Required Report - public distribution

Date: 10/26/2011

GAIN Report Number: BR110024

Brazil

Retail Foods

2011

Approved By:
Fred Giles, Director
Agricultural Trade Office

Prepared By:
Fabiana Fonseca, Agricultural Marketing Specialist

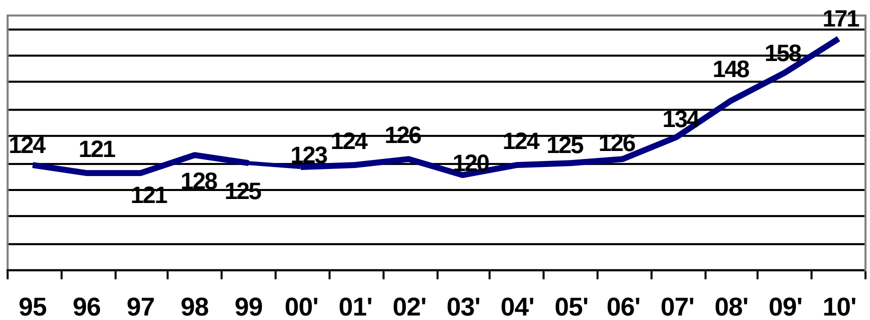
Report Highlights:
The Brazilian retail industry plays a substantial role on food distribution and may present feasible opportunities for U.S. exporters willing to enter the market. The primary goal of this report is to inform U.S. companies about how this industry operates, who the major players are and how they have performed during the past year.

Post:
Sao Paulo ATO

SECTION I. Market Summary

The numbers for the Brazilian retail service in the past year were remarkable. The Brazilian Supermarket Association (ABRAS) considers 2010 a benchmark for consistent growth, as the market shows enormous potential. In 2010, the sector's sales amounted to R$ 201.6 billion (US$121.4 billion, considering exchange rate of the last day of December 2010, US$1 = R$1.66), 7.5 percent growth compared to 2009. The forecast for the following years clearly assumes an upward trend if the industry continues to make substantial investments. Projected investments for 2011 are expected to reach R$4 billion (US$2.4 billion, considering exchange rate of the last day of December 2010, US$1 = R$1.66). The retail sector has also expanded its physical capacity. In 2010, the total number of stores reached 81,000, 3.6 percent growth compared to the previous year. The number of check-outs also went up to 199,000, a 4.1 percent increase and the floor plan expanded to 19.7 million square meters, an increase of 2.8 percent. In number of employees, the net total went up 2.2 percent. Approximately 20,000 jobs were added in 2010, reaching 920,000 employees.

RETAIL SECTOR GROSS SALES INDEX



Source: ABRAS/AC Nielsen

The numbers generated by the top 300 supermarket chains are even greater. This group accounted for R$ 148.6 billion (US$89.5 billion, considering exchange rate of the last day of December 2010, US$1 = R$1.66), 74 percent of total national sales, and reached 15.7 percent growth - more than 2 times the sector growth of 7.5 percent. In 2009, the top 300 retailers accounted for 68.3 percent of total sales; while in 2010 their share increased 5.7 percent, demonstrating a robust process of investments.

Retail analysts also use another breakdown to further investigate growth, investments and concentration. They divide the group of top 300 into 2 groups: top 20 and 280 others. While in the previous years the top 20 chains had a prominent role in leading the growth of the 300; in 2010, the group of 280 has pointed to a different trajectory.
The top 20 retailers maintained a leading position in the group - 78 percent of the group's revenue or R$115.8 billion (US$69.8 billion, considering exchange rate of the last day of December 2010, US$1 = R$1.66), however, its growth was not as vigorous as the 280 others. In 2010 the group of 20 grew 13.3 percent and the group of 280 others grew 25.3 percent, pointing to a new trend.

