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Brazil

Retail Food Sector Report

1999

Prepared by:
Marcus E. Lower - Director
ATO Sao Paulo
Drafted by:
Natasha Ribeiro - Marketing Assistant

Report Highlights:
The Brazilian retail sector -- hypermarkets, supermarkets and convenience stores -- has grown rapidly in recent years. The "Real Plan" driven economic stability led to increased attention to consumer needs, improved marketing and wider product availability -- domestic and imported. U.S. products face many challenges including the 1998/99 downturn in the local economy, a strong domestic food sector, and competition from MERCOSUL and EU suppliers. Nevertheless, interesting market opportunities exist for certain U.S. goods.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Sao Paulo, BR

Retail Food Sector Report

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I. Market Summary

Background:

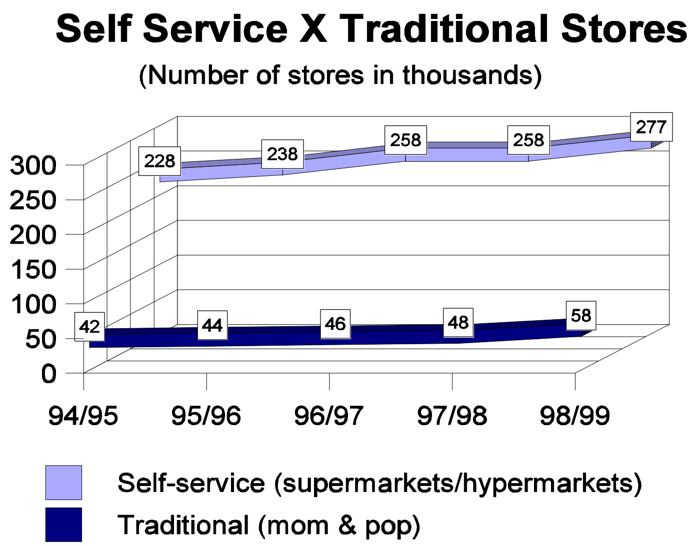
In the early 1990's, the Brazilian market experienced a rapid growth in imports as the market opened to foreign goods. The economic plan implemented by then President Collor opened the market to foreign industries and commerce and permitted Brazilians to try foods and beverages theretofore not experienced in the country. U.S. products quickly gained a favorable status as Brazilian production and quality generally suffered from inefficiencies and poor consumer marketing, the result of years of protection from foreign competition.

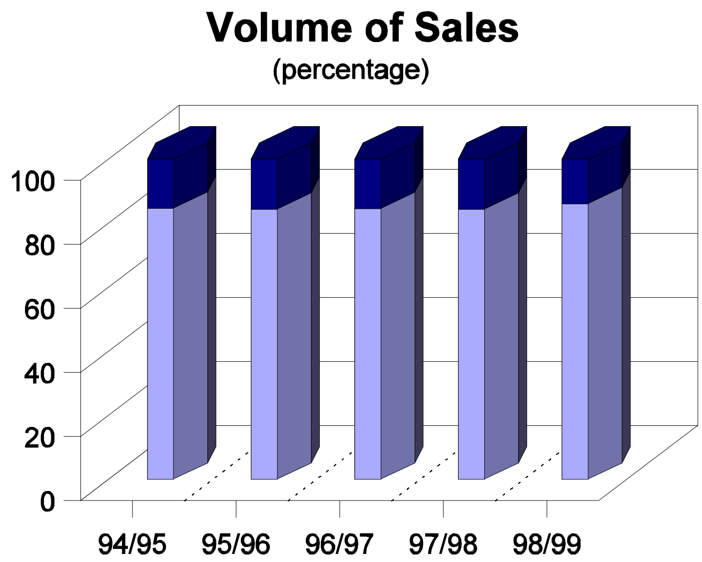
With implementation of the Real Plan in 1994, the liberalized market situation was finally coupled with economic stability. With this, came currency stability, increased consumer buying power and major changes in consumer buying attitudes, product marketing and competition among local retailers. Concurrently, the strength -- over valuation -- of the local currency, the Real, led to a jump in import, as can be noted in U.S. export sales statistics to Brazil. This favorable situation ran though 1997. During 1998, international economic conditions, primarily in Asia and Russia, along with faults within the Brazilian Real Plan began to impact the Brazilian economic situation. This culminated with the freeing of the exchange rate in late January 1999 and the ensuring drop in the value of the Real, vis a vis the U.S. dollar. However, initial projection by some economists for a Mexico-like collapse of the Real did not occur and the Real recovered from a low of about R$ 2.15/US$ in July to about R$1.80/US$ by April/ May. Since that point, the Real has fluctuated and by early November reached the R$1.90/US$ level. The impact on imports during 1999 was a reduction in foreign purchases, with the initial drop followed by a return of Brazilian importer to the US and other markets, albeit cautiously and at lower than previous levels.

