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Brazil

Retail Foods

Approved By:

Frederick Giles, Director
Agricultural Trade Office

Prepared By:

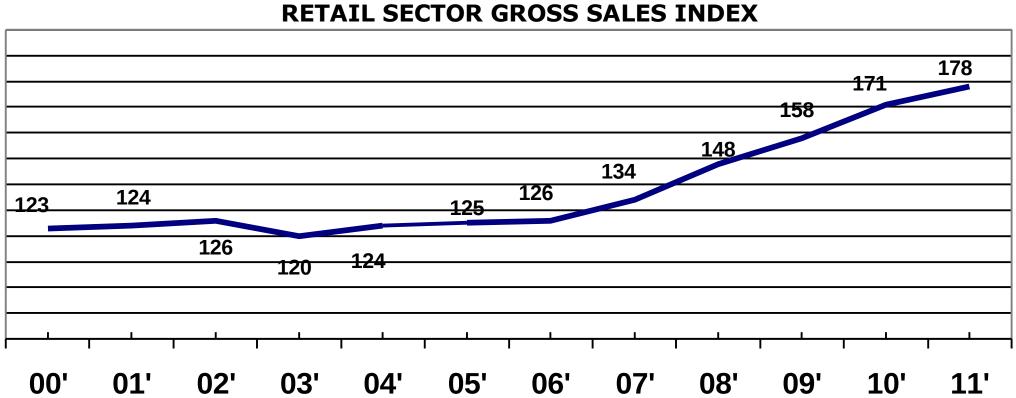
Fabiana Fonseca,
Agricultural Marketing Specialist

In 2011, the Brazilian retail industry maintained its high performance despite a slight economic downturn in the country. Investments, gains in productivity tied to macroeconomic stability and credit expansion all played a crucial role in leading the industry to this result.

SECTION I. Market Summary

For the eighth consecutive year, the Brazilian retail industry has grown. While Brazil's GDP increased 2.7 percent in 2011, the retail sector expanded 4.4 percent, demonstrating resilience against an economic downturn. According to the Brazilian Supermarket Association (ABRAS), the retail industry was estimated to be worth about R$224.3 billion (approximately US$119.31 billion) in 2011. Ongoing macroeconomic stability and social inclusion policies that have put more credit in the hands of consumers have played an important role in maintaining this positive result. The industry has also adopted aggressive strategies as the market becomes more competitive. These are all factors impacting the sector's improved profile compared to 2010: the number of stores increased from 81,100 to 82,000 (1.1 percent); the number of employees also went up from 919,900 to 967,700 (5.2 percent); sales floor size expanded from 19,700 thousand square meters to 20,600 square meters (4.4 percent); and the number of check-outs increased from 199,300 to 206,600 thousand (3.6 percent).

RETAIL SECTOR GROSS SALES INDEX



Source: ABRAS/AC Nielsen

In 2011, sales generated by the top 300 retail chains accounted for R$180.6 billion (approximately US$96.1 billion). For the fifth year, this group has obtained double-digit growth. The outcome in 2011 was 14 percent greater than the previous year. Over the past few years, the largest retailers began to acquire companies specialized in other types of non-food business such as electronics, drugstores, and cash and carry wholesalers. As a consequence, ABRAS changed its methodology to specifically study concentration levels. To do so, the association solely took into consideration food retail operations. Acquisitions not fitting in this category were not considered in the study. Based on this new methodology, the level of concentration decreased.

2011 RETAIL SNAPSHOT

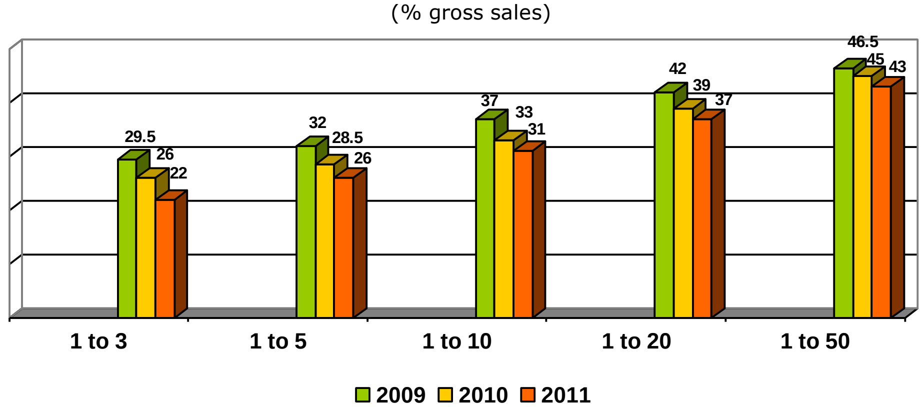
	GROSS SALES (R$	# OF STORES	# OF CHECK-OUTS	# OF EMPLOYEES	SALES AREA m² (Millions)