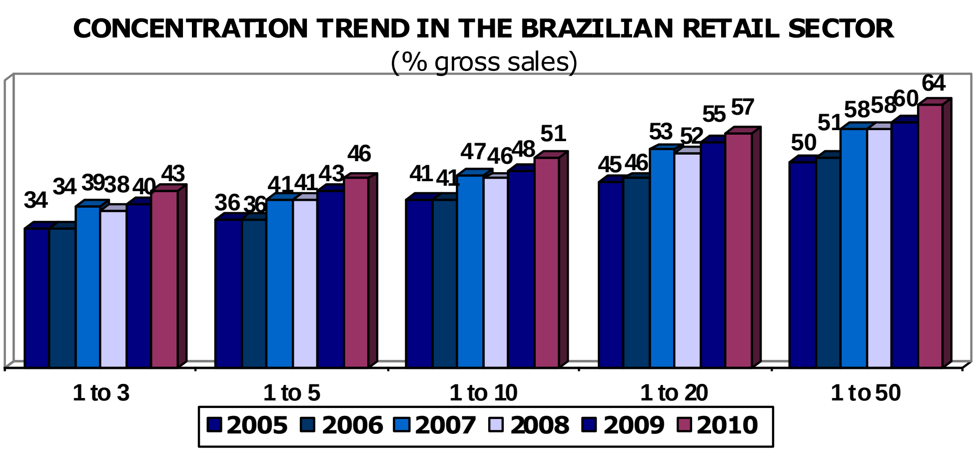
RETAIL SNAPSHOT

	Gross Sales (R$)	N° of stores	N° of check-outs	N° of employees	Retail Space m² (million)
Retail Sector	201.6	81,128	199,376	919,874	19.7
Top 300	148.6	7,291	64,873	603,248	9.3
Top 20	115.8	3,497	43,710	429,238	7.1
280 0thers	32.8	3,794	21.163	174.010	2.2

Source: ABRAS/AC Nielsen

In 2010, there were no major changes to the level of concentration. The top 20 retail companies responded for 57 percent of total sales, increasing two percentage points compared to the previous year. As per the groups of top 10, top 5 and top 3, the three groups increased 3 percentage points each. In 2011, figures are expected to change as the top Brazilian retailer, Pao de Acucar, will consolidate the numbers from its merger with Casas Bahia, a giant home appliance group. Perini and Irmaos Breta will also be added into G Barbosa's figures, 4th in the rank.

In 2011, the French press announced Carrefour's interest to merge with Pao de Acucar. The rumors spread based on the difficulties Carrefour has faced: mismanagement, accounting irregularities and legal disputes. The merger would create a super chain of global reach. Group Casino, Pao de Acucar's partner had firmly opposed the merger. The litigation between Pao de Acucar and Casino became public. The business was initially supported by the Brazilian Development Bank (BNDES) and BTG Pactual Bank but then withdrew. The deal's suspension left room for another giant: Wal Mart, is expanding and probably interested in acquiring Carrefour. However, the Brazilian anti-trust regulator, the Administrative Council for Economic Defense (CADE) could oppose the transaction on grounds of anticompetitive practices, which could lead to price controls and diminished individual initiatives.



Source: ABRAS/AC Nielsen

Each year ABRAS surveys retailers to set a profile of Brazilian stores. The 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 years, the market experienced consistent growth of stores with less than 250 square meters. In 2008, the trend reversed to then grow again. Compared to 2009, category 1 increased 110 percent in 2010. Category 2 and 3 had a similar growth rate, 15 and 18 percent respectively. Category 4 increased 28 percent, while category 5 had a modest growth of 5 percent.

