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Brazil

Retail Food Sector

Report

2000

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Report Highlights: The retail sector, as the primary food distribution system in Brazil, forecasts 5 percent annual growth through 2003. This optimistic trend shows the country recuperating from the 1999 economic difficulties. Although, at lower rates than the first years of the Real Plan, the market offers opportunities for U.S. companies who are interested in developing niche markets.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
São Paulo [BR3], BR

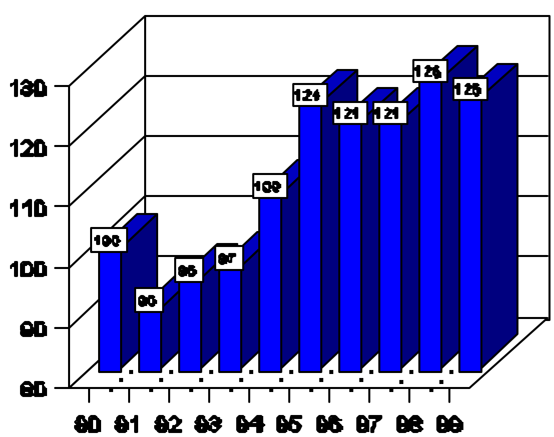
I. Market Summary

The economic scenario in 1999 was considered the toughest since the implementation of the Real Plan in 1994. Despite the currency devaluation, the increase in unemployment and other economic difficulties the supermarket sector achieved relatively positive results. The sector gross sales amounted to R$ 60,123 billion (US$ 33,217 billion, applying the average exchange rate of US$1=R$1.81), down only 2.7 percent from the previous year. Nevertheless, the sector maintained its 6 percent share of the national GDP. In 1999, while the gross domestic product increased 0.82 percent, the retail sector revenues decreased 2.7 percent (deflated by the IGP-DI index). Notwithstanding, the average net profit only declined from 1.5 percent in 1998 to 1.3 percent in 1999.

The slight decline in the retail sector was a consequence of the economic situation in 1999. According to retail analysts, these adversities had been building up since 1995. The generally poor international economy in addition to the raise of domestic public debt at all levels, federal, state and municipal, and the increase in public service tariffs, reduced the buying power of the Brazilian consumer. However, it is a consensus among analysts that the impact of the 1999 economic conditions could have driven the retail sector into a critical situation but it did not happen. Despite the economic bumps of 1999, other factors demonstrated an optimistic trend in the retail sector. Among these variants are a consistent growth and consolidation in the sector in 1999, such as the number of stores increased 7.4 percent, achieving over 55,000 points-of-sale countrywide, versus 51,500 in 1998. Concurrently, the industry made available new job opportunities and today over 670,000 people are directly employed by the retail industry, which represents an 0.5 percent increase compared to 1998. In 1999, total retail space also expanded 3.1 percent, reaching 13.1 million square meters and the number of check-outs went from 125,865 to 135,914, representing an 8 percent increase.

The Brazilian economy in 2000 has shown signs of improvement. The Government of Brazil (GOB) has decreased the prime interest rate (SELIC) gradually and the economy is recovering from four years of fixed exchange rate. According to GOB, inflation is forecasted to remain contained at around 6 percent and GDP is expected to grow 4 percent. The retail sector analysts project gross sales to register the same growth rate. Trade sources project retail income to reach R$ 72.4 billion by 2003.

Retail Gross Sales Index
(deflated by IGP-DI index, 1990=100)