	Billions)				
Retail Sector	224.3	82,010	206,627	967,720	20.6
Top 300	180.7	6,224	60,549	572,299	8.4
-Top 20	139.8	2,877	37,562	373,259	6.0
-280 0thers	40.9	3,347	22,987	199,040	2.4

Source: ABRAS/AC Nielsen

Under the new methodology, the following unfolded: the top three retailers (Grupo Pao de Acucar, Carrefour and Walmart) accounted for 22 percent of market share. When the results generated by these companies were added to their new businesses, their market share reached 47 percent). Between the five largest retailers, concentration went down from 51 percent to 26 percent; between the top 10, from 56 percent to 31 percent; between the top 20 from 62 percent to 36.8 percent and between the top 50 from 69 percent to 43.4 percent. According to the new analysis, the level of concentration in the food retail industry still is small. The upward trend presented in the past is not likely to continue. As a matter of fact, the new methodology pointed to the opposite direction. Food retailing continues to be the main activity for the largest firms, however the share of it in the total business went down. In 2010, food retailing represented 73 percent of total revenues, in 2011 its percentage decreased to 64 percent.

CONCENTRATION TREND IN THE BRAZILIAN RETAIL SECTOR
(% gross sales)



Source: ABRAS/AC Nielsen

Each year ABRAS surveys retailers to establish a profile of Brazilian stores. In the past, the stores were grouped into five categories, according to their size in square meters. In 2011, this classification changed. The stores were divided into six categories, according to their format (convenience, limited assortment, supermarkets, hypermarket, supercenters, retail/wholesale clubs). According to the ABRAS study, in 2011 the most common format was the supermarket, which presented the following characteristics: average size of 1,300 square meters; average assortment of 15,400 items (22.3 percent non-food items); average number of check-outs of 11.6 units.

The convenience format came next. On average, the size of this type of store was 74 square meters, with an assortment of 2,596 items (31.1 percent non-food). The limited assortment stores reached 337 square meters on average and supplied 6,359 items (27.5 percent non-food). For large size formats, hypermarkets and supercenters on average occupied an area of 5,300 square meters, with 32.6 check-outs and 34,216 items (50 percent non-food). Retail/Wholesale clubs offered 17,469 items in stores of 2,700 square meters. When analyzing revenues, supermarkets accounted for 76.8 percent of gross sales; hypermarkets accounted for 13.1 percent; retail/wholesale clubs 6.4 percent; convenience stores 2 percent and limited assortment stores for 1.6 percent.

RETAIL STORES FORMAT

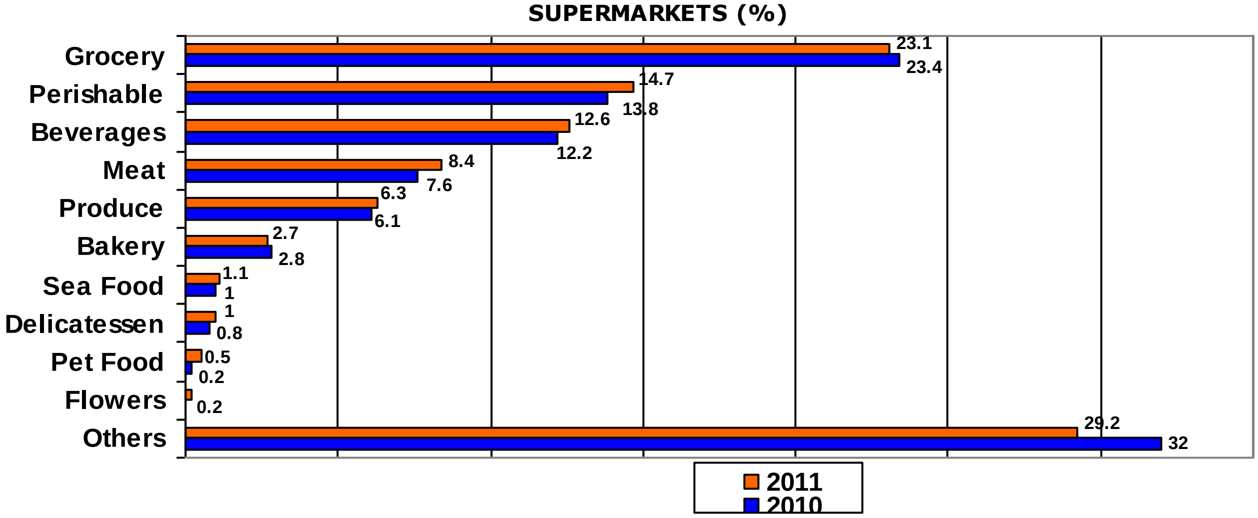
SALES AREA	AVERAGE SALES AREA (m²)	AVERAGE # of CHECK-OUTS	AVERAGE # of ITEMS	FOOD ITEMS (%)
Convenience	74	1.4	2,596	68.9
Limited Assortment	337	4.3	6,359	72.5
Supermarkets	1,293	11.6	15,379	77.7
Hypermarkets/Supercenters	5,276	32.6	34,216	49.9
Retail/Wholesale Clubs	2,747	17.6	17,469	91.8