Overview:

Brazil's Supermarket Association (ABRAS) reported sales of US$ 33.3 billion in 1998, an increase of 6 percent relative to 1997.
Participation in GDP : 6.1percent.
Direct employments : 666,752 . 11,752 new employments generated last year.
Indirect employment is around 2 million.
86 percent of all supermarket sales are food items.
51,502 stores (Supermarket, Hypermarkets and Convenience Stores) in 1998 in Brazil, 0.7 percent increase from 1997.
Retail food sector is estimated to cover 12.7 million square meters in 1998, up 0.7 percent from 1997.
125,867 check outs available in 1998, 2.2 percent above 1997.
5 biggest chains are responsible for 41percent of the segment's gross sales against 26 percent in 1996.
Traditional markets are quickly declining in importance, particularly in the process foods area.
Street markets (feiras) continue and are comprised largely of fresh fruits and vegetables, with some meats and fish available. Very little processed food is sold.
Convenience store sector has expanded rapidly and continues to grow as gasoline station chains move rapidly to include processed food sales in their marketing strategies.
In the 1994-1998 period, annual sales for the retail food sector increased by about 27 percent to US$ 47.7 billion
The trends in retail food marketing are for increased competition at all levels with some shifts from

neighborhood Supermarkets to Hypermarkets and Convenience Stores.
Increased services to consumer in terms of convenience and prepared food are developing rapidly as more women enter work force and domestic employees decrease.
Home delivery and Internet sales are present and active in more upscale economic areas.
Restaurant dining is popular and supported, in some areas, by meal voucher systems practiced by local business.
Imports comprised 6 percent of food sales in 1996 and are estimated to decline to about 1 percent for 1999 due mainly to weakening of Real, vis-a-vis dollar.





Since the devaluation it is possible to view a further modification in the consumer buying decision. Imports are seen as non-essential products, but have a high rate of loyalty among middle and upper income groups. Brazilians are replacing imports with national products now that price is again an important issue at the supermarket. Concurrently, local food producers have better quality and a wider variety of products than noted prior to 1994.

Another factor which benefitted from the 1994 - 1998 economic situation was an increase in the infrastructure development, the start of privatization of ports, railroads, highways and utilities, and consolidation within the food and retail sectors. There was also a shift in costumer attitudes during the 1990's with more demand for quality, variety, marketing and customer service.

Retail food sales:

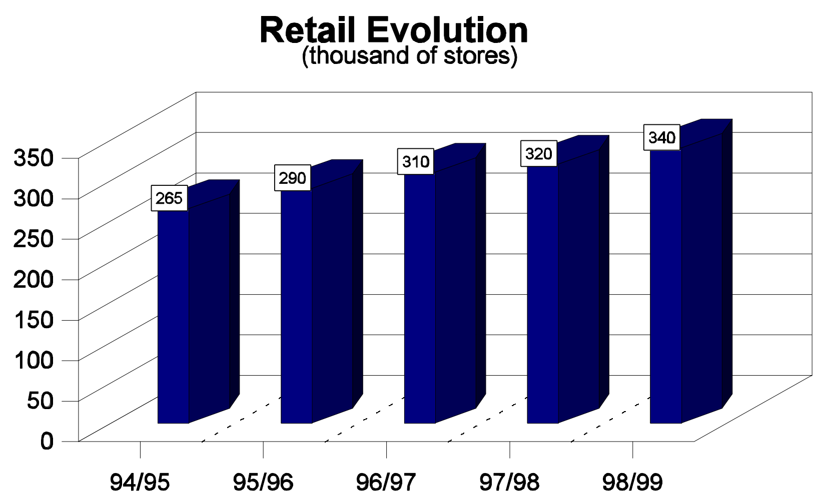
The supermarket sector is responsible for approximately 85 percent of the supplying distribution in Brazil, for basic products such as: food, hygiene and cleaning products.

