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HRI Food Service Sector

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Report Highlights: Brazilian economic recovery and the tourism expansion policy generated a significant growth in the hotel, restaurant and institutional service industry during the 1990's. Despite the positive trend, the sector is not easy to penetrate as in most cases, the industry depends on importers for foreign products. U.S. exporters should develop contact with quality importers and distributors. These players can facilitate the entire operation, from port to consumer.

Unscheduled Report
Sao Paulo [BR3], BR

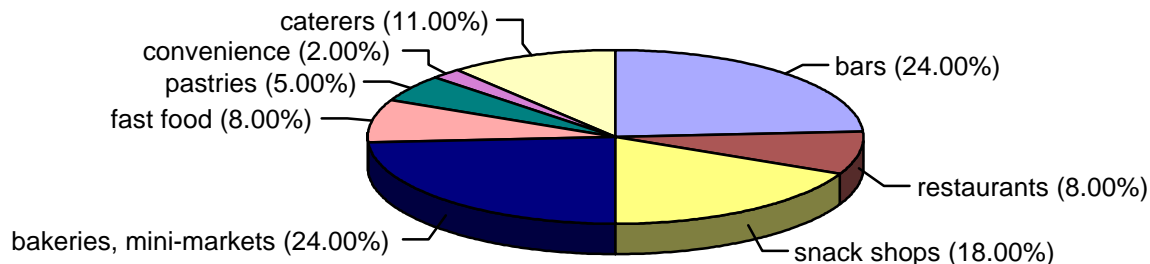
I. Market Summary	1
II. Road Map For Market Entry	3
A. Entry Strategy	3
B. Market Structure	3
C. Sub-sectors Profiles	4
III. Competition	9
IV. Best Product Prospects	10
V. Post Contact and Further Information	11

I. Market Summary

In Brazil, the food service industry encompasses bars, restaurants, fast food, snack shops, bakeries, pastry shops and industrial catering. According to the Brazilian Food Processors' Association (ABIA), in 1998 the food service sector represented approximately 16 percent of the total food processing industry revenue, which was US\$ 64.8 billion. When considering only the urban centers, this share reaches 20-22 percent. On a per capita basis, food service sector expenditures totaled US\$ 26.3 billion dollars. By the year 2005, the sector is expected to grow 6 to 8 percent. Today, the HRI industry provides 41 million meals per day.

Consumption patterns have changed significantly in the past 30 years. In 1971, Brazilian consumers spent 7.5 percent of their total food budget to eat outside of their homes. According to the Brazilian Geography and Statistics Institute (IBGE), this percentage rose to 11.9 in 1997. Nowadays, 40 percent of women are part of the workforce, which means that they do not have as much time to prepare meals. In fact, the average time spent on meal preparation, which was 2 hours in the seventies, now, is 15 minutes.

Brazilian Food Service Sector



Source

: Brazilian Food Processors' Association (ABIA) - 1995

The Brazilian tourism industry has a potential to generate US\$ 52 billion for the Brazilian economy. By 2010, this amount should reach US\$ 123 billion. According to the World Travel and Tourism Council, the sector needs accurate planning and investment in infra-structure to achieve the results expected.

Besides the increasing number of existing hotels, a new cycle of investments has promoted expansion and entry of new hotel operators in the Brazilian market. This process is creating new competitive standards and stimulating consolidations and incorporations. Operators are also focusing on the administrative services, such as contracts and franchising to improve efficiency.

