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Brazil

Retail Foods

2018

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Report Highlights:
Brazil has finally overcome the worst recession in its history. In 2017, the retail sector responded positively, expanding 0.8 percent. In the same year, despite the uncertain climate and exchange rate oscillation, imports of consumer-oriented products to Brazil increased 1.6 percent compared to 2016. Sales of U.S. products to Brazil increased 7.6 percent, which helped the country maintain its market share of 6 percent. According to importers, consumer are starting to trade up again, a positive signal for U.S. exports to Brazil.

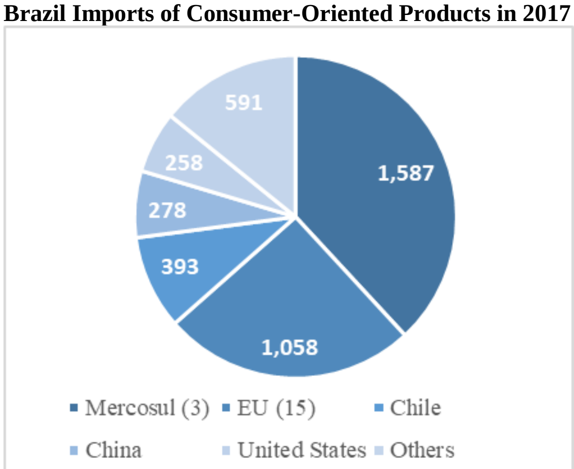
Executive Summary

Brazil is an upper middle-income country of continental proportions. After two years of negative growth, economic indicators show Brazil emerged from recession in 2017 when gross domestic product (GDP) registered a one percent increase. In current values Brazil's GDP amounted to R$6.6 trillion (US$2 trillion), positioning the country as the 8th largest economy in the world and the most influential economy in Latin America. Agriculture's share of GDP climbed by 13 percent, and other sectors of the economy such as services and industry also expanded. Analysts forecast the economy should continue to accelerate, indicating growth of between two-three percent per year until 2021. Household consumption spending also increased at the end of 2017, driven by a decrease in unemployment and low inflation. Despite positive perspectives, 2018 is a presidential election year and political uncertainty remains, leaving the currency volatile. Fiscal adjustments and the political scheme will play a key role in future performance of the economy. Brazil is still facing tremendous challenges to put the country back on track, however "cautious optimism" marks private sector perception for the short term.

Imports of Consumer-Oriented Products

In 2017, imports of consumer-oriented products by Brazil reached US$4.2 billion, a 1.6 percent increase compared to the previous year. In this period, exports from the United States to Brazil rose by 7.6 percent, which helped the United States to maintain its market share of 6.2 percent. In addition to the United States, Mercosul countries (Argentina, Uruguay and Paraguay), Chile, Europe and China are the major suppliers to Brazil within this category.

Brazil Imports of Consumer-Oriented Products in 2017



Source: SECEX

Note: Mercosul (3): Argentina, Uruguay and Paraguay; EU (15): Germany, Austria, Belgium, Spain, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, United Kingdom and Sweden.

Food Processing Industry

In 2017, the food processing industry consisted of 49,000 companies, with annual sales of R$642 billion ($198 billion). Food represented 81 percent and beverages 19 percent of total sales. The most relevant processing segments in Brazil are meat, beverages, dairy, tea, coffee, cereals, oils and fats, sugar, snacks, ice creams, condiments, yeast, wheat products, processed fruits and vegetables, dehydrated and frozen products, chocolate, candies, and fish.

Food Retail Industry

The Brazilian Supermarket Association (ABRAS) reported supermarket revenues at R$353.2 billion (US$109 billion) in 2017, or 5.4 percent of the country's GDP. This result represented an increase of 0.8 percent in real terms and 4.3 percent in nominal terms. The retail sector is made up of 89,368 stores, expanding in both size and number of stores 0.9 percent and 0.4 percent, respectively. Since 2016, the cash & carry format has expanded, as consumers adapted spending habits as a result of the economic crisis. Neighborhood convenience stores also showed growth and major retailers will continue investing in this business model.

