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RETAIL FOOD SECTOR

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Report Highlights:

The retail sector is the major channel for food and beverage distribution in Brazil, and is considered the most accessible market entry point for US exporters. The primary goal of this report is to inform US companies how this industry operates, who the major players are and how they have performed during the past year.

Post:

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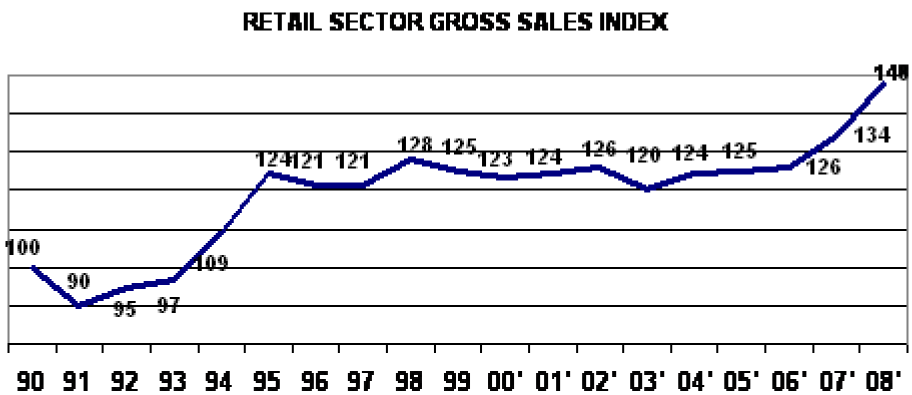
According to the Brazilian Supermarket Association (ABRAS), in 2008, retail sector revenues totaled R$158.5 billion (US$86.14 billion applying the 2008 average exchange rate of R$1=US$1.84). Compared to 2007, the industry registered an increase of 10.5 percent in real terms and 16.7 percent in nominal terms. In 2008, the sector accounted for 5.5 percent to the country's GDP of R$2.9 trillion, 0.3 percent above the 2007 level. Retail physical capacity also grew. The overall number of check-outs increased 2.7 percent, from 180,900 in 2007 to 185,889 in 2008. In number of stores, the sector expanded 1.2 percent, from 74,600 to 75,725. Employment rose by 1 percent. While in 2007 the sector employed 868,000 workers, in 2008 this number went up to 876,900. According to ABRAS, retail sector investments reached R$3.7 billion in 2008. Approximately 84 percent of this total went to physical capacity: construction of new stores, remodeling, and property acquisition. Although analysts forecast lower capital investments in 2009, the industry projects R$2.6 billion.



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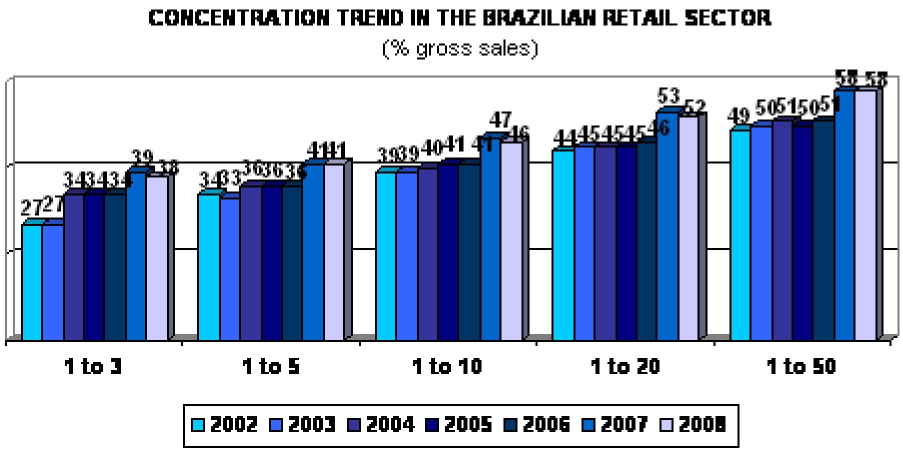
Source: ABRAS/AC Nielsen

In 2008, there were no major changes to the level of concentration, the top 50 retail companies were responsible for 58 percent of total sales, maintaining the same result as the previous year. Market share for the leading three retailers (Carrefour, Pao de Acucar and Wal-Mart) accounted for 38 percent of the total, 1 percent lower than 2007. The performance of the top 5 retailers remained steady. Together they maintained the same 41 percent as 2007, while the top 10 decreased 1 percent, from 47 to 46 percent.