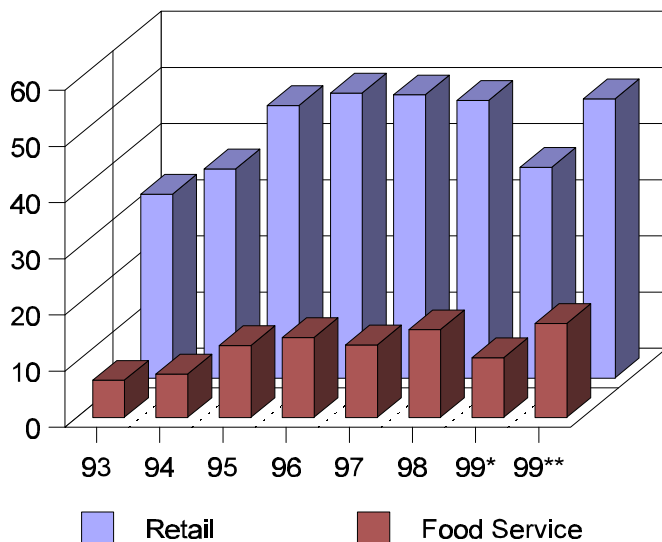
From 1990 to 1996, US\$ 442 million were invested in 10 new deluxe establishments. According to Ernest & Young Consultant, from 1997 to 2003 US\$ 5 billion will be invested in the hotel sector.

Food and beverage sales are the second major income generated in the hotel sector. Usually, food items generate higher returns when compared to beverage items. According to the Brazilian Tourism Agency

(EMBRATUR), in 1997 the food and beverage sector of luxury categories hotels in the Southeast region (Rio Grande do Sul, Santa Catarina and Parana) represented 21.4 and 5.6 percent of total income, respectively. Food and beverage share depends on hotel standards. At higher standard hotels, food and beverage can represent over 25 percent, as the standards decrease so does food and beverage shares.

In 1999, the industrial caterers' segment amounted to approximately US\$ 5 billion. According to the Brazilian Industrial Caterers Association (ABERC) in 1999, 7.5 million meals were served per day. The Association calculates the Brazilian potential to be over 20 million. The segment consumes on a daily basis, two thousand tons of food and employees 180,000.

Retail and Food Service Sector Sales (US\$ Billions)



(*) average exchange rate of 1998/R\$=US\$1.16

(**) average exchange rate of 1999/R\$=US\$ 1.81

Advantages	Challenges
The U.S. is a reference for executives of HRI sector.	Executives can influence but importers are generally the decision makers regarding foreign food and beverage purchases.
Some American fast food companies are well established and known in the Brazilian market.	U.S. products have disadvantageous price position compared to domestic, Mercosul and many European products.
U.S. suppliers have a reliable status among Brazilian buyers.	Overcome a cultural difference, usually a barrier, when doing business with Brazilian buyers.

The HRI industry is adopting the trend of convenience products.	Lack of HRI sector awareness regarding U.S. products of potential interest.
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II. Road Map For Market Entry

A. Entry Strategy

U.S. exporters interested in exploring the HRI sector should develop an understanding of the market and contact with local importers, as many Brazilian HRI companies purchase imported items from the local market.

After the monetary devaluation in 1999, the imported market suffered relevant sales decreases. Consequently, the number of items carried by import companies also diminished. At the present time, as the economy recovers and the market becomes more receptive, new products are coming in. However, there is a significant change from the initial years of the Real Plan (1994-1996). Today, with the exchange rate oscillating around R\$1=US\$ 1.80, imported products are challenged to compete with local and Mercosul products. The Brazilian processing industry is sophisticated and the major international food companies are established in the market. After the market opened in 1994, local producers took advantage of tariff incentives to import equipment and technology to improve their position against imported products. Thus, the quality and variety of locally produced products has increased significantly. These are the main reasons why some imported products disappeared from the market since the mid 1990's.

U.S. exporters should look for opportunities to enhance niche markets. The growth in the HRI sector has led import companies to create specific divisions to assist the sector. Restaurants, snack shops, bakeries and pastry shops tend to buy imported products from local companies. Direct imports rarely occur in this sector as imports seldom reach the appropriate volume to justify such an operation. Nevertheless, executives from this sector frequently travel to the U.S. and Europe to investigate new trends. They are opinion leaders and can influence buying decision. U.S. companies should develop a push-pull strategy.

Fast food restaurants, industrial caterers and institutional food service can reach volumes to import directly. The major players are few. U.S. companies new to the market should consider a direct contact, on a regular basis and also participate in sector events and trade shows, which give visibility to the product and help initiate new business relationships. Hiring a local representative will likely be necessary. Success depends on a continuous relationship and customer service. In addition to that, U.S. companies can benefit from the structure local companies offer on logistics, port procedures and promotion.