Source: ABRAS/AC Nielsen

Besides establishing the format of a typical Brazilian retailer, ABRAS also captures the performance of its various departments. They are divided into the following categories: dry grocery, perishable, liquid grocery, meat, produce, bakery, seafood and deli (ready-to-eat), pet food, flowers and others (non-agricultural goods). In 2011, the dry grocery department took the lead, representing 23.1 percent of total sales. Perishable items (dairy, refrigerated and frozen goods) comprised 14.7 percent; meat accounted for 8.4 percent, liquid grocery for 12.6 percent and produce reached 6.3 percent. Although some variation was noted compared to 2010, the share of the various departments in general terms remained steady.

Brazilian consumers have proven to be vigorous in pushing internal consumption. Today 53 percent of the country's population is considered middle class compared to 38 percent ten years ago. Retailers and importers are diversifying their portfolio as the "new middle class" rises and can now afford more luxuries. Brazilian income growth has led to gains in consumer spending on food. More consumers are participating in formal markets, expanding the quantity and quality of food products demanded. As household incomes continuously increase, the structure of Brazilian food expenditures is changing, with demand shifting toward branded products and more sophisticated items.

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



Source: ABRAS/AC Nielsen

ABRAS also follows the performance of two other niche categories: imported products and organics. Sales of imported products have increased in 2011. While in 2010 this category represented 2.1 percent of total sales in supermarkets that carry imported products, in 2011 it amounted to 3.8 percent. Foreign goods are considered niche products; they are geared towards high-end consumers as they are positioned as premium price/premium product categories. However, the combination of more affordable prices with income increases has stimulated sales in 2011. On the other hand, sales of organic products remained stable, representing 0.5 percent of total supermarket sales for stores that carry organics.

The supermarket sector continues to be an important distribution channel in Brazil and producers who wish to access the market through this channel should be aware of major challenges and advantages:

ADVANTAGES	CHALLENGES
Retailers offer foreign goods to differentiate themselves from competitors, develop new niche markets and gain high-end consumers' attention.	Most luxury goods come from Europe. Consumers easily associate Europe with sophistication and tradition.
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

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, the local high tariff system and the exchange rate itself. The Brazilian food industry is well developed and the ever-expanding presence of major multinational companies contributes to making the sector competitive. Products imported from Mercosul members (Argentina, Paraguay and Uruguay) enjoy duty-free status and Chilean products face a reduced duty rate. In general, products from other South America countries are the only ones that have conditions to compete with domestic goods in price terms.

U.S. food and beverages directly compete with European counterparts. Both are positioned within the premium price category. 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 their advantageous position in comparison with suppliers. They exert considerable purchasing power as they reach the overwhelming majority of Brazilian households.

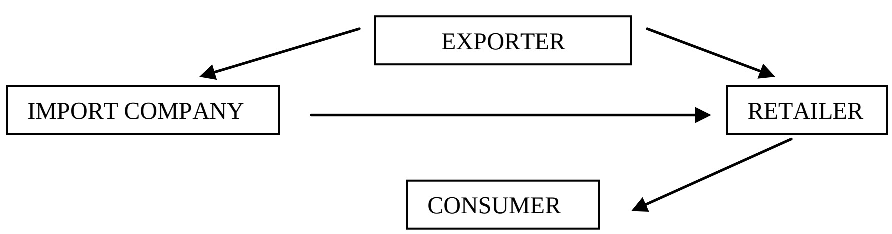
For retailers, foreign products may be imported directly from the processor or distributor or purchased locally from an importer. When conducting an import operation, both follow the same purchase pattern for initial purchases: wide variety and small quantity. Despite the size of the company, retail 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 while, on the other hand, U.S. suppliers are often unwilling to deal with small volumes.