Source: ABRAS/AC Nielsen

Brazilian stores are grouped into 5 categories: category 1 (up to 250 square meters); category 2 (from 251 to 1,000 square meters); category 3 (from 1,001 to 2,500 square meters); category 4 (from 2,501 to 5,000 square meters); and, category 5 (above 5,000 square meters). In the past few years, the market experienced consistent growth of stores with less than 250 square meters. However, this trend seems to be reversing. In 2008, this category lost 5.7 points, while in 2007 stores with less than 250 square meters accounted for 37.2 percent, in 2008 their share dropped to 31.5 percent. Neighborhood stores (category 2) gained 0.8 percent of market share, expanding from 31.6 to 32.4 percent. Mid size stores, on the other hand (category 3) registered a significant increase, from 19.9 percent in 2007 to 25.1 in 2008; category 4 remained the same while category 5 dropped 0.5 percent.

RETAIL PROFILE BY STORE SIZE

SALES AREA	**# STORES**		**AVERAGE # of CHECK-OUTS**		**AVERAGE # of ITEMS**		**FOOD ITEMS (%)**	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
up to 250m^2	1,801	1,723	2	2	5,963	4,578	86.8	85.7
251 to 1,000 m^2	1,530	1,772	6	6	10,266	8,248	88.4	86.9
1,001 to 2,500	960	1,373	12	13	14,875	14,821	83.9	82.3

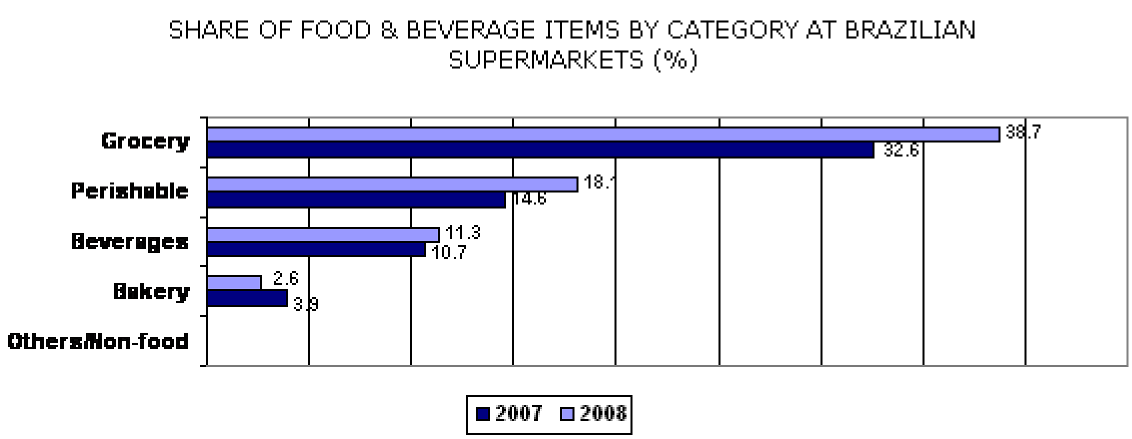
m^2								
2,501 to 5,000 m^2	278	312	21	25	20,165	23,600	75.6	76.4
above 5,000 m^2	266	290	41	45	44,303	41,719	66.3	64.1

Source: ABRAS/AC Nielsen

In 2008, retailers highlighted the growing demand for grocery products. This category increased its market share from 32.6 percent to 38.7 percent. Sales of grocery products were particularly pushed by demand from lower-end consumers. As per perishable products, while in the previous years the demand has raised consistently, in 2008 the market share of perishable goods dropped from 18.1 percent to 14.6 percent. According to retailers, the decline is due to the expansion of specialty stores that focus on specific high-quality products which affected sales of perishables at supermarkets. Market analysts indicate that demand for healthier and functional products is still expected to grow, reflecting the shift towards healthier consumption patterns.