B. Market Structure

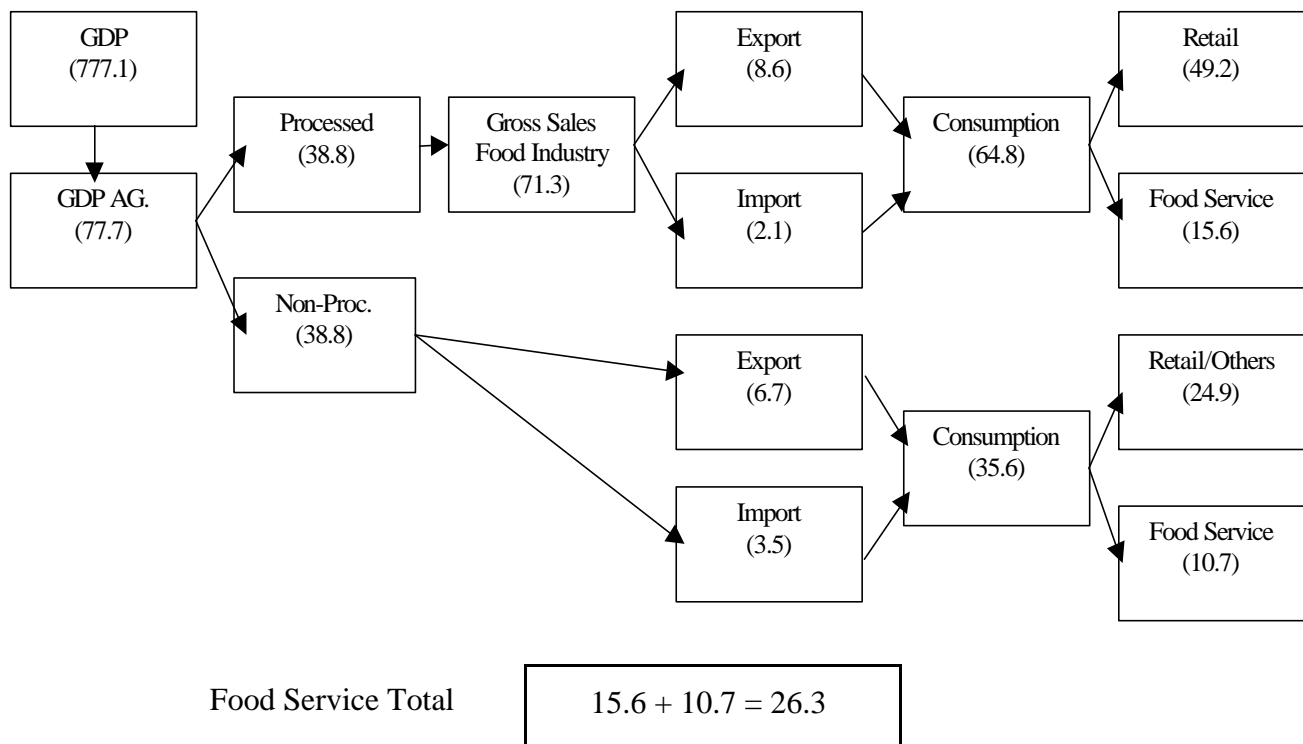
According to the Brazilian Gastronomy, Hospitality and Tourism Association (ABRESI), in 1996, there were 1,071.3 thousand food service companies in the tourism industry, divided as:

- 18,000 restaurants and bars at hotels, motels and inns
- 725,300 bars and restaurants

- 1,000 industrial caterers
- 310,800 snack shops/small restaurants
- 16,200 others

The industrial food service companies in Brazil are concentrated in São Paulo, Rio de Janeiro, Minas Gerais and Rio Grande do Sul. São Paulo is the leading state. For the industrial segment, the Brazilian Industrial Caterers Association (ABERC), counts among the main companies as their affiliates, 101 members, representing 90 percent of the segment. However, the number of members still is very low.

