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Brazil

Retail Foods

2019

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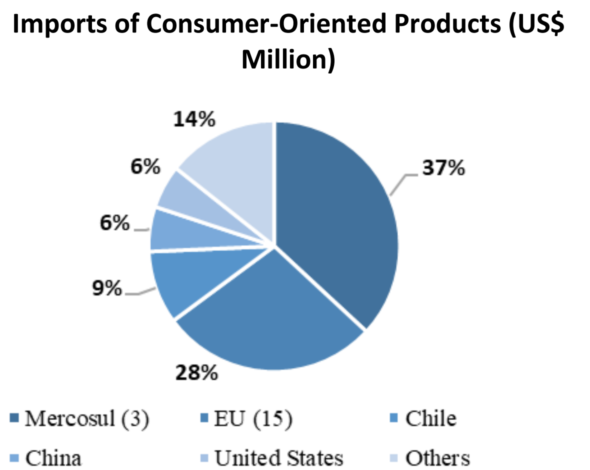
Report Highlights:
After the longest recession in history, Brazil was predicted to kick-start economic growth in 2018. However, an uncertain economic and political climate, in which Brazil's 2018 presidential election was key, brought much volatility to the economy. Optimistic indicators were revised down, and Brazil's GDP grew by a meager 1.1 percent in 2018. The performance of the retail industry within the same period was also anemic, with just 0.7 percent growth. With the election of President Bolsonaro, who believes in a liberal economic agenda, business confidence is on the rise. Along with the larger business community, retailers expect the new government to pass crucial reforms and get the economy growing again.

Executive Summary

Economic and political downturns have undermined consumption and investments in recent years as Brazil has endured one of its worst economic crises ever. In 2018, the second-year post-recession, a major truck driver strike and an unclear political environment established by a polarized presidential campaign, brought more volatility to the scenario. All of this led to anemic economic growth of just 1.1 percent in 2018, to R$6.6 trillion (US$1.8 trillion). Brazil's economic recovery is also progressing slowly in 2019, but analysts anticipate economic growth to pick up if the government moves forward with structural reforms.

Imports of Consumer-Oriented Products

In 2018, imports of consumer-oriented products by Brazil reached US$4 billion, a decrease of 3.5 percent from the previous year. During this period, the largest U.S. competitor in this category, the EU, saw its Brazilian market share grow by 3 percent, while China and the rest of Mercosul experienced losses. The United States' market share was unchanged.



Source: Secex

Food Processing Industry

In 2018, the food processing industry registered annual sales of R$642 billion (US$179 billion). Food represented 81 percent and beverages 19 percent of total sales. The major processing segments in Brazil are: meat, beverages, dairy, tea, coffee, cereals, oils and fats, sugar, snacks, ice cream, condiments, yeast, wheat products, processed fruits and vegetables, dehydrated and frozen products, chocolate, candy, and fish.

Food Retail Industry

The Brazilian Supermarket Association (ABRAS) reported supermarket revenues of R$355.7 billion (US$97 billion) in 2018, which represented 5.2 percent of the country's GDP and a 0.7-percent increase in nominal terms. Brazil's retail sector includes 89,368 stores. Cash-and-carry continuous to play a key role in industry growth, as consumers are still concerned about spending. Cash-and-carry operations were crucial to the financial returns of the top 50 retail chains in 2018, with investments seeing double-digit sales expansion.

Quick Facts CY 2018

Imports of Consumer-Oriented Products (US$ billion): $4 billion

List of Top 10 Growth Products in Brazil in 2018

1. Juice of Citrus Fruit	6. Nuts (exc Peanuts)
2. Tomatoes	7. Beans
3. Crispbread	8. Bananas (Fresh/Dried)
4. Pears	9. Dairy Spreads
5. Bovine Meat	10. Cranberry Juice

Source: SECEX

Food Industry by Channels (U.S. Billion $) in 2018

Food Industry Output	179
Food Industry Exports	35
Food Industry Imports	6
Domestic Market	144
Retail	97
Food Service	47

Source: ABIA

Top 10 Host Country Retailers in 2018

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. DMA Distribuidora
5. Irmaos Muffato	10. Sonda Supermercados

Source: ABRAS

GDP/Population

Population (million): 210.9
GDP (trillion USD): 1.8
GDP per capita (USD): 8,969
Source: IBGE
Note: Average exchange rate applied = US$1/R$3.65

