 6% in 2010 with Orkut seeing a lower 88.8% of traffic from Facebook.

This initial trend is even more powerful when it is considered that visitors to Facebook consume 3 times as many videos on the social network, compared to Orkut visitors. Given the impact the use of video can have in this sector, this is definitely a media opportunity to be capitalised on.
The Brazilian Twitter-verse

Brazil’s online social story does not stop with the Orkut and Facebook behemoths. In relation to Twitter, Brazil is the second largest country, in relation to reach, for Twitter users with 22% of the online population using the micro-blogging platform. In October 2010, Brazil actually became the number 1 Twitter country in the world defined by reach, a result likely driven by the buzz around the presidential elections at the time.

Blogs

Blogs reach, on average, 21.1% more people in Brazil then elsewhere on the globe. The role of blogs as a current, important, media channel is well worth taking note of. The overall reach in Brazil of blogs is an incredible 71.1% of the online population.
The automotive sector is traditionally one of the largest spenders across all media in mature and maturing markets. Media spend across the 10 major brands in Brazil saw an increase from 723.559 M USD in 2007 to 1.135 MM USD in 2009, or 57%. **Fiat (18%), Hyundai (17%), Volkswagen (13%), Ford (13%) and GM (12%) accounted for the majority of this spend in 2009.** Peugeot and Renault accounted for 9% and 7% of overall media spend respectively.

These standings in overall spend reflect almost the same rankings online with the notable exception of Hyundai, who was not in the top 11 digital brands spenders in Brazil in 2009. The trend, like many other markets, is for budgets to go increasingly online.

### Percentage of online spend amongst major players 2009

<table>
<thead>
<tr>
<th>Brand</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiat</strong></td>
<td>15%</td>
</tr>
<tr>
<td><strong>Ford</strong></td>
<td>14%</td>
</tr>
<tr>
<td><strong>Volkswagen</strong></td>
<td>9%</td>
</tr>
<tr>
<td><strong>GM</strong></td>
<td>8%</td>
</tr>
<tr>
<td><strong>Peugeot</strong></td>
<td>4%</td>
</tr>
<tr>
<td><strong>Citroen</strong></td>
<td>3%</td>
</tr>
<tr>
<td><strong>Renault</strong></td>
<td>8%</td>
</tr>
</tbody>
</table>

*Source: Ibope Monitor Estimates Jan–Dec 2009*

The Automotive category online has continued to build a strong online audience through 2009 and 2010. CommScore analysis shows that **unique visitors in the category reached over 10 million for the month of November in 2010**, rising from a base of approximately 7.5 million at the end of 2009. This 35 percent growth distributed largely to downstream auto research and consideration behaviours then filtering through to brand websites, particularly General Motors, Ford, Volkswagen and Fiat.

These figures are certainly not surprising for a market like Brazil. Increased consumption, rising Gross National Income and an increasing amount of consumers online, naturally
leads to increased media and online spending. The risk, clearly for brands, is underinvestment in online in particular. While, as has been mentioned, investment by leading brands online has been increasing, in 2009 this still represented only between .7% – 5.8% of total media spend across the largest brands. Fiat invested most heavily online with 5.8% of total media spend and Peugeot the lowest at +.68% of total media spend going online.

**Unique visitors: Automotive sector Brazil, 2009–2010. Total unique visitors (000)**

![Unique visitors](image_url)

Source: comScore

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**THE LATAM AUTOMOTIVE CONSUMER: ONLINE MEDIA**

High consideration purchases drive lengthier and deeper research activity. While it is no revelation the internet helps to facilitate this research activity in automotive, it is often underestimated how effective the internet can actually be in capitalising on awareness, consideration and preference right up to the purchase point.

Following global automotive consumer trends, Brazilians rely heavily on the internet when it comes to researching which car to buy. Google research from 2009 showed that 82% of internet users which bought cars in the previous six months used the internet to search for and research vehicles and 66% of these consumers used search engines specifically to find a manufacturer’s website.

A comprehensive study of nearly 44,865 new car purchasers which followed their online behavior for 6 months leading up to purchase revealed just how important online is for automotive. While these purchasers were largely from the US, the applicability to an increasingly modern and savvy Brazilian online consumer is very high. Search, unsurprisingly plays a key role across all key consumer points leading up to purchase. Search influences new car buyers and any digital automotive strategy not capitalising on this insight is not maximising digital efficiencies and ROI.
DON’T FORGET YOUR DIGITAL FUNCTIONALITY AND LET IT SPREAD

Online is interactive. Maximizing digital media activities means providing interactive ways that consumers can deepen their experience with brands to drive deeper consideration of them and to drive direct response actions (i.e. Book a Test Drive). In TNS, Polk and Google research, key functionality new car buyers used was:

- 48% - Build your own vehicle online (functionality)
- 36% - Offers (Call to action)
- 33% - Dealer locator (Functionality and Call to action)
- 23% - Search available stock
- 21% - Request a quote (Call to action)
- 21% - Vehicle comparison (functionality)

While making this functionality available on site is powerful, in today’s connected and digital world, releasing components of this functionality into either a brand’s owned media spaces (i.e. Facebook), partner media sites (i.e. automotive publishers online) or enabling viral distribution (i.e. via blogs) is a much more powerful and engaging way to drive awareness and consideration.