MARKET STRUCTURE FOR IMPORTED PRODUCTS



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, based on revenues generated by the top 500 supermarket chains. This information may guide U.S. exporters when designing their entry strategy into Brazil and help them evaluate whether or not a specific 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, 55.8 percent. The South region, composed of Parana, Rio Grande do Sul and Santa Catarina, made up 16.9 percent of sector gross sales. The North and Northeast Region, which include the 16 states of Acre, Amapa, Amazonas, Para, Rondonia, Roraima, Tocantins, Alagoas, Bahia, Ceara, Maranhao, Paraiba, Pernambuco, Piaui, Rio Grande do Norte and Sergipe reached 19.7 percent of total sales, while the Central-West comprised 7.6 percent.

RETAIL MARKET SHARE BY REGION (2011)

REGION	GROSS SALES (R$ Billions)	2010	2011	NUMBER OF STORES	2010	2011
Southeast	102.23	54.1	55.8	3,717	51.9	53.5
South	30.96	19.3	16.9	1,611	24.6	23.2
North-Northeast	36.09	19.7	19.7	1,220	17.9	17.5
Central-West	13.92	6.9	7.6	405	5.7	5.8
TOTAL	183.2	100.0	100.0	6,953	100	100.0

Source: ABRAS/AC Nielsen

Considering the performance of the states individually, Sao Paulo maintained its leadership, followed by two other Southeast states, Rio de Janeiro and Minas Gerais. In the past year, Sao Paulo lost 0.7 percent of market share and Rio de Janeiro gained 0.8 percent. Minas Gerais and Rio Grande do Sul switched positions Minas Gerais took the third position while Rio Grande do Sul went down to fourth. As for the other states, no significant changes occurred.

RETAIL MARKET SHARE BY STATE (2011)

RANK	STATE	GROSS SALES (R$ Billions)	%	NUMBER OF STORES	%
1	Sao Paulo	64.85	35.4	1,853	33.3
2	Rio de Janeiro	19.42	10.6	479	8.6
3	Minas Gerais	16.49	9.0	566	10.2
4	Rio Grande do Sul	12.64	6.9	648	11.7
5	Parana	12.64	6.9	388	7.0
6	Bahia	9.16	5.0	402	7.2
7	Santa Catarina	5.86	3.2	253	4.6
8	Pernambuco	5.68	3.1	125	2.3
9	Distrito Federal	4.58	2.5	91	1.6
10	Para	4.21	2.3	76	1.4
TOTAL		155.54	84.9	4,881	87.9

Source: ABRAS/AC Nielsen

III. Company Profiles

In 2011, Grupo Pao de Acucar maintained leadership, with total sales of R$52.7 billion (approximately US$28 billion), an increase of 45.7 percent compared to 2010 as the financial results of Via Varejo, which is made up of Ponto Frio and Casas Bahia, and Pontocom were included in the company's balance. Carrefour came in second place with gross sales of R$28.8 (approximately US$15.3 billion), decreasing 0.8 percent over the previous year. Carrefour excluded the results of Dia%, their limited assortment store, from overall revenues as the group decided to separate their operations. Walmart, in third place, opened 42 new stores in the past year and generated R$ 23.5 billion (approximately US$ 12.5 billion), which represented an increase of 5.1 percent compared to 2010. Following the three leaders were Cencosud, with R$6.2 billion (approximately US$3.3 billion), and Zaffari with R$2.9 billion (approximately US$1.5 billion). Cencosud, a Chilenean group, in the past two years concluded the acquisition process of G Barborsa, Irmaos Bretas and Prezunic. As a result, in the 2011 ranking it showed a 78.1 percent sales increase while Zaffari, with the same number of stores, demonstrated a significant gain of productivity, increasing sales by 16.9 percent over 2010.