Quick Facts CY 2017

Imports of Consumer-Oriented Products (US$ billion): $ 4.2 billion

List of Top 10 Growth Products in Brazil in 2017

1. Wheat Flour	6. Protein Concentrates
2. Edible fats & Oil	7. Yeasts
3. Soybean Oil & Fractions	8. Malt, Not Roasted
4. Enzymes	9. Palm Oil
5. Mixtures Odoriferous	10. Vegetable seeds

Source: SECEX

Food Industry by Channels (U.S. Billion $) in 2017

Food industry Output	198.0
Food Exports	38.3
Food Imports	5.3
Inventory	-8
Domestic Market	155.2
Retail	104.4
Food Service	50.8

Source: ABIA

Top 10 Host Country Retailers in 2017

1. Carrefour	6. SDB Comercio de Ali
2. Grupo Pao de Acucar	7. Supermercados BH
3. Walmart Brasil	8. Companhia Zaffari
4. Cencosud Brasil	9. Sonda Supermercados
5. Irmaos Muffato	10. DMA Distribuidora

Source: ABRAS

GDP/Population

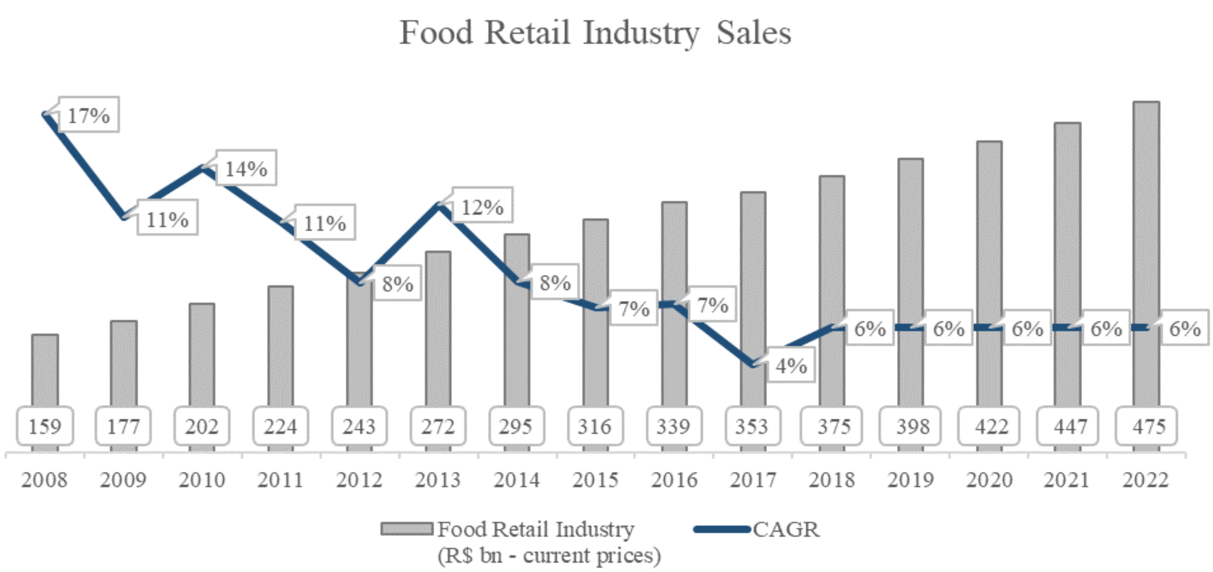
Population (millions): 207.6
GDP (billions USD): 2,037
GDP per capita (USD): 9,749