In Brazil, sales of alcoholic beverages also occur through the retail channel. In 2008, supermarkets benefited from the implementation of the Dry Law against drinking and driving. The new law established zero tolerance for any level of alcohol concentration found in the blood of drivers. Once in effect, this law caused a significant reduction in sales of alcoholic beverages at bars and restaurants. Consequently, sales at supermarkets increased as consumers started to drink more at home. Although the table below represents the performance of alcoholic and non-alcoholic beverages as a whole, ABRAS indicates that beer sales, for instance, increased 5.1 percent in volume as a result of the Dry Law. As a group, beverage sales were quite steady, increasing 0.6 percent, from 10.7 percent in 2007 to 11.3 percent in 2008.

When breaking down sales of food items, ABRAS presents the following picture:



Source: ABRAS/AC Nielsen

ABRAS surveys approximately 200 companies to follow sales of imported items. These companies represent 45 percent of total supermarket sales. In 2008, according to the research, the share of foreign goods on supermarket shelves decreased from 4.8 percent in 2007 to 2.8 percent in 2008. This retraction was mostly a reflection of the financial crisis, which strongly impacted end of year sales. In nominal value, sales of imported items in 2008 amounted R$2 billion (US$1 billion), while in 2007 reached R$2.9 billion (US$1.5 billion). The same sample used by ABRAS to monitor the presence of imported items has been used to monitor sales of organic products. Research findings point out that organic products made up 1.1 percent of supermarket sales in 2008, approximately R$828 million (US$450 million).

Given this outlook, it becomes clear that the supermarket sector is an important distribution channel in Brazil and producers who wish to access it should be aware of major challenges and advantages:

ADVANTAGES	CHALLENGES
Retailers offer foreign goods to differentiate themselves, develop new niche markets and gain high-end consumers attention.	Brazil is self-sufficient in food supply. An imported product is a luxury item and not a necessity.
Price is not always the determinant purchasing criteria for high-end consumers.	High-end consumers are more demanding regarding other aspects of products such as innovation, packaging, status, new trends, etc.
Importers must differentiate their portfolio. In periods of economic slow downs importers search for alternatives to decrease costs, which tends to benefit US producers when the dollar depreciates against the euro.	Importers tend to buy small quantities in order to test market. US companies are usually not predisposed to sell small quantities.
The US food industry is able to respond to consumer demand promptly, regardless of the segment of products.	Consumers perceive US food products to be overly processed and relatively unhealthy.

SECTION II. Road Map for Market Entry

I. Entry Strategy

When approaching the Brazilian market, exporters should be aware that most imported foods and beverages are not priced competitively compared to locally produced products. This is due to the low cost of locally produced goods, high import tariffs and the exchange rate. The Brazilian food industry is well developed and the ever-expanding presence of major multinational companies contributes to making the sector very competitive. Products imported from Mercosul members (Argentina, Paraguay and Uruguay) enjoy duty-free status and Chilean products face a reduced duty rate. According to importers, the shelf price of imported goods is 2-5 times the FOB price at origin. As a result, U.S. exporters must evaluate the extent to which their products can compete and maintain salability. Nonetheless, Brazilian high-end consumers are willing to pay more for certain products, and the market for luxury products has grown consistently.

Because approximately 80 percent of food and beverage distribution takes place through retail stores, developing a relationship with retailers will be more likely to guarantee visibility and country-wide coverage. The commercial power of the retail industry vis-à-vis food suppliers has steadily increased over the past fourteen years. Starting in 1994 with the implementation of the Real Plan, and through the rest of the last decade, imported products became a true alternative to domestically produced goods even though the percentage of imported products in retail sales is still small.

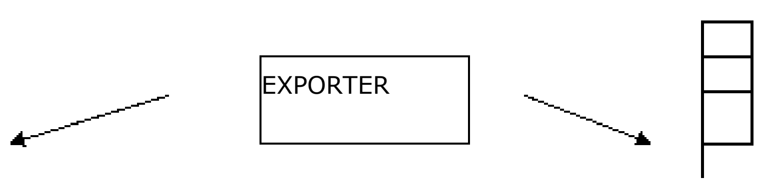
Retailers are well aware of their importance in the food distribution system and of their advantageous position in comparison with suppliers. While retailers exert considerable purchasing power and reach the overwhelming majority of Brazilian households, their purchasing of imported products can be characterized as follows: wide selection in small volumes. For retailers, foreign products may be imported directly from the processor or distributor or purchased locally from an importer or local distributor. U.S. exporters should approach importers and/or retailers to further develop a market strategy.