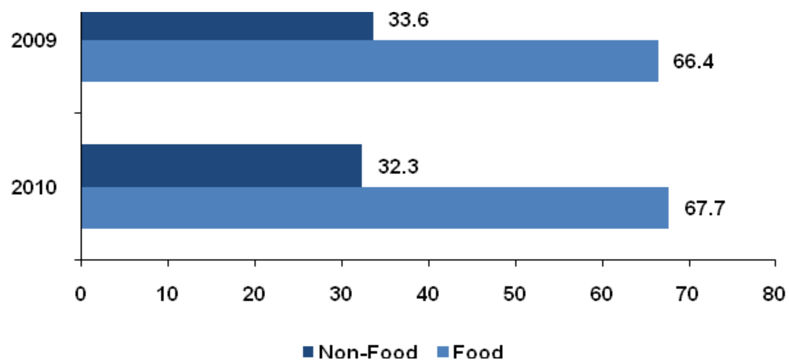
RETAIL PROFILE

SALES AREA	# STORES		AVERAGE # of CHECK-OUTS		AVERAGE # of ITEMS		FOOD ITEMS (%)	
	2009	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
CATEGORY 1 (up to $250m^2$)	1,086	2,280	2	2	2,177	2,584	89.5	72.6
CATEGORY 2 (251 to 1,000 m^2)	1,787	2,107	3	5	7,608	6,647	66.3	78.2
CATEGORY 3 (1,001 to 2,500 m^2)	1,500	1,727	11	11	14,566	14,931	62.9	79.5
CATEGORY 4 (2,501 to 5,000 m^2)	309	396	23	20	17,115	24,156	80.0	79.2
CATEGORY 5 (above 5,000 m^2)	233	245	40	38	44,339	36,277	57.0	58.5

Source: ABRAS/AC Nielsen

Although the proportion of food items has oscillated when examining stores by size, on average the share of food items has not suffered significant changes in the past years. In 2010, the average of food items in Brazilian supermarkets reached 73.6 percent, a 2.5 percent increase compared to 2009. On the other hand, the share of food items in supermarket revenues was a little below 67.7 percent in 2010 against 66.4 percent in 2009.

SHARE OF FOOD & NON-FOOD ITEMS AT BRAZILIAN SUPERMARKETS
(%)

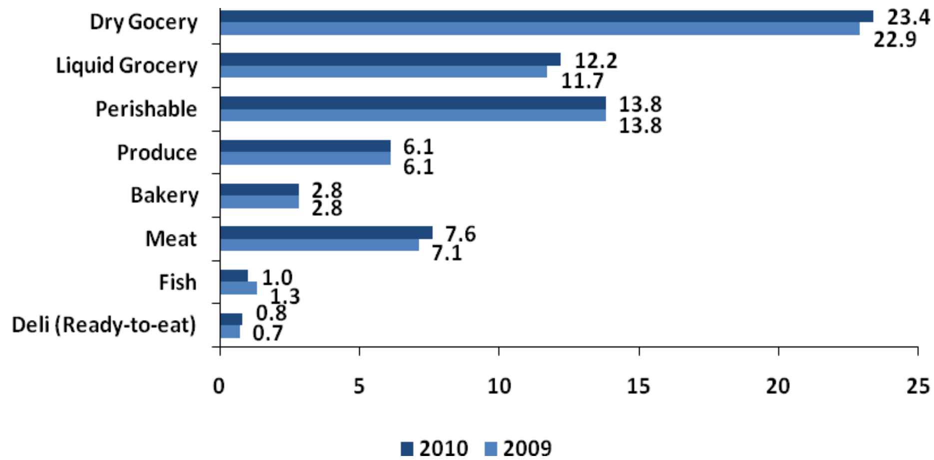


Source: ABRAS/AC Nielsen

To capture supermarket performance, ABRAS establishes the format of a typical Brazilian supermarket, which comprises of the following food departments: dry grocery, liquid grocery, perishable (frozen and refrigerated), produce, bakery, meat, fish and delicatessen (ready-to-eat).

Growth in expenditure on grocery items (dry and liquid) kept pace during 2010. Following a pattern set in 2009, sales in 2010 were driven by the trading-up pattern of lower-end consumers. In 2009, dry grocery represented 22.9 percent of supermarket sales, while liquid grocery represented 11.7 percent. In 2010, these departments increased their share to 23.4 percent and 12.2 percent, respectively. Together they concentrate the major commodities that correspond to the basic needs of Brazilian families, making up 35.6 percent of total sales. Sales of perishable products have oscillated in the past years. The demand went consistently up until 2007, dropping in 2008 and 2009. In 2010, the share of perishable items was kept steady compared to 2009. Other departments such as produce, bakery, meat, fish and delicatessen maintained their sales level. When breaking down sales of food items by category, ABRAS presents the following picture:

SHARE OF FOOD & BEVERAGE ITEMS BY CATEGORY AT BRAZILIAN SUPERMARKETS
(%)



Source: ABRAS/AC Nielsen

Organic and imported products are considered niche markets. Sales of these items are geared towards high-end consumers as these products are in the premium price category. According to ABRAS, sales of organic products amounted to 0.54 percent of total supermarket sales in 2010, while imported products accounted for 2.1 percent of total sales. Industry analysts state that a favorable exchange rate guarantees the presence of imported items in Brazilian supermarkets, however, their availability is restricted to a few categories such as wine, beer, pasta, tomato sauces, canned products, and fish products.