Source: IBGE

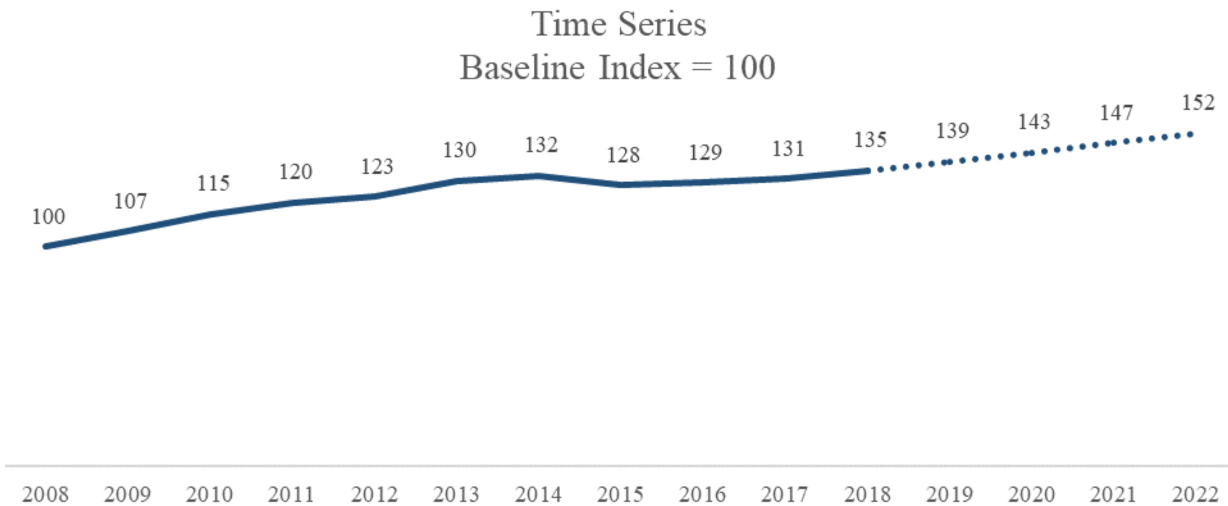
Section I. Market Summary

Brazil is an upper middle-income country of continental proportions. After two years of negative growth, economic indicators show Brazil emerged from recession in 2017 when gross domestic product (GDP) registered a one percent increase. In current values Brazil's GDP amounted to R$6.6 trillion (US$2 trillion), positioning the country as the 8th largest economy in the world and the most influential economy in Latin America. Agriculture's share of GDP climbed by 13 percent, and other sectors of the economy such as services and industry also expanded. Analysts forecast the economy should continue to accelerate, indicating growth of between two-three percent per year until 2021. Household consumption spending also increased at the end of 2017, driven by a decrease in unemployment and low inflation. Despite positive perspectives, 2018 is a presidential election year and political uncertainty remains, which has left the currency volatile. Fiscal adjustments and the political scheme will play a key role in future performance of the economy. Brazil is still facing tremendous challenges to put the country back on track, however "cautious optimism" marks private sector perception for the short term.

Food retailing tends to follow closely the performance of the economy. In 2017, the retail industry increased 0.8 percent in real terms, to R$353.2 billion (US$109 billion), which represented 5.4 percent of the GDP. To overcome the economic crisis, industry investments migrated to expansion of store formats. Cash & carry emerged in 2014 as an option for consumers who had to trade down to save money and the format continued to grow throughout the recession. As the economy started to pick up, consumers continued shopping at these discounted stores but included visits to smaller neighborhood grocery stores as well, taking the benefit of competitive prices and convenience. According to research conducted by Nielsen, in 2017 expenditures at supermarkets, neighborhood stores and cash & carry stores increased by 37 percent, 18 percent and 20 percent, respectively, while sales at hypermarkets fell by 14 percent. Analysts indicate rebounding consumer purchases would have had a greater impact on supermarket sales if food deflation had not been a factor. In 2017, Brazil registered the lowest inflation level since 1998 as food prices highly influenced the consumer price index – Indices de Precos ao Consumidor Amplo (IPCA). Food products consumed at home were 4.85 percent less expensive, while official inflation for 2017 reached 2.95 percent.



Source: period 2008-2017 adapted current prices from the Brazilian Supermarket Association (ABRAS)
Estimates 2018-2021: U.S. Agricultural Trade Office (ATO) Sao Paulo based on trade interviews.