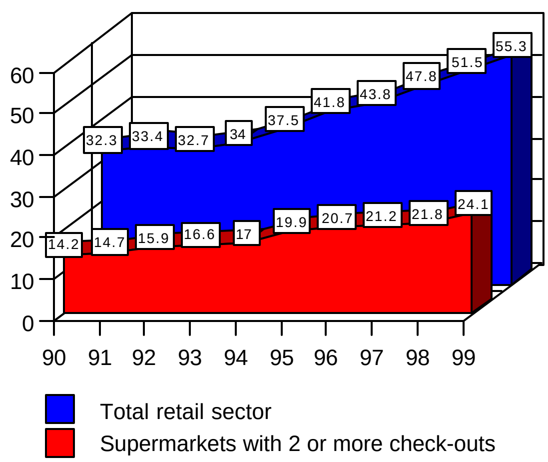


Source: ABRAS

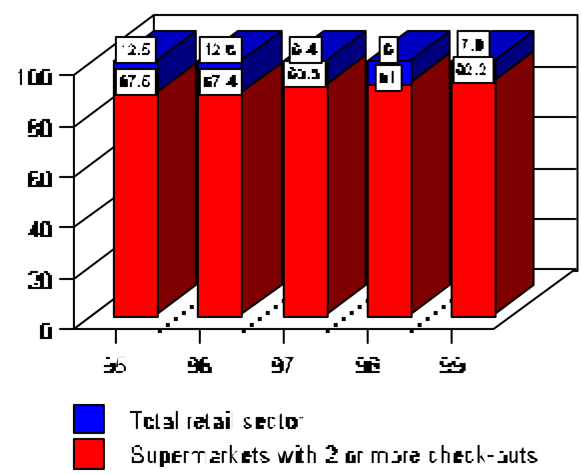
The concentration trend within the retail sector continued in 1999. According to the Brazilian Supermarket Association (ABRAS), the concentration index in 1999 was 6 percent higher when compared to 1998, which was also 6 percent greater than 1997. The top five chain stores concluded 1999 with a combined 39 percent share of the market. More mergers and acquisitions have happened in 2000. Industry projections indicate that the top five supermarket chains will likely register 43 percent market share.

According to ABRAS, the segment of supermarkets with two or more check-outs increased in number of stores by 10.6 percent compared to 1998. This is a slightly superior to the evolution of the entire sector of 7.4 percent. The Association also points to the growth in gross sales of supermarket with two or more check-outs. This positive performance has continued on the upward trend, moving from 87.5 percent in 1995 to over 92 percent in 1999.

Number of Stores



Gross Sales

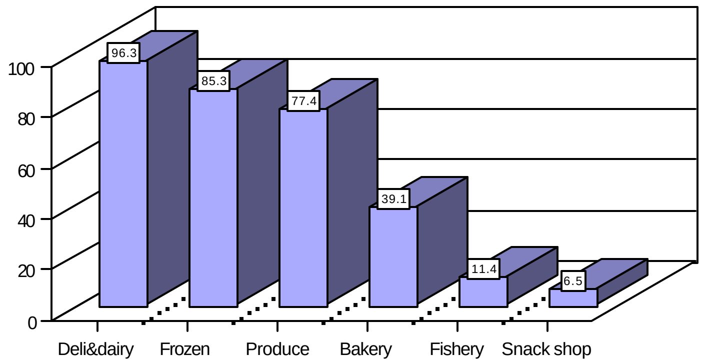


Source: ABRAS

This year, the Brazilian Supermarket Association, in partnership with A.C. Nielsen, conducted a census to identify the structure, stage of evolution and dimension of the retail sector. First, the study found that the number of supermarkets with 2 or more check-outs was 23,220. This total number of stores are in the hands of 18,766 companies. Despite the mergers and acquisition activities, the Brazilian market is extremely pulverized. São Paulo state appears with the higher number of companies (5,093), followed by Minas Gerais (2,509), Parana (2,053), Santa Catarina (1,515), Rio Grande do Sul (1,296), Rio de Janeiro (1,023), Bahia (963) and Pernambuco (831).