	1994 (R$.93/US$)	1995 (R$.93/US$)	1996 (R$1.007/US$)	1997 (R$1.0811/US$)	1998 (R$1.1644/US$)
Annual Sales (US) Billions	US$ 37.5	**US$ 43.7**	**US$ 46.5**	US$ 46.6	US$ 47.7
% GDP	6.0%	6.6%	6.2%	6.02%	6.01%
Direct Jobs	650,000	655,200	625,000	655,000	666,752
# Stores	37,543	41,839	43,763	47,847	51,502
Square Meters	X	X	X	12 million	12.7 million
Check Out	X	X	X	123,170	125,867

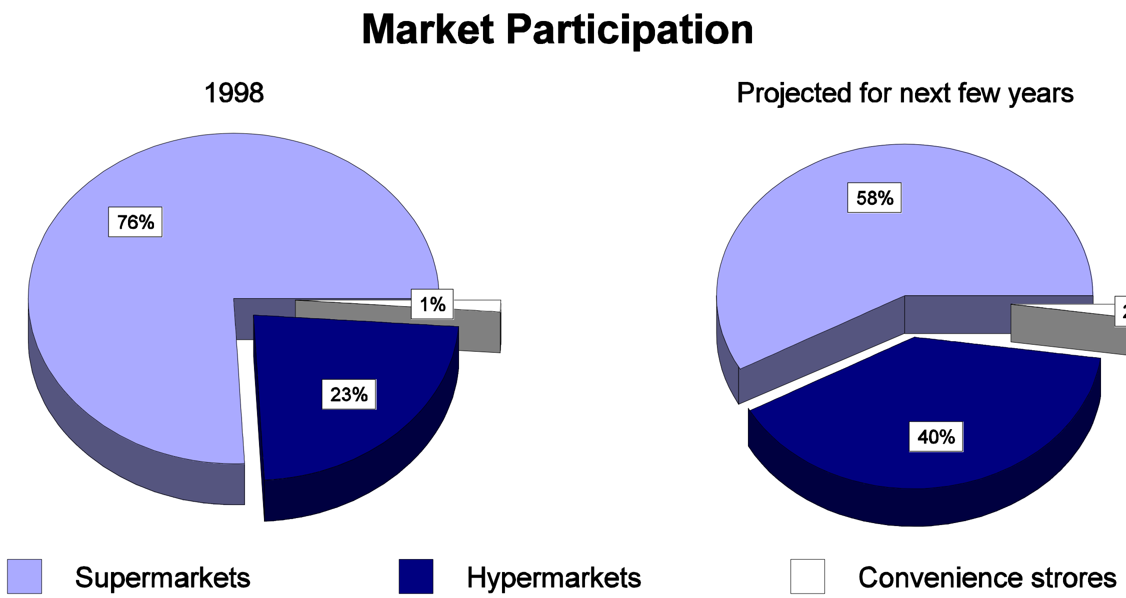
Source: Brazilian Supermarket Association (ABRAS)

Retail evolution:

Since 1994, the number of retail stores has increased nearly 30 percent.

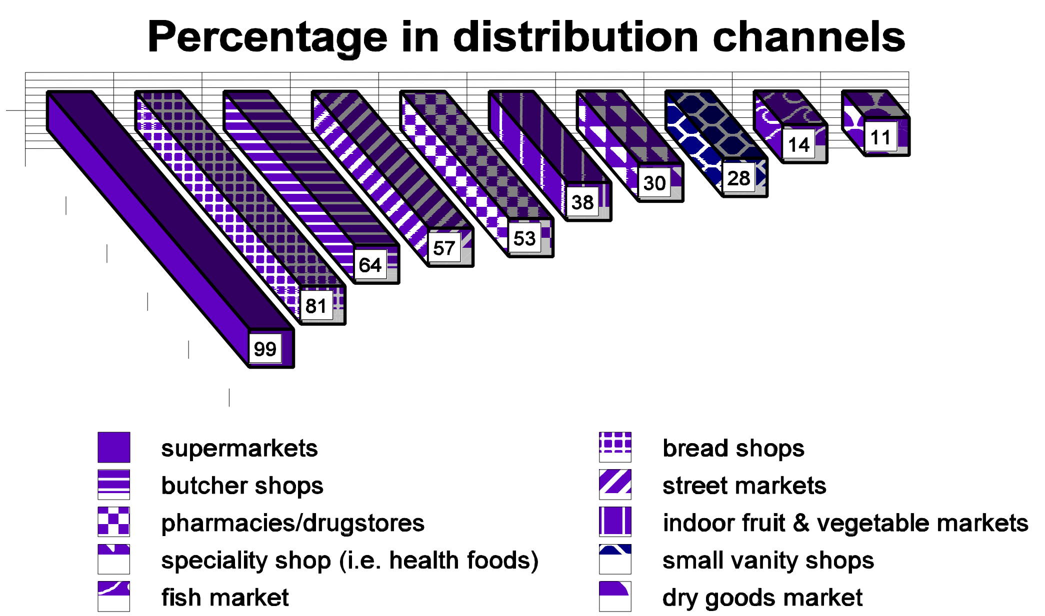


Expected growth rate:



Local industry projections indicate an increase in market share of hypermarkets and convenience stores at expense of supermarkets due to price and conveniences**.**

Distribution channels:



Most Brazilians do their buying at supermarkets (including hypermarkets) and fresh bread is still a staple item. The use of other types of stores depend on costumer's locations, concern for high quality, desire for particular product and other related factors**.**

Number and type of retail outlets:

Type of Market	Size of store	Number of stores	Number of store (%)	Volume of sales
	Total Brazil	335,789	100	100
	Total self service	58,296	17.4	86.1
Hypermarket	50 or more check outs	118	0	14.0
Supermarket	20 to 49 check outs	430	0.1	13.7
	10 to 19 check outs	1,322	0.4	15.5
	5 to 9 check outs	3,338	1	13.6
Convenience	1 to 4 check outs	53,089	15.8	29.3
Traditional	traditional	277,493	82.6	13.9

(1998)

Type of store	Size of store	Number of stores (%)	Volume of sales
Total Brazil	58,296	100	100
Chains	3,998	6.9	51.8
Independent	54,298	93.0	48.2

The definition for Self Service Stores is :

- Have a check out counter.
- A counter next to the exit.
- Either a cash register, point of sales, calculator terminal or other equipment used to add and check purchases.
- Shopping baskets or strollers.
- Merchandise arranged so shoppers may serve themselves.

The definition for traditional Store is :

- Has a salesperson or clerk is present to serve shoppers.
- Products tend to be behind a counter.

Chain stores are composed by 5 or more stores under the same name.

Retail Trends:

- 24 hours open markets.
- Internet ordering and home delivery.
- Higher credit card use.
- Other products sold (books, CDs).
- Services/shops inside supermarkets stores (store in store) such as laundry, banks, newspaper shops, video rental, stores, post office, fast food shops, etc.
- Neighborhood supermarkets and convenience stores are replacing traditional stores.
- Store brands
- Active market for merger and acquisitions
- Automation of stores, increased use of technology
- Use of automation in stores had a growth index of 34% since 1991. Comparing with the beginning of the decade, it increased 18,060%

Advantages and Challenges:

Advantages	**Challenges**
Market sales increased nearly 6% from 1997 to 1998.	Poor economic conditions in 1999 likely to limit food sale growth this year.
Of the approximate 160 million inhabitants, approximately 70 percent are situated in states along the coast plus Minas Gerais.	Distribution system needs attention to better serve areas outside major cities.
Supermarket sector continues to invest in improved technology, stores and customer service.	Devaluation increased landed cost of imported goods.
U.S. products are viewed as "high quality".	New requirements require use of Portuguese on factory labels. Stickers will not be accepted.
High number of mergers, acquisitions and foreign investments has retail sector fairly well capitalized.	New registration fees for imported products will hurt price competition of U.S. goods, along with other imports expected to start March 1, 2000. See BR9625 (FAIRS Report) for background info.
Imported products are well accepted by middle and upper income groups.	Competition from growing and improving domestic food sector and MERCOSUL suppliers.
Growing demand for convenience and prepared foods -- frozen and microwaveable.	Delays in clearing customs and ports.
Growing use of store brands.	As yet developing wholesale distribution system.
U.S. popular vacation destination giving exposure to U.S. products, culture, etc.	