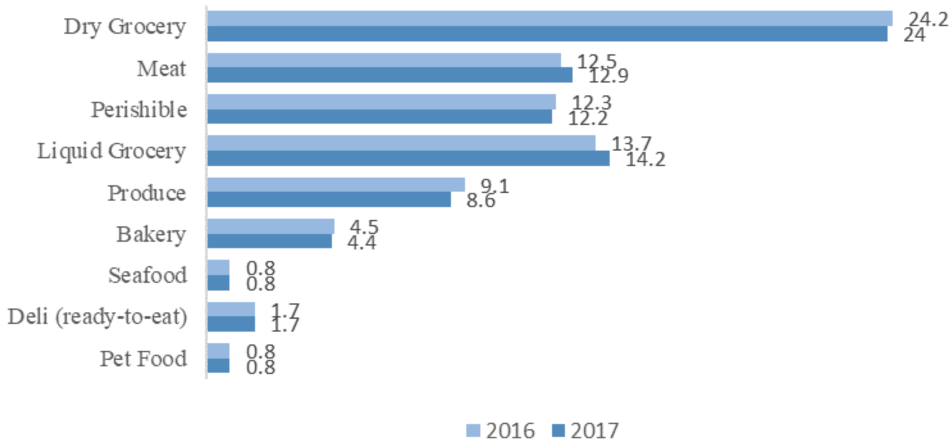


Source: period 2008-2017 adapted for 2008 constant prices from the Brazilian Supermarket Association (ABRAS) using IPCA-A.
Baseline Index = 100.
Estimates 2018-2022: U.S. Agricultural Trade Office (ATO) Sao Paulo based on trade interviews. Exchange rate BRL/USD: 3.24

Although imported consumer oriented-products are not part of the basket of goods of Brazilian middle-income households tracked by the IPCA, rising income generates a relative change in consumption of these items. Improvement of economic indicators does affect consumption as it expands the base of consumers who are able to purchase and thus overall volumes imported. However, the market for luxury goods – where imported U.S. food items are positioned – has distinct characteristics when compared to other segments of consumer goods. Price of the product and income of the consumer certainly are variables that play a role in the purchase of luxury items, but intangible aspects such as the way a consumer feels when purchasing a luxury item, or the status that item conveys, tend to govern purchases more than price alone. In 2017, imports of consumer-oriented products by Brazil reached US$4.2 billion, a 1.6 percent increase compared to the previous year. During the same period, exports from the United States to Brazil rose by 7.6 percent, which helped the United States increase its market share to 6.2 percent.

According to the Brazilian Supermarket Association (ABRAS), consumers became more frugal during the recession. Brand loyalty reduced as shoppers defected to less expensive alternatives, including private labels, which increased market share from 4.7 percent in 2016 to 6.0 percent in 2017. At larger supermarkets, the mix of imported items was reduced or rearranged to feature less expensive substitutes. With consumers unwilling to pay higher prices, retailers shifted their mix of products to offer more affordable options. During the last quarter of 2017, retailers observed changing consumer purchase behavior. Higher quality items found their way back into customer shopping carts. The penetration of imported food items is most prominent in the dry and liquid grocery segments; however, the produce and seafood departments present seasonal opportunities as well.

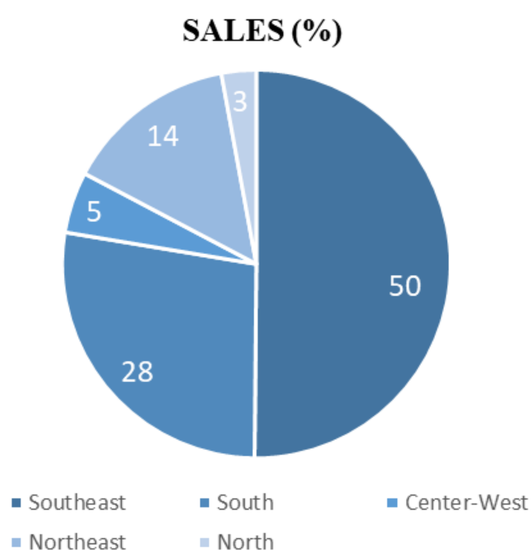
SHARE OF FOOD & BEVERAGE CATEGORIES AT RETAIL (%)

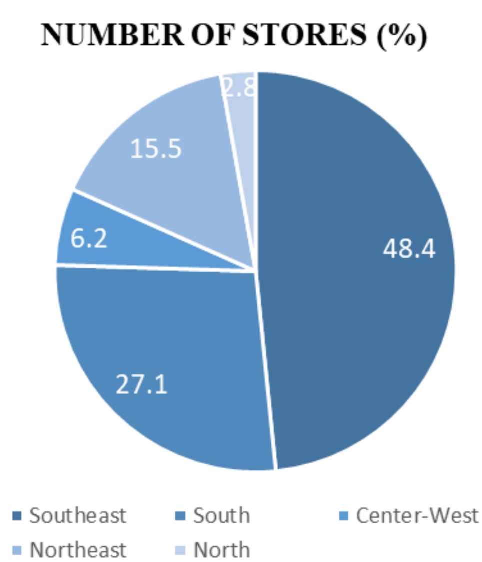


Source: Brazilian Supermarket Association (ABRAS)