U.S. exporters should always consider the local U.S. Agricultural Trade Office (ATO) as an initial source of information and market guidance. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. U.S. companies can test market through ATO marketing activities and also profit from its market intelligence.

II. Market Structure

Imports of foods, beverages, ingredients or consumer-ready products may occur directly or indirectly. As per retail imports, volume is the determining factor. If the volume to be imported does not justify the operation, retailers will prefer to purchase imported items locally from importers/distributors. While avoiding the middleman is a general goal, it only happens if retailers are able to fill containers and keep overhead costs in check. Brazilian buyers are hesitant to purchase full containers of single products and, U.S. suppliers are often unwilling to deal with small volumes. The most cost-effective option for importers and retailers when dealing with small volumes appears to be mixed containers.

MARKET STRUCTURE FOR IMPORTED PRODUCTS



III. Company Profiles

In Brazil, the top three retail chains Carrefour, Pao de Acucar and Wal Mart are responsible for 38 percent of total sales. In 2008 Carrefour, the market leader, expanded sales by 16.7 percent and opened 29 stores. Total investments through 2008 reached R$1 billion (US$540 million). Despite the crisis, Carrefour has announced that investments in Brazil are forecast to reach RS$2 billion (US$1.2 billion) in the course of 2009-2010. In 2009, the company also plans to open around 70 stores. Pao de Acucar and Wall Mart followed the positive trend. In 2008, Pao de Acucar sales were equivalent to R$20.9 billion (US$11.4 billion), an increase of 11.2 percent compared to the previous year. Wal Mart sales were 13 percent higher than 2007, totaling R$16.9 billion (US$9.2 billion).

TOP 10 BRAZILIAN RETAILERS

COMPANY	OWNERSHIP	SALES (US$million)	Share (%)	# STORES	LOCATION[1]	PURCHASING AGENT TYPE[2]
1. Carrefour -Carrefour -Carrefour Bairro -Atacadão -Dia%	France	12,212.1	14.18	539	AM, CE, DF,ES, GO, MS, MG, PB, PR, PE, RJ, RN, RS, SP	LFP, DI, LI
2. Cia. Brasileira de Distribuicao -Pão de Açúcar -Extra -Extra Bairro -Extra-Eletro -Extra Fácil -Sendas/CompreBem -Assai	Brazil/France	11,335.2	13.16	597	AL, BA, CE, DF, GO, MG, MS, PB, PE, PI, PR, RJ, RN, SE, SP	LFP, DI, LI
3. Wal-Mart -Wal-Mart -Sam's Club -Bom Preço -BIG	US	9,213.3	10.70	345	AL, BA, CE, ES, GO, MG, PB, PE, PI, PR, RJ, RN, RS, SC, SE, SP	LFP, DI, LI
TOTAL (3)		32,760.6	38.04	1,481		
4. G. Barbosa	Chile	1,279.9	1.48	50	AL, BA, SE	LFP, DI, LI

-G. Barbosa -Via Box						
5. Irmaos Bretas	Brazil	988.3	1.15	54	GO, MG	LFP, LI
6. Cia. Zaffari -Zaffari -Bourbon	Brazil	976.8	1.13	28	RS, SP	LFP, DI, LI
7. Prezunic	Brazil	969.7	1.12	29	RJ	LFP, DI, LI
8. DMA Distribuidora -Epa -Mart Plus -Via Brasil	Brazil	929.4	1.08	89	ES, MG	LFP, DI, LI
9. Irmaos Muffato	Brazil	776.6	0.90	26	PR, SP	LFP, DI, LI
10. A. Angeloni	Brazil	753.8	0.87	20	PR, SC	LFP, DI, LI
TOTAL (10)		39,435.1	45.77	1,777		
TOTAL SECTOR		86,141.3	100.00	75,725		