Food Distribution /(US\$ Billions)



Source: ABIA/ABRAS/ABAD (1998)

C. Sub-sectors Profiles

Despite the early 1999 currency devaluation, the prospects for the HRI sector are optimistic. U.S. exporters interested in the Brazilian market should consider contacting the following companies, as they are the major players in their segments:

Company Name	Sales (US\$ Mil) 1997	Outlet name, Type & Number of Outlets	Location	Purchasing Agents
HOTELS/RESORTS				

Grupo Accor	165 270 (1999) 470 (2000)	70 (6,668 rooms)	RJ, BA, MA, SP, MG, ES, MS, PR, CE, PA, RS, AM, RN, PE, MT, SC, AL, PB, DF	Importer, Local Importer
Hoteis Othon S.A.	57.57	17 (3,152 rooms)	MG, CE, SC, BA, AL, PE, RJ, SP	Local Importer
Best Western	N/A	16 (2,080 rooms)	SP, BA, ES, RJ, RS	Local Importer
Cia. Transamerica de Hoteis S.A.	26.75	12 (1,552 rooms)	SP, BA, RJ	Local Importer
Cia. Tropical de Hoteis	22.06	5 (1,529 rooms)	BA, PR, PB, MG, SP	Local Importer
Sol Melia Hoteis	N/A	10 (1,252 rooms)	SP, BA, MG, SC, RS, AL	Local Importer
Hilton do Brasil	N/A	4 (1,133 rooms)	SP, MG, PA,	Local Importer
Sheraton	44.92	3 (1,003 rooms)	SP, RJ, PE,	Local Importer
Luxor Hoteis	17.62	8 (969 rooms)	RJ, MG, PI	Local Importer
Le Meridien	N/A	2 (922 rooms)	RJ, BA	Local Importer
Blue Tree Hotels	9.25	6 (901 rooms)	CE, PE, RS, BA, SP, RJ, SC, MG, DF	Local Importer
Rede Plaza	21.49	5 (888 rooms)	SC, SP, RS	Local Importer
Hoteis Deville	20.91	6 (753 rooms)	PR, SP, RS	Local Importer
Rede Eldorado	13.01	5 (748 rooms)	SP, MT, RJ	Local Importer
Plaza Inn	9.35	5 (742 rooms)	MG, SP, GO	Local Importer
Hoteis Bourdon	N/A	4 (717 rooms)	PR	Local Importer
Club Med do Brasil	39.16	2 (670 rooms)	BA, RJ	Local Importer
Inter-Continental/Bass	N/A	2 (631 rooms)	SP, RJ	Local Importer
Caesar Park	27.7	3 (619 rooms)	RJ, SP, PE, BA	Local Importer
Renaissance/Marriott	N/A	1 (454 rooms)	SP	Local Importer

Company Name	Sales (R\$ 000) 1999	Outlet name, Type & Number of Outlets	Location (Head-quarters)	Purchasing Agents
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FAST FOOD/ SNACK SHOPS				
10 Pasteis	675	27	PR	Domestic Supplier, Local Importer
All Parmegiana	1,200	24	SP	Domestic Supplier, Local Importer
Agua Doce Cachacaria	945	35	SP	Importer, Domestic Supplier, Local Importer
America	N/A	N/A	SP	Importer, Domestic Supplier, Local Importer
American Ice	1,134	126	SP	Domestic Supplier, Local Importer
Amor aos Pedacos	1,600	40	SP	Domestic Supplier, Local Importer
Big Pastel	575	23	SP	Domestic Supplier, Local Importer
Bob's	N/A	173	RJ	Importer, Domestic Supplier, Local Importer
Bon Grille	1,395	26	SP	Domestic Supplier, Local Importer
Casa do Pao de Queijo	6,625	265	SP	Domestic Supplier, Local Importer
Café do Ponto	N/A	105	SP	Domestic Supplier, Local Importer
China in Box	2,460	82	SP	Domestic Supplier, Local Importer
Dunkin' Donuts	4,025	161	SP	Domestic Supplier, Local Importer
Fran's Café	1,500	60	SP	Domestic Supplier, Local Importer
Fry Chicken	5,115	93	SP	Domestic Supplier, Local Importer