Brazil is a country of continental size and regionalism is strongly delineated. The country is comprised of five regions: Southeast, South, Northeast, North, and Center-West, which subdivide the 26 states and the Federal District. In 2017, the Southeast region accounted for 50.2 percent of retail revenues and represented 48 percent of the total number of stores in Brazil. Sao Paulo plays a major role in the Southeast and represented 29.2 percent of total industry sales. The South region, in second place, presented steady sales results in 2017, and accounted for 27.5 percent of the total overall revenues, even though the regions number of stores decreased to 27.1 percent. Despite being one of the least wealthy regions in Brazil, the Northeast gained 1 percent market share and represented 14.4 percent of retail revenues. The Center-West and the North regions remained at the lower end. The Center-West accounted for 5.1 percent while the North collected 3 percent of market share, respectively.

BRAZILIAN RETAIL BY REGION (2017)





Source: Brazilian Supermarket Association (ABRAS)

ADVANTAGES	CHALLENGES

Retailers offer foreign goods to differentiate themselves from competitors, develop new niche markets, and gain high-end consumer attention.	Imported products fall in the luxury goods category. Consumers easily associate Europe with sophistication and tradition, which gives some advantage to European companies.
Price is not always the determining purchase 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 frequently search 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 the market. U.S. companies are usually not predisposed to sell small quantities.
The U.S. food industry is able to respond to consumer demand promptly, regardless of the segment of products.	Consumers perceive U.S. food products to be overly processed and relatively unhealthy.
U.S. exporters are inclined to work with high volumes and different partners.	Retailers and distributors are cautious when importing new-to-market products and often start with smaller orders. Exclusive contracts are a common clause to Brazilian companies.

Section II. Road Map for Market Entry

A. 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. The Brazilian food industry is well developed and major multinational companies have a consolidated presence in the market, making the sector highly competitive. Because approximately 80 percent of food and beverage distribution takes place through retail stores, developing a relationship with retailers is the best way for U.S. exporters to guarantee visibility and countrywide coverage. Prior to shipping to Brazil, the exporters and the importer should work together to make sure the foreign product complies with local regulations (Exporter Guide and FAIRS Report)

In general, a product imported from the United States or Europe reaches 3-5 times the FOB price at retail. U.S. exporters should bear in mind that when an imported product reaches supermarket shelves it will fit in the premium price category, therefore premium attributes like unique packaging must be recognized by consumers. An imported product is generally positioned as a luxury item. However, to be understood as such it must have characteristics intrinsic to this segment. U.S. food and beverages directly compete with European products in qualitative and quantitative attributes. As a result, U.S. exporters must evaluate the extent to which their products can compete and maintain attractiveness vis-à-vis European competition.

B. Contact the ATO!

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 to facilitate market entry and is able to provide assistance on Brazilian legislation and standards for imported goods. U.S. companies can test market through ATO marketing activities and profit from its market intelligence. Another way to test market is through the various activities developed by Strategic Trade Regional Groups (SRTGs) and Trade Associations. The ATO also recommends U.S. exporters develop direct dialogue with potential buyers as they are best equipped to discuss key topics such as product feasibility, market size, prices, distribution, and marketing tools.

C. Market Structure

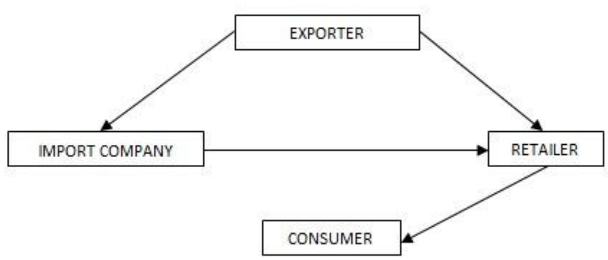
In 2017, ABRAS surveyed the top 500 retailers to profile the Brazilian retail sector. The stores were divided into five categories: convenience, neighborhood stores, supermarkets, hypermarket, and wholesale clubs.