TOP 10 BRAZILIAN RETAILERS

COMPANY	OWNERSHIP	SALES (R$ million)	SHARE (%)	NUMBER OF STORES	LOCATION[1]	PURCHASING AGENT TYPE[2]
1. Grupo Pao de Acucar -Pão de Açúcar -Extra -Extra Bairro -Extra-Eletro -Extra Fácil -Sendas -CompreBem -Assai -Via Varejo -Pontocom	France/ Brazil	52,680.6	23.5	1,571	AL, BA, CE, DF, GO, MG, MS, PB, PE, PI, PR, RJ, RN, SE, SP	LFP, DI, LI
2. Carrefour -Carrefour -Carrefour Bairro -Atacadão	France	28,766.4	12.8	N/A	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	23,468.4	10.5	9,094	AL, BA, CE, ES, GO, MG, PB, PE, PI, PR, RJ, RN, RS, SC, SE, SP	LFP, DI, LI
4. Cencosud -G. Barbosa -Irmaos Breta	Chile	6,236.9	2.8	2,711	AL, BA, SE	LFP, DI, LI
5. Cia. Zaffari -Zaffari -Bourbon	Brazil	2,910	1.3	815	RS, SP	LFP, DI, LI
6. Prezunic	Brazil	2,653.5	1.2	817	RJ	LFP, LI
7. Irmaos Muffato	Brazil	2,308.7	1.0	867	PR	LFP, DI, LI
8. A. Angeloni	Brazil	2,165.2	1.0	607	PR, SC	LFP, DI, LI
9. Condor	Brazil	2,136.5	1.0	789	PR	LFP, DI, LI
10. DMA	Brazil	2,009.3	0.9	946	MG	LFP, LI
TOTAL (10)		**125,335.7**	**55.9**	**31,659**		

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

Imported foods and beverages may be roughly divided into two categories: products that are price competitive with domestic goods and products that are priced above comparable domestic items. As mentioned before, Mercosul and Chile benefit from tariff exemptions and less expensive transportation costs. These cost gains give them the advantage to compete with the local industry, leading the block of countries to gain more than 50 percent of market share for imported food and beverage goods. Exporters from other countries, such as EU countries and the United States, face more challenges to compete with the local industry, Mercosul and Chile due to import tariffs and higher transportation costs. U.S. food processors have the ability to offer wide variety, exceptional quality and standards to consistently gain market share.

In 2011, Brazil's imports of consumer-oriented food products stood at US$4 billion. Compared to 2007, imports of these items rose by 140 percent. Through the years, the market share from supplying countries had not shown significant oscillation. In 2011, Mercosul countries and the EU gained 1 percent of market share. Chile and the United States lost 1 percent and other countries maintained a stable position. The dollar in 2011 appreciated 12.6 percent against the real (Brazilian currency). During the first eight months of the year the dollar went down, reaching an 8 percent drop. From July on, the trend reversed and the dollar closed the year at US$1=R$1.88. According to importers, this scenario did not impact their purchases.

IMPORTS OF CONSUMER-ORIENTED PRODUCTS BY BRAZIL (US$ million)

	2007	%	2008	%	2009	%	2010	%	2011	%
World	1,670	100	2,124	100	2,220	100	3,134	100	4,007	100.0
Mercosul (4)	817	49	1,015	48	1,040	47	1,437	46	1,896	47
EU (15)	364	22	481	23	509	23	698	22	916	23
Chile	150	9	172	8	198	9	287	9	314	8
U.S.	113	7	162	8	149	7	204	7	241	6
Others	227	14	294	14	324	15	510	16	638	16

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.

Every year the ATO promotes an activity called American Products Portfolio (APP). Through this promotional activity, local importers specify U.S. products that would have appeal in the local market. Based on importers' requests, ATO Sao Paulo culls the list for best prospects, which is presented: snacks, frozen meals, ready meals (shelf stable), baked products, infant foods, fruits (fresh and dried), instant foods, cereals, red meat, fish and seafood, cheese, sauces, ketchup, chocolates (including diet), gums, peanut butter, jams, jellies, beverages (flavored waters and juices), wine, sparkling wine and beer.

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. Although increasing at a fast pace of 30-35 percent per year, the local industry has not directed consistent efforts to develop this segment. There are a limited number of local suppliers offering processed organic products in the market, consequently prices for these items are still very high for the average consumer. U.S. suppliers may find great opportunities within this niche. Brazil requires the use of the organic stamp on all organic products. In order to receive approval for its use, organic producers must comply with regulations, which mean that a local certifying agent, accredited by MAPA, must assure the product is produced according to MAPA's standards. Other food categories being sought by local importers are lactose free products, kosher products, diet products, gluten free products and functional foods.

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 to 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