II. Road Map for Market Entry

A. Super Stores , Supermarkets, Hypermarkets, Super Centers, Club and Warehouse Outlets

Entry Strategy:

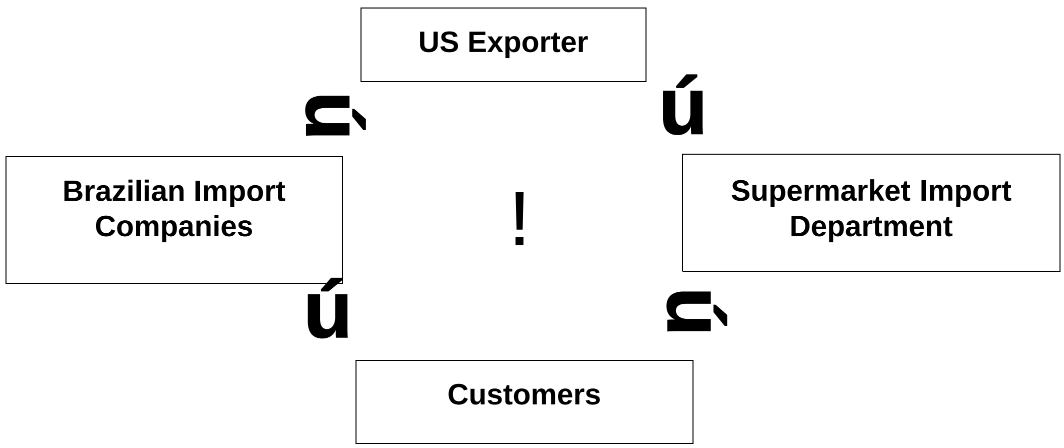
Factors: Understand climate and seasonal differences. Take into account the size of the country and the different regions. Talk face to face with perspective buyers. Have translator present if needed. Participate in trade shows popular to local buyers. Buyers attend trade fairs in Brazil and aboard. Provide product information in Portuguese. Learn about local culture, important holidays, etc. Importers use foreign contacts for product information. Some import directly and others via intermediaries. Products bought include canned goods, cereals, juices and seasoned goods. Attractive and durable packaging are important. Be prepared to identify a good local representative and to support marketing effort.

Local market for processed products can be viewed largely along company (rather than segment lines) as larger chains buy directly while smaller ones tend to go through one of the import companies. Also depends on the product due to exclusive representation arrangements. Exporter should make contact with local buyers by personal contacts, develop a compatible relationship with a local representative and plan to spend some time and money not only developing the market but also to adapt the product and packaging, etc. To meet the needs of the market, packaging not only needs to conform to labeling requirements but also needs to be pleasing to Brazilian consumer and sturdy enough to handle local distribution and environmental conditions. For fresh fruits and vegetables, supermarkets tend to buy from the central market, the largest of which is "CEASA" in São Paulo. From the major wholesale point, product is distributed throughout Brazil.

Local buyers are willing to receive visits by sellers. It is important to note that the language in Brazil is Portuguese and that the country is as large as the continental U.S. In the São Paulo area, it is not common for buyers to attend hotel meetings with sellers, so transportation and knowledgeable translator are necessary. In other areas meeting customs may vary somewhat but exporters should not expect buyers to come to them, unless so offered. Knowledge of greetings and conversation techniques are important. Although working though a translator, understand the familiar pattern of getting acquainted prior to getting down to business, such as accepting a cup of coffee if offered.

São Paulo is the larger market area but smaller markets present attractive potential and should not be overlooked. Travel in Brazil, while not difficult, can be expensive as primary points of entry are São Paulo and Rio de Janeiro, both located close together in southern part of the country.

Market Structure:



Imports are handled by import companies and directly by the supermarkets or hypermarkets.

Company Profiles:

For competitive reasons the major chains are expanding in a direction away from their traditional base. For example, the Pão de Açúcar Group (Cia. Brasileira de Distribuição) began as a neighborhood supermarket-based company but has expanded into the hypermarket store sector, while Carrefour, their largest competitor, is doing just the opposite. Likewise, companies have acquired smaller chains that focused on different income levels, as well as on different geographic areas. Regional presence is also popular as noted by the strength of Bompreço in northern Brazil, Sendas in Rio de Janeiro, Pão de Açúcar in São Paulo and Sonae in the south. Carrefour is stronger in central and southern Brazil. The Sam's Club is in Brazil but the concept has not been widely copied. Foreign participation is not new as Carrefour has been in Brazil since the 1970's and Wal Mart entered in the mid-1990's. However, foreign entry continues with the Portuguese Sonae chain in southern Brazil and the purchase of 25 percent of the Pão de Açúcar Group by the French company Casino. This has brought additional competitive capital, foreign management, marketing resources and practices.