Supermarkets are focusing more on fresh produce and frozen products. The census findings indicate that of the 22,279 firms replying, 85.3 percent of them are equipped with frozen food section. According to the survey, frozen items penetration at stores located in the state of Espirito Santo and the Distrito Federal is 97.7 percent and 97.8 percent, respectively. Following are the states of Bahia (96.8 percent), Rio Grande do Norte (95.3 percent) and Pernambuco (92.5 percent). One of the lowest rates is found in Parana (67.7 percent). Regarding the produce department, the national average of stores handling produce is 77.4 percent. The states of the South region are the more devoted to the category and are also more aggressive investors. In decrescent order, the following states are prioritizing the produce department: Santa Catarina (97.4 percent), Parana (96.8 percent), Rio Grande do Sul (89.7 percent). The state of Paraiba presents the lowest rate for stores carrying a produce department (37.8 percent).

Presence of Departments in Retail Food Stores (%)



Source: ABRAS

To meet consumer needs, most chain stores are relying on different channels to supply their costumers. The use of telephone is deemed, as the most efficient tool for off-site purchases. From the total number of supermarket stores, 21.6 percent refers to the telephone as an alternative sales device. Fax is also used by 8.1 percent of stores. Regarding the internet, only 1.1 percent of supermarkets sells via internet. However, 2.6 percent of the already have web pages.

According to the Brazilian Food Processors' Association (ABIA), over 75 percent of food distribution is made by supermarkets. As the sector gets more concentrated, top chain stores will be predisposed to import directly. Today, the share of imported items in the most representative chain stores varies from 5 to 10 percent of total revenues. When importing directly, chain stores can fix better margins although the logistics factors then fall under their responsibility. When buying imports via local importing companies, stores do not directly deal with costs related to importation, storage and distribution.

Advantages	Challenges
The entry of international companies generate a more dynamic international trade.	Culture barriers can significantly restrict international business.
U.S. products join a status of high quality. Food safety is also related to U.S. products.	Lack of trade and consumer knowledge of U.S. products and brands.
U.S. exporters are perceived as reliable.	European businesses are very flexible regarding local retailers demands, which gives them a certain advantage and easier entry. Local representative is important.
Economic recovery is again pulling in imported items.	Today, most imported items are not price competitive with the local industry. New niche markets should be explored.
The U.S. is a reference to the local industry. American trade shows are well known and visited.	Develop a long term relationship with local retailers. Regular contact is very important.

The trend toward convenience grows consistently. The local industry still very limited.	The cold chain is a critical issue in Brazil. Many importers stay away from refrigerated/frozen imported products.

II. Road Map for Entry

A. Super Stores, Supermarkets, Hyper Markets or Super Centers, Club and Warehouse Outlets

Entry Strategy

In order to introduce U.S. products in the Brazilian market, U.S. exporters should initially research the market to determine whether their product can be competitive. Brazil is a large country with many cultural differences. In general, exporters' entry strategies tend to focus on the populous Southeast region and then spread out to other areas. However, it is important to understand that regional differences in eating habits and seasons will likely define the need for a variation in strategy.

Developing a relationship with top retailers will be more likely to guarantee visibility and countrywide coverage. The retail industry is very well developed and its power of negotiation have increased tremendously in the last few years. Retailers are well aware of their importance in the food distribution and retail system. When approaching retailers European companies are very flexible and open to negociate. U.S. companies on the other hand, are very pragmatic. Even though what defines the purchase is commercial terms, retailers are always emphasizing that U.S. exporters are very rigid and "distant".

Some factors U.S. exporters should consider when planning to sell products to Brazil are:

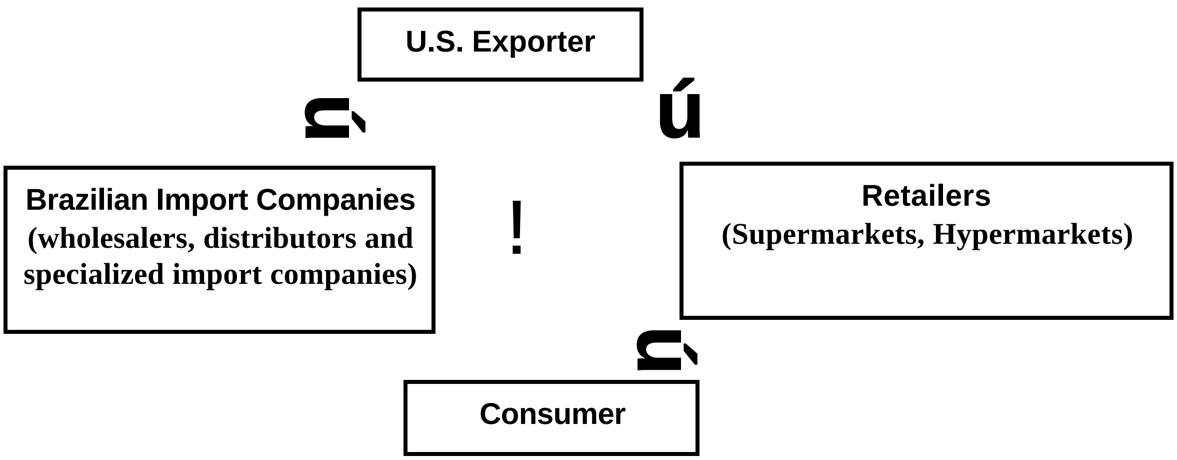
- be able to deal in the local language - Portuguese
- adapt packaging and labeling to local requirements and market needs
- approach local import companies as most of them have storage facilities and can provide technical support
- approach companies that have access to large and small key players in the food distribution system
- have good technical/sales support staff readily available to buyers
- product availability and volume are needed to develop a long term relationship
- exclusive representation arrangements are often required by importers
- develop regular basis relationship: while phone, fax and e-mail convey information, face-to-face contact cements contacts
- participation in major trade shows demonstrates presence and interest

U.S. exporters should always consider the local U.S. Agricultural Trade Office as a initial source of information and support. The ATO maintains direct contact with many local importers and retailers, a network that continues to grow. U.S. companies can always tap into information on upcoming activities and gain insights on effective entry strategies by consulting the ATO. There are several sector associations that can also assist and that release updated studies on different product sectors, such as the Brazilian Supermarket Association (ABRAS), the Brazilian Food Processors' Association (ABIA), the Brazilian Wholesalers Association (ABAD), and others.

In 1999, the wholesale sector achieved, in retail prices, a turn over of R$ 36.1 billion, down approximately 2.84 percent compared with the previous year. Wholesalers and distributors should also be considered in U.S. exporters' entry strategy as they have the access to traditional small size stores.

Market Structure

Imported products enter Brazil via specialized importers and retailers. With the on going consolidation, major retailers are increasingly becoming frequent direct importers. However, even top retailers slip alway from certain product categories, preferring to buy from local importers in order to minimize logistic operations. While avoiding the distributor seems to be a general goal, it only happens if retailers are able to load in container lots and hold down overhead. Otherwise, direct imports cannot be justified. As international investment in the retail sector grew, structural changes have been happening in the industry. International centralized purchases are becoming more frequent. Nevertheless, local stores are still important players in the buying decision process.



Company Profiles

Retailer Name and Outlet Type	Ownership	Sales ($Mil)	No. of Outlets	Locations* (city/region)	Purchasing Agent Type
Carrefour Com. e Ind. Ltda	French	7,943	152	São Paulo	FPI, LI, DI
Cia. Brasileira de Distribuicao (Pao de Acucar Group)	Local/French	7,760	349	São Paulo	FPI, LI, DI
Sonae Distribuicao Brasil S/A	Portuguese	2,854	164	Rio Grande do Sul	FPI, LI, DI
BomPreco S/A Sup. Nordeste	Dutch	2,642	100	Pernambuco	FPI, LI, DI
Casa Sendas Com. e Ind. S/A	Local	2,377	82	Rio de Janeiro	FPI, LI, DI