	AVERAGE SALES AREA (m²)	AVERAGE # of CHECK-OUTS	AVERAGE # of ITEMS
Convenience	79	1	3,227
Neighborhood Store	881	2	9,852
Supermarket	1,262	10	16,781
Hypermarkets/Supercenters	5,123	10	34,150
Wholesale Clubs	3,391	11	7,986

Source: Brazilian Supermarket Association (ABRAS)

Within the various retail formats, imports of foods, beverages, ingredients or consumer-ready products may occur directly or indirectly. Volume is the determining factor for retailers. If the volume to be imported is not significant, retailers will prefer to purchase imported items locally from distributors. While avoiding the middleman is the optimal situation, this only happens if retailers are able to be cost effective. Often, U.S. exporters are cautious to do business with a single supermarket chain, believing that they will have better access to consumers through multiple different retail outlets. However, this often results in fewer U.S. products on store shelves overall, as some retailers have significant market penetration at the national or regional level. Technology innovation and changes in consumer behavior are influencing business models. According to the Brazilian Institute of Geography and Statistics (IBGE), the number of individuals using the internet is equivalent to 65 percent of the population. Retail analysts estimate online shopping at 3-5 percent of total revenues.

MARKET STRUCTURE FOR IMPORTED PRODUCTS



Supermarkets are the most important segment for imported food and beverage products. This format presents more diversity, which is the most important characteristic to affluent consumers, behind proximity. The penetration of foreign goods are considerably higher, ranging from 30-60 percent.

D. Company Profiles & Top Host Country Retailers

The top Brazilian retail company on the ABRAS 2017 rank was Carrefour, with total sales of R$49.6 billion (US$15.3 billion), a nominal increase of 7.2 percent compared to the previous year. The company opened 70 new stores in 2017, with smaller neighborhood units receiving most of the investment. Since 2014, Carrefour opened 120 of these in the state of Sao Paulo alone. The company is also converting hypermarkets into cash & carry stores. In 2017, eleven cash & carry stores were launched. Grupo Pao de Acucar ranked second, with gross sales of R$48.4 billion (US$14.9 billion), 7.7 percent nominal growth over the previous year. After taking out sales figures from Via Varejo (a non-food operation) from total revenue, the group lost the leading position. In 2017, Pao de Acucar closed 17 hypermarkets and opened 177. Walmart, third on the rank, reported sales of R$28.2 billion (US$8.7 billion), a decrease of 4.2 percent compared to 2016. (Note: While the ATO prepared this report, Walmart announced the sale of 80 percent of its operations in Brazil to the private equity firm Advent International. Walmart will retain the remaining 20 percent.) In Brazil only the top three retail companies have countrywide coverage. From the forth position on, companies have a regional profile, limiting the expansion of the first three.

TOP 10 BRAZILIAN RETAILERS

COMPANY	HEADQUARTER	SALES (US$ billion)	SHARE (%)	# OF STORES
Carrefour	Sao Paulo	15.3	14.0	409
Grupo Pao de Acucar	Sao Paulo	14.9	13.7	1,081
Walmart	Sao Paulo	8.7	8.0	450
Cencosud	Sao Paulo	2.6	2.4	204
Irmaos Muffato	Parana	1.9	1.6	53
SDB Comercio	Sao Paulo	1.8	1.6	58
Supermercados BH	Minas Gerais	1.7	1.5	176
Cia. Zaffari	Rio Grande do Sul	1.6	1.4	36
Sonda	Sao Paulo	1.0	0.9	41
DMA Distribuidora	Minas Gerais	1.0	0.9	129
TOTAL (10)		**50.5**	**46.0**	**2,637**

Source: Brazilian Supermarket Association (ABRAS)

Section III. Competition

In 2017, Brazil’s imports of consumer-oriented food products stood at US$4.2 billion, an increase of 1.7 percent compared to the previous year. In this same year, supermarket revenues increased 0.8 percent and the exchange rate (US$/R$) oscillated 6.0 percent, closing the year at approximately US$1=R$3.24. Despite the uncertain climate, importers were able to maintain inflows of consumer-oriented products above expected levels. From 2012 to 2017, Mercosul lost 4.0 percentage points (pp) in market share but maintained its rank as the top exporter of consumer-oriented products to Brazil. On opposite sides, supplying Brazil with luxury products and less expensive goods, the European Union and China gained 2.0 pp of share. Europe is now the second largest exporter and China the forth. Chile’s sales to Brazil have been quite steady since 2012, while the United States presented an upward trend, reaching 8.0 pp share in 2015, then settled at 6.0 pp in 2017. Since mid-2014, the Brazilian Real has depreciated against the dollar, making imports not only more expensive but also more difficult to manage. According to ATO contacts, business is picking up but there remains much uncertainty due to the economic climate and presidential elections. Importers estimate purchases will be slightly positive in 2018 and expect a more vigorous rebound in 2019.