Due to the size of Brazil, the customer profile varies. Tastes in southern Brazil tend toward European-style products and the more northern part of the country has a more Afro-Brazilian component. Purchasing power generally grew during the mid-1990's but has contracted in the 1998-99 period due to tightening economic conditions. The January 1999 devaluation exacerbated the situation for imported goods as prices jumped in local currency terms.

Ranking Top 10 Retailers in Brazil - 1998

Rank	Company	State	Gross sales (US$ million*)	Sales area (sq mtrs)	# of stores	# of employees
1	Carrefour	SP	6,037	674,374	82	28,195
2	Cia. Brasileira de Distribuição (Pão de Açucar)	SP	4,715	475,381	285	28,398
3	Bompreço	PE	2,078	237,094	91	15,016
4	Sendas	RJ	1,649	162,639	60	12,257
5	Sonae	RS	1,328	159,490	49	10,630
Total 5 larger chains			15,807	1,708,978	567	94,496
6	Nacional Central Distrib. Alim. LTDA	RS	776	98,129	84	7,367
7	Paes Mendonça	RJ	715	119,403	26	4,393
8	Wal Mart	SP	675	98,017	9	3,943
9	Cia Zaffari Com e Ind	RS	566	65,959	19	6,550
10	Sé	SP	502	48,346	28	3,582
Total 10 larger chains			19,041	2,138,832	733	120,331

* exchange rate R$ 1.16/US$

OBS.:
The 1st to the 5st places are responsible for 41% of overall sales in 1999 against 33% in 1998.
The 1st to 10th places are responsible for 46% of overall sales in 1999 against 40% in 1998.
The 300 places in the ABRAS ranking are responsible for 68% of overall sales.
State indicates home office: SP= São Paulo, PE=Pernambuco, RS=Rio Grande do Sul, RJ=Rio de Janeiro.

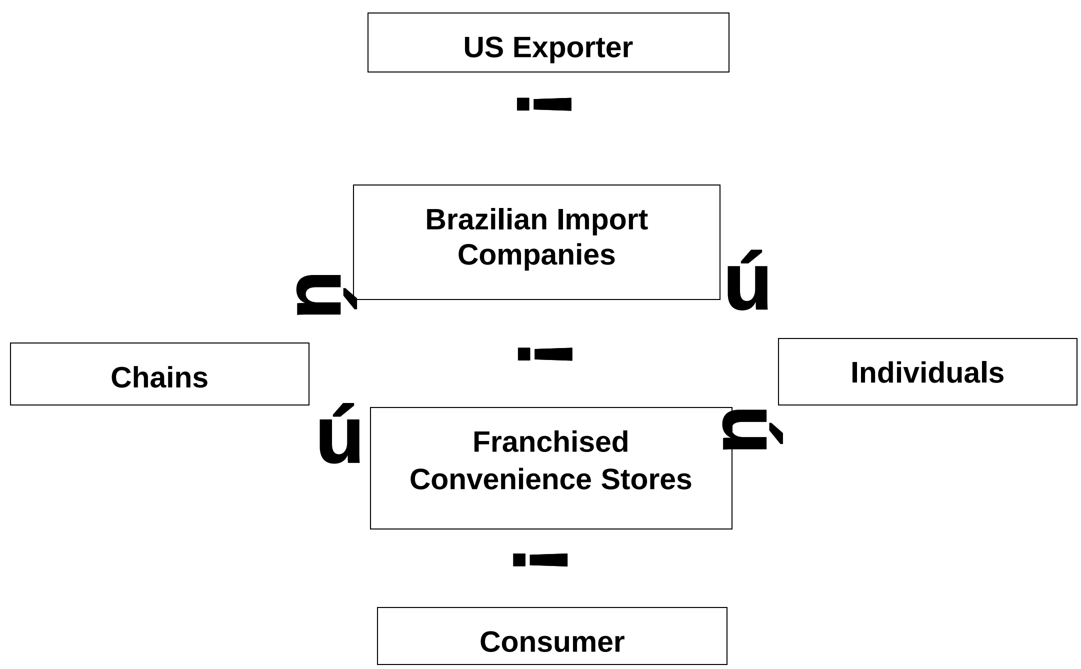
B. Convenience Stores, Gas Marts, Kiosks

Entry Strategy:

Buying and distribution varies by company. Direct owned stores in same general area have central distribution. Franchised shops tend to have an established list of products from which choose. Lists is determined by franchiser to maintain quality and uniformity. Franchisee, however, is allowed a certain number of locally acquired products to fit specialized local consumer preference.