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. In 2010 the local food industry launched 15,000 sku's. Imported products are considered luxury items.
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.
Brazilian importers are frequently searching for new-to-market products as they must update their portfolio from time to time in order to compete.	Importers tend to buy small quantities 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

Starting in 1994 with the implementation of the Real Plan, imported products became a true alternative to domestically produced goods. Brazilian consumers became familiar with a wide variety of products, from different origins. With the 1999 crisis, the scenario changed and an unfavorable exchange rate brought about a shift in trends. The supply of imported products became more restricted and prices quite prohibitive to the average Brazilian. From that period on, foreign goods were mostly found in the carts of affluent consumers.

When approaching the Brazilian market, exporters should be aware that most imported foods and beverages are not price-competitive compared to locally produced products. This is due to the low cost of locally produced goods, local high tariff system. 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 attractiveness.

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 years. Retailers are well aware of their importance in the food distribution system and of their advantageous position in comparison with suppliers. They exert considerable purchasing power as they reach the overwhelming majority of Brazilian households.

For retailers, foreign products may be imported directly from the processor or distributor or purchased locally from an importer. When conducting an import operation, both follow the same purchase pattern for initial purchases, wide variety and small quantity. Despite the size of the company, retail or importer, the conservative profile is a common characteristic for testing a new-to-market product.

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

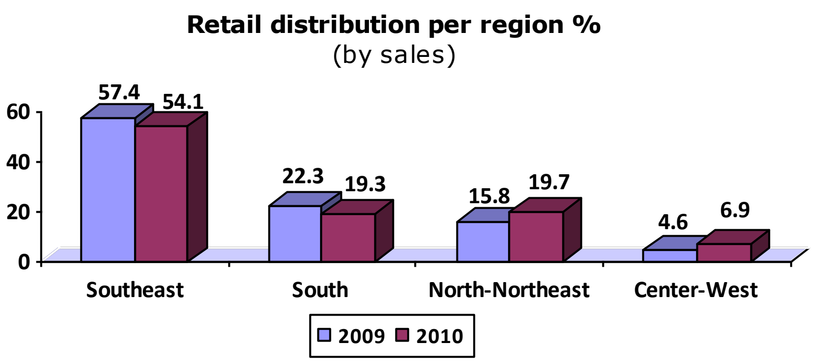
Imports of foods, beverages, ingredients or consumer-ready products may occur directly or indirectly. As per retail imports, volume is the determining factor. If the volume to be imported does not justify the operation, retailers will prefer to purchase imported items locally from importers/distributors.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

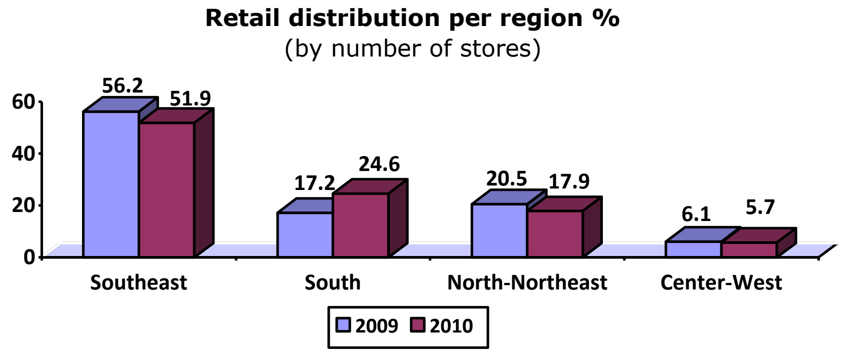
MARKET STRUCTURE FOR IMPORTED PRODUCTS

IMPORT COMPANY → RETAILER → CONSUMER

Oftentimes exporters are cautious to do business with a single supermarket chain as their perception of reaching consumers through a single source does not seem attractive. This perception does not always correspond to the reality. It is a matter of strategy, as retailers may achieve significant market penetration. To demonstrate the potential of each Brazilian region and state, ABRAS divided supermarket revenues geographically. This information may guide U.S. exporters when designing their entry strategy into Brazil and help them evaluate whether or not a supermarket chain may or may not represent a potential opportunity.