THE IMPORTANCE OF SEARCH FOR AUTOMOTIVE

The internet is the leading source of information used by new and used car buyers in Brazil across the entire buying process. Unsurprisingly, this reflects broader global automotive buying behaviour online.

As the table below shows, new car buyers are using search across the entire purchase funnel beginning their search behaviour typically 6 months previous to purchase with search behaviour still being relevant a week before their final purchase decision is made.

New car buyers use of search in automotive sector

<table>
<thead>
<tr>
<th></th>
<th>Brand Site Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness</td>
<td>6 months</td>
</tr>
<tr>
<td>Interest</td>
<td>3 months</td>
</tr>
<tr>
<td>Consideration</td>
<td>2 months</td>
</tr>
<tr>
<td>Test drive</td>
<td>1 month</td>
</tr>
<tr>
<td>Purchase</td>
<td>1 week</td>
</tr>
</tbody>
</table>

Source: Google, 2010
Furthermore, there has been a steady increase, as is seen by the chart below, of search related activity in Brazil in the Automotive segment since 2006. This chart looks at overall search volume in the Automotive category which is brand specific, with significant month on month increases occurring particularly since the beginning of 2008 and continuing until the present.

**Automotive Search volume, Brazil 2006 – Present**

![Automotive Search volume chart](chart.png)

*Source: Google: Insights for Search, 2011*

The automotive related search terms which are most often used in Brazil from 2006 – Present are a mix of generic terms and brand specific. Ford, Fiat, Honda and Chevrolet all in the Top 10 search terms for the sector online. Interestingly, FIPE (Fundação Instituto Pesquisas Econômicas) a not-for-profit entity which collates and reports on various economic variables, is a reference point for people looking at median car prices across Brazil. FIPE is both a commonly searched term and one of the fastest growing search terms when people are searching in this category, seeing search growth of 180+% since 2006. Optimising sites to include information from such third parties can assist in driving traffic to a brand's website and placing their vehicles into a consumer's consideration set.

**Most Commonly Used Search Terms in the Automotive Segment in Brazil 2006 – Present**

1. Carros
2. Carro
3. Motos
4. Honda
5. Fiat
6. Veículos
7. FIPE
8. Moto
9. Ford
10. Chevrolet

*Source: Google: Insights for Search, 2011.*

As with all important and increasing trends like these, they present a threat and opportunity. The opportunity is attracting more consumers across the purchase funnel towards a given brand. The risk, is under investment in search moving forward and not achieving the required level of SOV for a brand to be effective and competitive online.
HAVAS CONNECT™

Proprietary CONNECT™ research carried out by Havas Digital in Brazil, focused on the automotive sector, has confirmed the important role which online plays for new car buyers. When various communication channels were analysed in relation to how influential they are across various phases of the purchase funnel for consumers, online, one-to-one communications and Point of Sale channels were the most influential.

On average, 67.73% of respondents rated online channels (including blogs, social spaces, search, display advertising, brand websites and specialist websites) as being the most influential channel overall followed by one to one communication at 66.26% and Point of Sale at 65.89%. While there were some areas which rated higher as single influencer channels (i.e. specific TV advertisements at 76.03% and recommendations by friends and family at 71.96%), on an aggregate, online was the most influential channel.

Connect Study, Brazil, December 2010. Total Influence by Category. Brazil Automotive Buyers (past or future)
WHO IS WHISPERING THE LOUDEST ONLINE?

Share of media spend online has stayed relatively stable for larger players with a variance of 1% to 4% (positive or negative) from 2007 to 2009. Hyundai spend however has increased considerably inline with increases in market share for its brands. Hyundai saw an increase in its level of spend online from 7% to 17% from 2007 – 2009. All other major brands (except Fiat) evidenced decreases in their level of online spend over the same period.

Besides Hyundai and Fiat, the overall trend is for less online spend as opposed to capitalising on the opportunities inherent in online channels and subsequently increasing spend.