- New convenience stores are nearly all associated with gasoline station. New station will tend to have attached convenience store, unless space limitations prohibit.
- Products for the larger chains will be established brands and products.
- Imported products are not excluded..
- Presently, imports have a very small presence but include products such as Pringle products.
- Sector is new, innovative and growing.
- Store in store concept is increasingly noticeable, such as Dunkin Doughnuts and Casa do Pão de Queijo.
- Selling to sector will require contact with individual companies. Most are headquartered in Rio de Janeiro and São Paulo.
- National Association of Convenience Stores (ANLOC) is new and located in São Paulo.
- ANLOC sponsors National "Gas & Shop" shows , which has just finished 3rd event. Participants represented mainly petroleum companies and automotive inputs but good future potential for convenience store food items. Sector representatives travel to U.S. to attend convenience store shows, this year in Chicago, next in New Orleans.
- Imported goods, to date, are not imported directly but bought from import companies.

Market Structure:

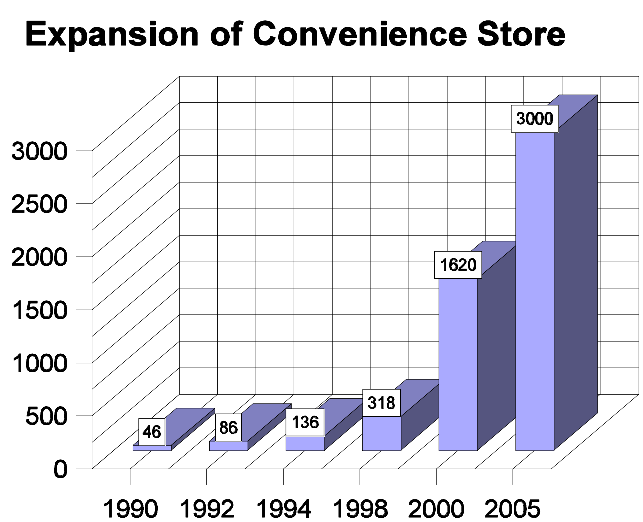


Company Profiles:

The growth in this sector is a function of time, location and service. While hypermarket business has increased, so has that of the convenience store. To an increasing extent, consumers will do their major buying at a hypermarket or supermarket and then fill in with purchases at a local convenience store. Growth in this area has come to a large extent at the expense of the traditional "Mom and Pop" type neighborhood businesses due to improved marketing, modern design and the variety of quick food products available. Most convenience stores are of the "gas mart" variety and the shift in that direction continues. While Shell opened the first shop of this type 12 years ago, the U.S. style "convenience store" entered Brazil in the early 1990's when the first 7-11 opened. The 7-11 company left the market in 1999 due to the lack of the gasoline service, which has proven a critical competitive link. Supporting this is the prohibition of "self-service" gas stations, which frees the motorist to "look around" while waiting. Growth in this sector continues rapid, going from 46 shops in 1990 to 1,620 in 1998. Industry projection is for there to be 5,000 by 2003. While located throughout the country, a higher concentration will be in urban areas. Other products would also include drinks, cigarettes and small dry good items.

Products handled by this sector tend toward small portion, snacks, ready to eat or prepared food products, much as would be expected in the U.S. The presence of imported product varies but are by no means excluded.

Franchise	Percentage in Participation	# Stores
Stop& Shop/ Hungry/ Tiger/Esso	22	420
Am/Pm - Ipiranga	19	308
BR Mania - Petrobrás	16	265
Shell	16	260
Texaco	11	170
Other chains and independent stores	16	257