Note [1]: AM (Amazonas), AL (Alagoas), BA (Bahia), CE (Ceará), DF (Distrito Federal), ES (Espírito Santo), GO (Goiás), MG (Minas Gerais), MS (Mato Grosso do Sul), PB (Paraíba), PE (Pernambuco), PI (Piauí), PR (Paraná), RJ (Rio de Janeiro), RN (Rio Grande do Norte), RS (Rio Grande do Sul), SC (Santa Catarina), SE (Sergipe) and SP (São Paulo).
Note [2]: LFP (local food processors), DI (direct imports) and LI (local importers).
Source: ABRAS/AC Nielsen

SECTION III. Competition

In 2008, Brazil's imports of consumer-oriented food products stood at US$2.5 billion. Compared to 2007, imports of these items rose by 26.5 percent. During the period of January-September the inflow of products maintained a positive trend, however, in face of the crisis, Brazil purchases dropped during the September-November period. In December, imported volumes went up again; sales to Brazil increased 6.9 percent. In this scenario, import companies started to operate very cautiously. During 2008, the exchange rate oscillated significantly, from US$1=R$ 1.55 in August to US$1=R$2.50 in October, before falling again to US$1=R$1.85 by the end of the year. Under these conditions, it becomes extremely difficult to estimate final retail prices and product competitiveness, which quite explains the up and down movement until April 2008. From April to July of 2009 a 20 percent increase was noted in Brazil's imports.

As mentioned before, most imported foods and beverages considered consumer-oriented are not price competitive compared to domestically produced goods. It is also difficult to compete with products from Mercosul and Chile, as they benefit from tariff exemptions. In this environment, U.S. exporters compete directly with EU suppliers, as both enter the market in similar conditions. Although the U.S. has the same capacity to supply the market, Brazilian consumers are more inclined to purchase European products per their tradition and taste similarities. From 2004 to 2008, European countries gained 3.7 points in market share, while the U.S. lost 1.6 points. In 2008, U.S. exports to Brazil increased 28.3 percent, which helped the U.S. maintain its market share of 7.5 percent.

CONSUMER-ORIENTED AGRICULTURAL TOTAL (US$ million)

	2004	%	2005	%	2006	%	2007	%	2008	%
World	1,122.1	100.0	1,374.1	100.0	1,647.0	100.0	2,005.6	100.0	2,538.1	100.0
Mercosul (4)	644.1	57.4	703.3	51.2	829.7	50.4	961.7	48.0	1,170.5	46.1
EU (15)	231.7	20.6	283.7	20.6	357.3	21.7	470.9	23.5	617.4	24.3
U.S.	101.6	9.1	114.1	8.3	121.9	7.4	149.2	7.5	191.4	7.5
Others	144.6	12.9	273.1	19.9	337.9	20.5	423.5	21.1	558.8	22.1

Source: World Trade Data/Secretariat of Foreign Trade (Secex)

Mercosul (4): Brazil, Argentina, Uruguay and Paraguay.

EU (15): Germany, Austria, Belgium, Spain, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, United Kingdom and Sweden.

SECTION IV. Best Product Prospects

I. Products present in the market which have good sales potential

Importers are generally looking for well-known brands and high-end products. Brazilian importers/distributors usually prefer products with six months shelf life or more. In addition to the product itself, packaging, status and level of innovation are important attributes. Products that combine these characteristics are more likely to successfully enter the market.

II. Products not present in significant quantities but which have good sales potential

Health foods, especially natural and organic products, have a limited presence in the Brazilian market. The Brazilian food industry has not directed consistent efforts to develop these segments, as the consumer base is restricted to the higher-end. There are limited numbers of suppliers in the market for these products and consequently prices are high.

III. Products not present because they face significant barriers

Brazilian legislation requires all food items to be approved by Ministry of Health (MS) or Ministry of Agriculture, Livestock, and Food Supply (MAPA) prior to shipment. Currently, poultry and beef imports are banned and considerable restrictions exist for products containing ingredients derived from biotech commodities.

SECTION V. Post Contact and Further Information

Please do not hesitate to contact the offices below for questions or comments regarding this report or require assistance to export processed food products into Brazil:

U.S. Agricultural Trade Office (ATO)
U.S. Consulate General

Office of Agricultural Affairs (OAA)
U.S. Embassy

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