Online video and search, as the following page shows, are real opportunities to deliver awareness and desirability for automotive brands in Brazil ensuring brands who invest strategically make it to a consumer’s consideration set.

% of investment (online media) by brand 2007–2009

Source: Online Video and Search in Brazil. A snapshot (comScore, 2010)
Use of Online VDO and Search for Car Purchase Intenders (Global)

**Online VDO**
- Unique Viewers: 33.5 MM
- Reach: 84% of online audience (15+ years)
- Avg. Videos per viewer: 79
- Hours per viewer: 7.3

**Search**
- Unique Searches: 37 MM
- Reach: 92% of online audience (15+ years)
- Avg. Searches per searcher: 112
- Google: 89% market share

Source: Google, 2010

STRATEGIC USE OF DIGITAL MEDIA ONLINE

Given the increasing maturity, penetration and role that digital channels are playing for consumers in Brazil, it is crucial that automotive brands within this space look at the increasingly important role that digital needs to play in their communication mix.

The question is no longer whether the internet should be used to market cars, the real emphasis is on how it should be used most effectively.

Display (especially VDO) and search should form the cornerstones of any digital media strategy in this sector. This has been recommended in other insights documents from us. These two channels alone provide, if used consistently and not just sporadically for campaigns, greater assurance that automotive brands reach the necessary level of awareness and move more readily into the consideration behaviours of consumers.

Driving business and communication results in this sector is maximised with a focus on Direct Response (leads and test drives in particular). When looking at ongoing communication optimisation in the sector, the need to balance primary funnel objectives like awareness should be integrated with deeper funnel objectives such as trial and experience via direct response objectives (i.e. Book a Test Drive or Request a Brochure).
Digital channel approach across purchase funnel

<table>
<thead>
<tr>
<th>Digital Channel</th>
<th>Strategic Approach and Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Display</td>
<td>Maintain presence with continuity based campaigns. Flight with specific campaigns to support awareness and optimise CTR. Ensure coverage is between 60%+ (effective rate for sector). Utilise retargeting technologies to drive effectiveness. Use online VDO to create desire and assist in reducing reliance on TV. Given right approach Online GRPS via VDO can substantially reduce cost per GRP on TV.</td>
</tr>
<tr>
<td>Search</td>
<td>Establish core CPC metrics (lead generation) and test and optimise search to deliver against them. Run SOV continuity search campaigns to ensure visibility and competitive positioning throughout the year. Run Direct Response focused search at a segment and brand level to drive deeper level behaviour and consideration (i.e. request a test drive).</td>
</tr>
<tr>
<td>Affiliate</td>
<td>Focus on continuity campaigns to drive leads and test drives. Optimise affiliates based on CPL. Decrease CPL over time.</td>
</tr>
<tr>
<td>Social Media</td>
<td>Develop owned social media spaces and encourage followers. Develop engaging content and share to drive earned media. Listen and Learn through buzz monitoring. Develop relationships with key bloggers in the space and develop a dedicated Twitter strategy</td>
</tr>
<tr>
<td>Mobile</td>
<td>Mobile applications to drive post-sale loyalty should be examined as a starting point. Location based activities near dealer should be explored.</td>
</tr>
<tr>
<td>Email</td>
<td>Customer retention programs and next-car-purchase triggers to be focused on. 3rd party lists for targeted offers to be integrated into overall plan.</td>
</tr>
</tbody>
</table>
CONCLUSION

In a sector with increasing sales and increased competitive entry this will bring a requirement for dedicated investment in digital. The Brazilian online consumer is seeing year-on-year growth in the sector which also provides a justification for a more dedicated focus on digital channels.

Maintaining SOV and SOI moving forward will become increasingly difficult. Direct Response advertising via digital in this sector is largely becoming the key ROI driver, however this must be supported by a focused on earned social activities and also brand led display activity to ensure awareness and consideration.

The risk is being lost in the digital noise through uncompetitive levels of digital activity. The opportunity is clearly to capitalise on an increasingly mature digital automotive consumer landscape to drive communication and business benefit.
RECOMMENDED READING


- Brazilian Automotive Industry Yearbook (The National Association of Vehicle Manufacturers, 2010)

- Winning in the BRIC Auto Markets (Boston Consulting Group, 2010)

- New Cars in Brazil (Datamonitor, 2010)

- The Brazilian Online Audience (comScore, 2011)

- PSA Press Release (Brazil, 2010)
CONTACT DETAILS

We encourage you to contact us directly to discuss, in more details, any concerns you may have regarding this Havas Digital Insight issue. **We will be happy to assist you.**

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<th>Office Phone 1</th>
<th>Office Phone 2</th>
<th>Fax 1</th>
<th>Fax 2</th>
<th>Email</th>
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