Wal-Mart Brasil Ltda.	American	955	9	São Paulo	FPI, LI, DI
Se Supermercados	Portuguese	714	48	São Paulo	FPI, LI, DI
Cia Zaffari Com. e Ind	Local	696	19	Rio Grande do Sul	FPI, LI, DI
G. Barbosa & Cia Ltda.	Local	518	34	Sergipe	FPI, LI
Coop Cooperativa de Consumo	Local	490	11	São Paulo	FPI, LI
A. Angeloni & Cia Ltda	Local	379	15	Santa Catarina	FPI, LI
Supermercados Vitoria Ltda	Local	353	36	Santa Catarina	FPI, LI
Irmaos Bretas Filhos e Cia Ltda	Local	340	30	Minas Gerais	FPI, LI
Sonda Supermercados Ltda.	Local	328	7	São Paulo	FPI, LI, DI
ABC Supermercados S/A	Local	328	24	Rio de Janeiro	FPI, LI
Lider Sup. e Mag. Ltda.	Local	308	11	Para	FPI, LI
Empresa Baiana de Alim. S/A	Local	281	410	Bahia	FPI, LI
Supermercados Condor Ltda.	Local	250	17	Parana	FPI, LI
DMA Distrib. Ltda.	Local	247	24	Minas Gerais	FPI, LI
D'Avo Supermercados Ltda.	Local	215	6	São Paulo	FPI, LI

* Headquarters location
(Food Processing Industry = FPI, Local Importer = LI, Direct Import = DI)
Source: ABRAS

B. Convenience Stores, Gas Marts, Kiosks

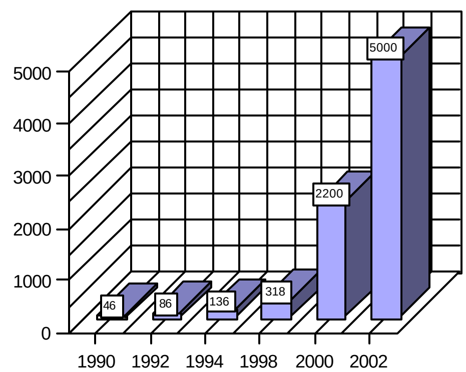
Entry Strategy

Buying and distribution vary by company. Direct owned stores in the same general area have central distribution. Franchised shops tend to have an established list of products. Lists are 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 stations will tend to have an attached convenience store, unless space limitations prohibit.
- Imported products are not excluded.
- Presently, imports have a very small presence but include products such as Pringles, wines, candies.
- Sector is new, innovative and growing.
- Selling to sector will require contact with individual companies. Most are headquartered in Rio de Janeiro and São Paulo.

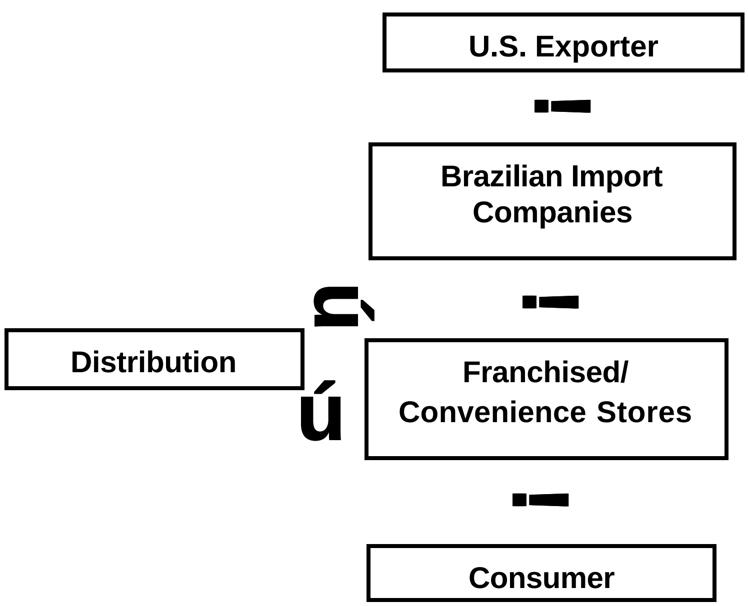
- National Association of Convenience Stores (ANLOC) is new and located in São Paulo.
- São Paulo and Rio de Janeiro have 75-80 percent of the total sector.