The Southeast region of Brazil, which comprises the states of Sao Paulo, Rio de Janeiro, Minas Gerais and Espirito Santo, continued to be the great economic engine driving supermarket sales. It generated more than half of revenues in 2010 - 54.1 percent. However, this result is 3.3 points below the previous year. The South region, composed of Parana, Rio Grande do Sul and Santa Catarina, made up 19.3 percent of the sector gross sales but also lost 3 points compared to 2009. On the other hand, the North and Northeast region gained representation. The 16 states of Acre, Amapa, Amazonas, Para, Rondonia, Roraima, Tocantins, Alagoas, Bahia, Ceara, Maranhao, Paraiba, Pernambuco, Piaui, Rio Grande do Norte and Sergipe pushed supermarket sales and placed themselves second in the ranking. While sales results in 2009 were 6.5 points below the South region, in 2010 the North-Northeast region went ahead and reached 19.7 percent of total sales, 3.9 points above the previous year. The Central-West region also concluded 2010 with gains, 2.3 points above 2009, reaching 6.9 percent.





Source: ABRAS/AC Nielsen

III. Company Profiles

In Brazil, the top three retail chains Pao de Acucar, Carrefour and Wal Mart are responsible for 43 percent of total sales. The power these companies have in the market is unquestionable; however, smaller retailers may have unique characteristics to attract high-end consumers, perhaps an option to be considered by U.S. exporters when approaching the market.

TOP 10 BRAZILIAN RETAILERS

COMPANY	OWNERSHIP	SALES (R$million)	Share (%)	# STORES	LOCATION[1]	PURCHASING AGENT TYPE[2]
1. Cia. Brasileira de Distribuicao -Pão de Açúcar -Extra -Extra Bairro -Extra-Eletro -Extra Fácil -Sendas/CompreBem, Assai	Brazil/France	36,144.4	17.9	1,647	AL, BA, CE, DF, ES, GO, MG, MS, MT, PB, PE, PI, PR, RJ, RN, SE, SP,TO	LFP, DI, LI
2. Carrefour -Carrefour -Carrefour Bairro -Atacadão -Dia%	France	29,000.2	14.4	654	AM, CE, DF,ES, GO, MS, MG, PB, PR, PE, RJ, RN, RS, SP	LFP, DI, LI
3. Wal-Mart -Wal-Mart -Sam's Club -Bom Preço -BIG	US	22,334.0	11.0	479	AL, BA, CE, ES, GO, MA, MG, MT, MS, PB, PE, PI, PR, RJ, RN, RS, SC, SE, SP	LFP, DI, LI
TOTAL (3)		**87,478.6**	**43.0**	**2,780**		
4. G. Barbosa -G. Barbosa -Via Box	Chile	3,501.4	1.7	131	AL, BA, CE, PE, SE	LFP, DI, LI
5. Cia. Zaffari -Zaffari -Bourbon	Brazil	2,490.0	1.2	29	RS, SP	LFP, DI, LI
6. Prezunic	Brazil	2,449.0	1.2	30	RJ	LFP, DI, LI
7. DMA Distribuidora -Epa -Mart Plus -Via Brasil	Brazil	1,930.3	1.0	92	ES, MG	LFP, DI, LI
8. Irmaos Muffato	Brazil	1,926.0	0.9	30	PR, SP	LFP, DI, LI
9. A. Angeloni	Brazil	1,813.0	0.9	21	PR, SC	LFP, DI, LI
10. Condor		1,728.7	0.8	30	PR	LFP, DI, LI
TOTAL (10)		**103,316.9**	**51.0**	**3,143**		
11. Sonda		1,577.7	0.8	24	SP	LFP, DI, LI
12. Supermercados BH		1,542.2	0.8	109	MG	LFP, DI, LI
13. COOP		1,522.2	0.7	30	SP	LFP, DI, LI
14. Y.Yamada		1,508.4	0.7	21	AP, PA	LFP, DI, LI
15. SDB		1,345.1	0.7	38	AM, RR	LFP, DI, LI
16. Lider		1,289.6	0.6	14	PA	LFP, DI, LI
17. Savegnago		993.1	0.5	24	SP	LFP, DI, LI
18. Zona Sul		965.5	0.5	33	RJ	LFP, DI, LI
19. Carvalho e Fernandes		949.1	0.5	50	MA, PI	LFP, DI, LI
20. Giassi & Cia		789.3	0.4	11	SC	LFP, DI, LI
TOTAL 20		**115,799.0**	**57**	**3,497**		