Habib's	14,880	124	SP	Importer, Domestic Supplier, Local Importer
Kopenhagen	N/A	113	SP	Domestic Supplier, Local Importer
La Basque	920	46	SP	Domestic Supplier, Local Importer
McDonald's	105,000	420	SP	Importer, Domestic Supplier, Local Importer
Mister Pizza	3,920	98	RJ	Domestic Supplier, Local Importer
Mister Sheik	N/A	85	SP	Domestic Supplier, Local Importer
Pao & Cia	2,120	53	MG	Domestic Supplier, Local Importer
Pastelandia	2,684	122	SP	Domestic Supplier, Local Importer
Pizza Hut	N/A	70	SP	Domestic Supplier, Local Importer
The Nut Bavarian	528	66	SP	Domestic Supplier, Local Importer

Company Name	Sales (R\$ Million)	Volume of meals/day (thousands)	Number of Clients (Companies or Restaurants)	Location	Purchasing Agents
FOOD SERVICE					
Alfa Meals	1.65*	N/A	1	SP	Domestic Supplier, Local Importer
Alimenta	42*	80	70	N/A	Domestic Supplier, Local Importer
Aplanco	1.1*	4.5 (monthly)	34	SP	Domestic Supplier, Local Importer

Ataliba Refeicoes	13.2	38	66	SC, CE	Domestic Supplier, Local Importer
Bella Vista	N/A	30	N/A	RJ	Domestic Supplier, Local Importer
Coan Pampas	26.5	140	142	SP, PR	Domestic Supplier, Local Importer
Cosnal	36.1	55	113	SP	Domestic Supplier, Local Importer
De Nadai	63.2	70	116	SP	Domestic Supplier, Local Importer
Dias & Proenca	960	216	10	SP	Domestic Supplier, Local Importer
Embrasa	41	150	300	GO, MG, SP, SE, BA	Domestic Supplier, Local Importer
Exal	14	40	31	PR, SC, SP, MG	Domestic Supplier, Local Importer
GR	427.1	460	820	countrywide	Domestic Supplier, Local Importer
Golden Service	1.5	1.3	2	SP	Domestic Supplier, Local Importer
Gran Sapore	89	169	220	SP, RJ, MG, ES, RS, SC, PR, GO, DF, MS, PE, BA, AL, RN	Domestic Supplier, Local Importer
Inovacao	18	26	57	SP, MG, RJ	Domestic Supplier, Local Importer
Komida	N/A	N/A	26	SP, RJ	Domestic Supplier, Local Importer
Lappetit	N/A	2.5	36	RS	Domestic Supplier, Local Importer
Nutrin	N/A	N/A	102	SP, MG, PR, RJ	Domestic Supplier, Local Importer
Nutrinor	N/A	18	N/A	CE	Domestic Supplier, Local Importer
Nutriplus	N/A	17	N/A	SP, PR	Domestic Supplier, Local Importer

Puras do Brasil	137	280	360	RS, PR, SC, SP, RJ, MG, ES, PE, BA, CE	Domestic Supplier, Local Importer
RCN Norte	70	N/A	N/A	North	Domestic Supplier, Local Importer
Risotolandia	32	110	250	PR	Domestic Supplier, Local Importer
Sabor e Saude	40	N/A	9	BA	Domestic Supplier, Local Importer
Sante	3	2.5	13	SP	Domestic Supplier, Local Importer
São Mateus	140	152	N/A	PE, PB, RN, CE, MA, AM, PA, SE, BA, RJ, SP	Domestic Supplier, Local Importer
Seiva	N/A	N/A	100	SP, MG, MT, North and Northeast	Domestic Supplier, Local Importer
Sodexo do Brasil	230	N/A	7.7 (millions/month)	Northeast, MG, ES, RJ, SP, PR	Domestic Supplier, Local Importer