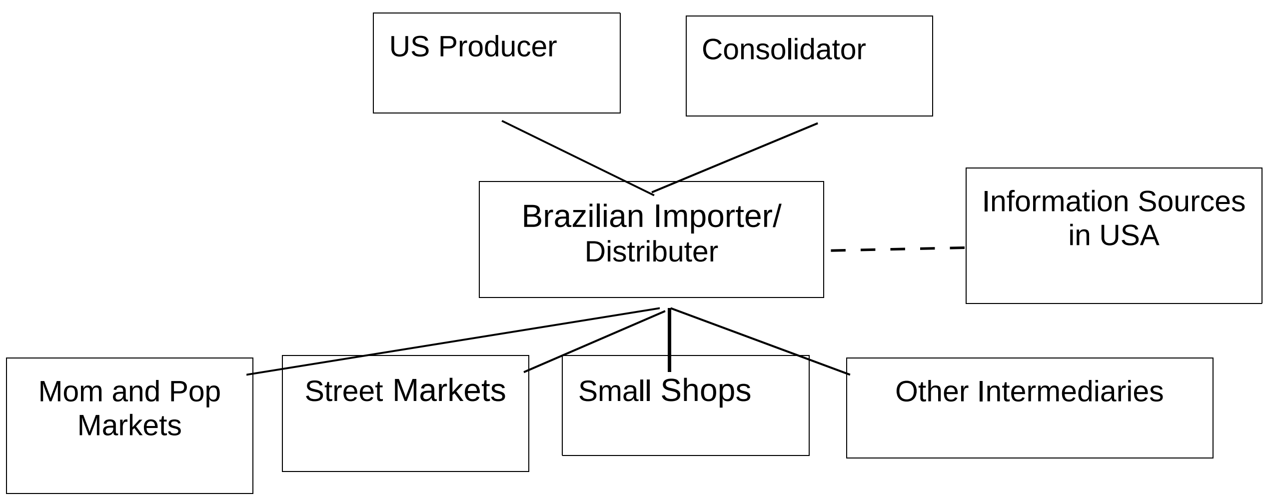


C. Traditional Markets

Entry Strategy:

While bread shops "padarias", and other small "mom and pop" shops and the traditional street markets are still active, direct contact with imported processed products is limited. Most purchases of processed items by this sector tend to be made in less than case lot from a distributor who may deal directly with an importer or via another intermediary. U.S. exporters will tend to deal with the import companies to reach this sector.

Market Structure:



Sub-Sector Profile:

Small neighborhood stores are prevalent throughout Brazil. These comprise bread shops, specialty shops, such as butcher shops, vegetable stands, tobacco stands, etc. In addition, the roaming street markets, which have a different location each day of the week, are a traditional presence. Processed products in this sector tend toward national items, often bought in less than case lots from a distributor specializing in the sector’s needs. Concurrently, for the street markets, the items sold tend to be fresh fruits, vegetables, meat and fish. While a very interesting sector, it presents little of notable interest to U.S. exporters.

Companies in CEASA	% National products	% Imports	% imports from USA	% Imports from MERCOSUL	% Imports from Europe
Importer 1	80	20	* 0	* 80	* 20
Importer 2	50	50	* 80	* 10	* 10
Importer 3	60	40	** no data	** no data	** no data

* this season ** there was no data about the % because they were changing stock

Overall, this sector is losing ground to the Convenience Store sector. Industry data indicates the decline in bread shop, for instance, to have gone from 60,000 in 1995 to 45,000 in 1999. This number is projected to decline further to 30,000 in 2005. At the same time, however, shops in this sector are also evolving in some cases, to focus on a higher quality, specialized image.

III. Competition

Competition for U.S. products comes primarily from local production, followed by imports from MERCOSUL suppliers. The EU and Chile are other major foreign suppliers. Overall, imports have been contracting, sliding from US$2.7 billion in 1996 to US$2.5 billion in 1998. For the January-September 1999 period, overall Brazilian imports of food products is off a third from the same period last year. The decline initially came, in large part, due to improvements made by local food companies in terms of product variety, quality, marketing, etc. In 1998 and 1999, however, general economic factors and government policies, including the devaluation of the local currency, the Real, negatively impacted the cost of imported items.

IV. Best Product Prospects

Snack foods
Microwave popcorn
Nuts and peanuts
Processes cheese products
Salad dressing
Fresh and dried fruits
Frozen vegetables
Breakfast cereals
Jams & jellies confections
Pancake mixes
Kosher foods and other ethnic foods
Health foods
Wine, beer, spirits
Tea, juices and sports beverages
Food ingredients
Prime beef cuts

V. Post Contact and Further Information

The U.S. Agricultural Trade Office is located in São Paulo, Brazil. For further in formation, please note the following:

U.S. Agricultural Trade Office
Alameda Santos 2224, cj. 11
01418-200 São Paulo, SP, Brazil
Tel: 011-55-11-282-3528
Fax: 011-55-11-883-7535
E-mail: ATOSaoPaulo@fas.usda.gov or atosp@unisys.com.br

Mail originating in the U.S. should be sent to:

U.S. Agricultural Trade Office
American Consulate General, São Paulo
Unit 3502
APO AA 34030-3502

Additional FAS information on the Brazilian market and USDA export programs can be found on the FAS homepage (http://www.fas.usda.gov).

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