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 2010, Brazil's imports of consumer-oriented food products stood at US$3.1 billion. Compared to 2009, imports of these items rose by 41.2 percent. This result reflects a combination of factors: economic growth, favorable exchange rate and income increase, which led to new consumption habits (middle class consumption patterns reproducing values and behaviors of the upper class). As mentioned before, most imported foods and beverages considered consumer-oriented are not price competitive compared to domestically produced goods. Exporters from non-Mercosul region face difficulties to compete with products from Mercosul and Chile, as this group of countries benefits from tariff exemptions. In this environment, U.S. exporters mainly compete with EU suppliers, as both enter the market under similar conditions. For this reason, imported products from the U.S. and EU are positioned within the premium price category and, as such, premium attributes are expected to be offered.

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. However, within the past years, the ATO has registered a significant increase of inquiries from local importers looking for U.S. food and beverage products.

CONSUMER-ORIENTED AGRICULTURAL TOTAL (US$ million)

	2006	%	2007	%	2008	%	2009	%	2010	%
World	1,422.0	100.0	1,670.1	100.0	2,123.7	100.0	2,219.8	100.0	3,134.2	100.0
Mercosul (4)	743.4	52.3	816.9	48.9	1,015.4	47.8	1,040.0	46.9	1,436.5	45.8
EU (15)	286.2	20.1	364.0	21.8	480.6	22.6	509.2	22.9	697.7	22.3
Chile	119.1	8.4	149.6	9.0	171.5	8.1	198.3	8.9	286.5	9.1
U.S.	93.7	6.6	112.6	6.7	162.0	7.6	148.8	6.7	203.7	6.5
Others	179.6	12.6	227.1	13.6	294.2	13.9	323.5	14.6	509.9	16.3

Source: Secretariat of Foreign Trade (Secex)
Note: 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.

In Brazil, all foods must follow their respective Identity and Quality Standards (PIQ), which are determined by law. In terms of enforcement, the Brazilian legislative principle is "positive". That is, only that which is expressly set forth in it can be practiced. That which is not addressed is prohibited. Exporters may find it useful to check if the product intended to be sold in the market complies with Brazilian regulations prior to investing in the market.

Every year the ATO runs an activity called "American Products Portfolio". Through this promotional activity, local importers specify products they would like to import in the short run. Exporters interested in participating in this activity should contact the ATO. For 2011, the products being sought are: frozen meat (bovine), cold meats, fish products, cod fish, king crab, alcoholic beverages, beer, wine, cranberry juice, pomegranate juice, cherry juice, flavored water, sauces (e.g. Tabasco), ketchup , frozen pizza, pasta, bakery products, olive oil, cheese, lactose free products , kosher products, organic and natural products, diet products, gluten free products, snacks, microwave popcorn, marshmallow, candies, chocolate, jelly, toy food, chewing gum, pear and dried fruits (6 month shelf-life minimum for processed items is required).

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 a limited number of suppliers offering processed organic products in the market, consequently prices for these items are high. U.S. suppliers may find great opportunities within this segment.

Brazil requires the use of the organic stamp on all organic products. In order to get approval for its use, organic producers must comply with regulations, which mean that a certifying agent must ensure the product is produced according to the Ministry of Agriculture's standards.

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
Rua Henri Dunant, 700
04709-110 Sao Paulo – SP
Tel: (55 11) 5186-7400
Fax: (55 11) 5186-7499
E-mail: atosaopaulo@usda.gov
atobrazil@usdabrazil.org.br

Office of Agricultural Affairs (OAA)
U.S. Embassy
Av. das Nacoes, quadra 801, lote 3
70403-900 Brasilia - DF
Tel: (55 61) 3312-7000
Fax: (55 61) 3312-7659
E-mail: agbrasilia@usda.gov