Convenience Stores Evolution



Source: National Association of Convenience Stores (ANLOC)

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 neighborhood 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 corner 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. Growth in this sector continues rapid, going from 46 shops in 1990 to 2,200 in 2000. Industry projects 5,000 stores by 2002. While located throughout the country, a higher concentration will be in São Paulo and Rio.

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.

Retailer Name and Market Type	**Ownership**	**Sales US$**	**Share number of stores**	**Purchasing Agent Type**
BR Mania	Local	N/A	22.82	FPI, LI
AMPM	Local	N/A	22	FPI, LI
Hungry Tiger	Local	N/A	20.77	FPI, LI
Select (Express L.C. S. Ltda)	Local	N/A	15.4	FPI, LI
Star Mart	Local	N/A	14	FPI, LI
Stop & Shop	Local	N/A	4.27	FPI, LI

C. Traditional Markets - "Mom and Pop" Small Independent Grocery Stores and Wet Markets

Entry Strategy

Most purchases of processed items by this sector are made in less than case lot from a distributor who may deal direct with importers. U.S. exporters will need to deal with local importers, wholesalers and distributors in order to access this segment of the food distribution system.

Market Structure

Traditional stores are prevalent throughout Brazil. According to A.C. Nielsen, there are 269,438 traditional stores. They amount to 13.2 percent of self-service stores revenue.

Traditional Markets

Sub-Sector Profile

Depending on location "Mom and Pop" stores and wet markets in Brazil go from very poor to very sophisticated conditions. They comprise bread shops, speciality shops, such as delis and butchers, vegetable stands, tobacco stands, etc. In addition, the roaming street markets, "feiras", which have a different location each day of the week, are a traditional presence in the Brazilian culture. In general, this sub-sector tends toward national items. Nevertheless, a small percentage is specialized in high quality items, which presents potential to U.S. companies. As it buys in small volumes, direct contact with exporters can be very limited.

III. Competition

Competition for U.S. products comes primarily from MERCOSUL countries. The EU and Chile are other major suppliers. In general, imports have been contracting since 1996. This decline is a consequence of local food industry development and the Brazilian currency devaluation. Imports realized, on average, a 30 percent decrease in 1999. As the Brazilians adjusted to this shift a different scenario has emerged. Today, imported products are less likely to compete with the local industry pricewise as was the case in the initial years of the Real Plan. Consequently, many foreign products have disappeared from supermarket shelves. Import companies are now targeting the upper level consumer. Buyers are often seeking known brands that they recognize from travel overseas. Imports do have niche markets to develop as high end consumers are willing to pay more for trendy products with no similar in the domestic market and to try new products that interest them.

IV. Best Product Prospects

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

From 1994 to 1999, ABIA conducted a 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. Another quickly growing segment is private label products. Today, it represents 8 percent of total sales and it is expected to achieve 21 percent by 2003. Market opportunities for imported products are often considered in an exclusive contract.

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

According to A.C. Nielsen Brazil, there are areas in the sector that still have eminent room to grow. When comparing Brazilian per capita consumption with other MERCOSUL members, this fact becomes evident. Per capita consumption of cookies, tomato sauces, cereals, yogurt, instant noodles and snack foods are much lower than in Argentina and Chile. Other segments still not explored by the local industry are health foods, processed organic foods and many semi-baked products.

Health and organic processed food are an increasing segment. In 1999, Brazil was exporting 90 percent of fresh organic production and domestic consumption was 10 percent. This year, the foreign and domestic market are 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 certified inputs limits local production of organic processed foods.

C. Products Not Present 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 :

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Other information sources include:

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05083-901 São Paulo, SP, Brazil
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Home Page: www.abrasnet.com.br
E-mail: info@abrasnet.com.br

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