* estimative in US\$

R\$ 1.00=US\$ 1.81 in 1999

(Rio de Janeiro=RJ, Bahia=BA, Maranhao=MA, São Paulo=SP, Minas Gerais=MG, Espirito Santo=ES, Mato Grosso do Sul=MS, Parana=PR, Ceara=CE, Para=PA, Rio Grande do Sul=RS, Amazonas=AM, Rio Grande do Norte=RN, Pernambuco=PE, Mato Grosso=MT, Santa Catarina=SC, Alagoas=AL, Paraiba=PB, Distrito Federal=DF, Piaui=PI, Goias=GO, Sergipe=SE)

Source: Gazeta Mercantil, ABIA, Brazilian Franchise Association (ABF)

III. Competition

Due to the higher relative cost of imported goods, consumption patterns have shifted yet more to local production since early 1999. In the first years of the Real Plan, the Brazilian market absorbed an extended range of imported items as those products were new and price competitive. Today, local importers focus their purchases on new and sophisticated products - niche markets - where price is not the most important factor in defining the purchase. Also, as the segment develops, the demand for quality value-added products increases.

The main competitor for U.S. products among imports are European. Europe eating habits are well known due to traditional/cultural ties, which gives their exporters a certain advantage. Freight from Europe is also less expensive compared to the United States. However, American companies can benefit from the fact that Brazilian consumers are more exposed to and increasingly influenced by American culture. Importers are predisposed to represent brands with which consumers are already familiar. Brazilian companies are also

importing products with their own brand labels.

The import market this year is expected to grow after three years of decline. Local importers are estimating sales increase of 30 percent compared to last year. U.S. exporters should direct efforts to better understand the market, its players, competitors and the buying process in order to overcome the constraints and better take advantage of market consolidation.

IV. Best Product Prospects

A. Products Present in the Market Which have Good Sales Potential

As the HRI sector shows optimistic trends, top food processors launched new products in the market targeting this segment. In order to adapt to food service demand, the number of frozen products and semi-prepared products had a significant increase. However, the market potential is reportedly still underestimated.

From 1994 to 1999, ABIA conducted research to evaluate what products had the best growth performance. The results were the following: yogurt (90.8 percent), sodas (88.4 percent), beer (65.2 percent), cheese (53.9 percent), cookies (49.9 percent), pork products (33.3 percent), poultry products (43.2 percent), meat products (29.1 percent), and fish products (4.6 percent). The Association also estimates growth of 6-8 percent for the canned vegetables and juice segments and 5-7 percent for dehydrated foods.

B. Products Not Present in the Market in Significant Quantity but Which Have Good Sales Potential

Health and organic processed food are an increasing segment. In 1999, Brazil was exporting 90 percent of organic production and domestic consumption was 10 percent. This year, the foreign and domestic market is estimated at 70 and 30 percent, respectively. In value the market also increased. In 1999, it represented US\$ 150 million and the forecast for 2000 is US\$ 200 million. The availability of those products, mainly organic, is still very limited.

C. Products Not Present in the Market Because They Face Significant Barriers

Only poultry meat faces barriers in the Brazilian market. Other products of animal origin exported to Brazil (dairy, seafood, beef, pork, etc.), are permitted by the Brazilian government. However, these products must come from U.S. federally inspected plants approved by the Brazilian Government (see BR0616, "Plant Registration Report", USDA Home Page). All U.S. unprocessed products can only be exported to Brazil after receiving a phytosanitary certificate. Additional information on specific country regulation, standards and certification procedures may be obtained through the Office of Agricultural Affairs, American Embassy Brasilia.

V. Post Contact and Further Information

If you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact the U.S. Agricultural Trade Office in São Paulo or the Office of Agricultural Affairs at the following address:

U.S. Agricultural Trade Office

AMCONGEN, São Paulo
Unit 3502
APO AA 34030-3502

Alameda Santos, 2224 - cj.11
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USDA Home Page: <http://www.fas.usda.gov>

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Other information sources include:

Brazilian Food Service Association (ABERC)

Rua Estela, 515 - Bloco B- cj. 62
04011-904 Sao Paulo, SP
Tel: 55-11-5573-9835
fax: 55-11-5571-5542

Home Page: www.aberc-br.org.br

E-mail: aberc@uol.com.br

Brazilian Franchise Association (ABF)

Alameda Irae, 276
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