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

	2012	**%**	**2013**	**%**	**2014**	**%**	**2015**	**%**	**2016**	**%**	**2017**	**%**
World	4,185	100	4,482	100	4,539	100	3,935	100	**4,097**	**100**	**4,165**	**100**
Mercos	1,79	43	1,97	44	1,79	40	1,43	37	**1,69**	**41**	**1,58**	**39**

ul (3)	2		6		7		9		**5**		**7**	
EU (15)	969	23	1,030	23	1,176	26	1,036	26	**958**	**23**	**1,058**	**25**
Chile	385	9	392	9	410	9	355	9	**407**	**10**	**393**	**9**
China	**225**	**5**	**280**	**6**	**246**	**5**	**253**	**6**	**303**	**7**	**278**	**7**
U.S.	246	6	296	7	329	7	296	8	**240**	**6**	**258**	**6**
Others	**566**	**14**	**508**	**11**	**581**	**13**	**557**	**14**	**495**	**12**	**592**	**14**

Source: Secretariat of Foreign Trade (Secex)
Note: Mercosul (3): 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 Categories

A. Products Present in the market which have Good Sales Potential

Importers are generally looking for well-known brands and high-end products. They usually prefer products with one-year 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 enter successfully the market.

B. Top Consumer-Oriented Products Imported from the World

TOP COP IMPORTED FROM THE WORLD (2017)	**Value (mi)**	**Δ 2016-2017 (%)**
Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters	338	30
Potatoes, Prepared Etc., No Vinegar Etc., Frozen	332	3
Garlic, Fresh or Chilled	287	-12
Meat of Bovine Animals, Boneless, Fresh/Chilled/Frozen	252	7
Food Preparations Nesoi	233	2
Pears, Fresh	151	6
Olives Prep/Pres Ex Vinegar/Acetic Acid Not Frozen	102	-3
Cocoa Preparations, Not In Bulk Form, Nesoi	81	40
Apples, Fresh	75	-45
Coffee, Roasted, Not Decaffeinated	70	38

Source: Secretariat of Foreign Trade (Secex)

C. Top Consumer-Oriented Products Imported from the United States

TOP COP IMPORTED FROM THE UNITED STATES (2017)	**Value (mi)**	**Δ 2016-2017 (%)**
Food Preparations Nesoi	62	6
Chocolate & Othr Cocoa Preps, Not Bulk, Filled	22	13
Almonds, Fresh Or Dried, Shelled	14	105
Potatoes, Prepared Etc., No Vinegar Etc., Frozen	7	-1
Sauces Etc. Mixed Condiments and Seasonings Nesoi	6	14
Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters	4	40
Meat of Bovine Animals, Boneless, Frozen	3	-
Ice Cream and Other Edible Ice, With Cocoa or Not	3	3
Pears, Fresh	3	-10
Orange Juice, Not Frozen, of A Brix Value Not Ov 20	3	-49

Source: Secretariat of Foreign Trade (Secex)

D. Products Not Present in Significant Quantities but which have Good Sales Potential

Food allergy and intolerance for specific ingredients are triggering a unique segment. Increasing demand for gluten-free, wheat-free, lactose-free, and other functional foods is also pushed by improved label practices. There are a limited number of local suppliers offering these items at the retail level. International suppliers may find great opportunities within this niche. The organic segment is another attractive niche, however, the associated costs to comply with the Brazilian legal framework tends to be a burden to foreign suppliers. Please contact the ATO for more information.

E. 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, U.S. poultry and pork do not have market access.

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 agricultural products to Brazil:

U.S. Agricultural Trade Office (ATO)
U.S. Consulate General
Rua Thomas Deloney, 381
04709-110 São Paulo, SP
Tel: (55-11) 3250-5400
Fax: (55-11) 3250-5499
E-mail: atosaopaulo@fas.usda.gov

Office of Agricultural Affairs (OAA)
U.S. Embassy
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70403-900 Brasilia, DF
Tel: (55-61) 3312-7000
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