Section I. Market Summary

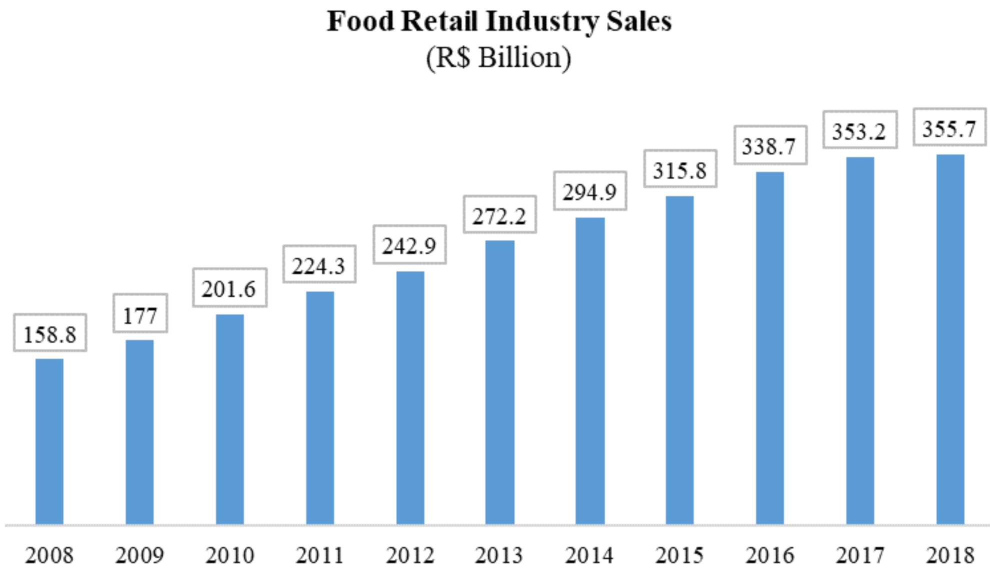
Brazil has made modest gains since emerging from the recession that hit the country from 2014 to 2016. In 2018, Brazil's gross domestic product (GDP) grew by 1.1 percent, a similar rate as the previous year. The low-growth scenario of the last two years was caused, on the one hand, by weak demand due to concerned consumers with not much room to increase spending, and on the other, cautious investors highly averse to risk. Brazil is still in an environment of not much space to make a turnaround through monetary and fiscal measures, as inflation is low, the Brazilian currency remains weak, and government spending is at a critical level. Financial analysts point out that recovery will come through major structural overhaul, including pension and labor reforms. Although domestic and external uncertainties reduced business confidence, investors were generally pleased with the election of President Jair Bolsonaro in October 2018. Since taking office, the new government has encountered difficulty creating political consensus, while the business community expects Bolsonaro to move forward with his promises of pushing through needed reforms while cutting taxes and government spending. With a highly fragmented congress, Bolsonaro will need to show faster results or risk losing further investors' attention in an environment of low-level performance.

Under the Bolsonaro administration, the U.S.-Brazil relationship has strengthened, with the Brazilian government showing greater interest in aligning foreign policies to that of other developed countries, particularly the United States. In general, Bolsonaro has positioned himself as against multilateral deals, advocating instead for bilateral agreements where countries may establish one-on-one trade commitments. Bolsonaro's foreign and economic ministries have begun the process of reviewing Mercosul's regulations, since the bloc forbids its members from independently negotiating free trade agreements. During Bolsonaro's campaign, he also promised to reevaluate customs legislation, in favor of a freer market. Although Brazil's president has faced challenges when negotiating with the country's congress, the chances of a free trade deal with the United States will likely improve if Bolsonaro wins his political battles.

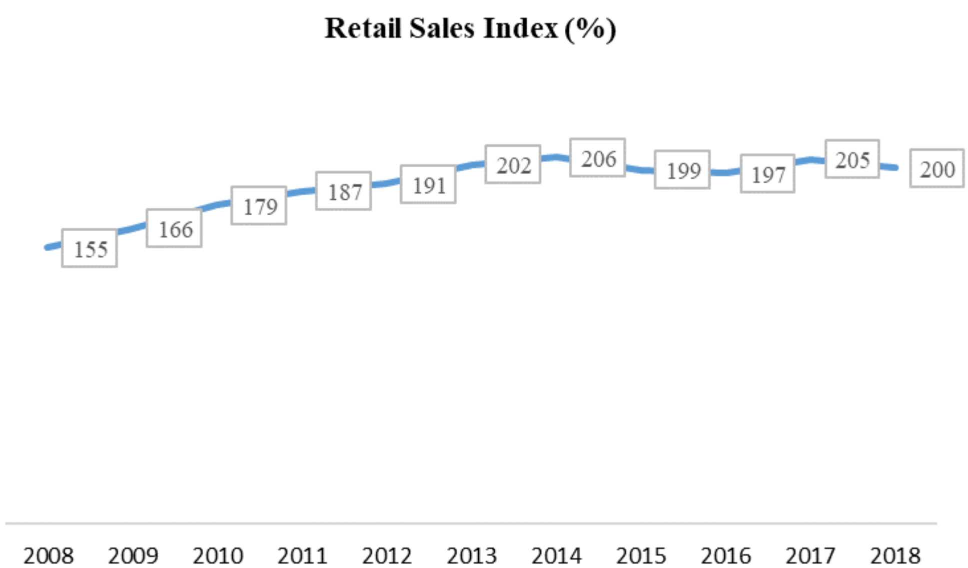
Despite Brazil's challenges, there is optimism that in the medium-term the economic and political situation will stabilize, and business will grow. Retail executives are pressuring the government to move on pension reform, seeing the change as key to growing business. According to the Brazilian Supermarket Association (ABRAS), the retail sector, which represented 5.2 percent of Brazil's GDP in 2018, performed below expectations last year, with sales registering a meager 0.7 percent higher than the previous year. Total retail revenues reached R$355.7 billion (US$97 billion) in 2018. Nevertheless, according to retail analysts, results for 2018 were reasonably good, considering the year was marked by uncertainties such as a countrywide strike of truck drivers and the presidential elections.

The cash-and-carry industry continued to be a relevant format last year, as it presented an option to consumers who had to maintain their purchase patterns adopted during the crisis period. Retailers kept investing in these discounted stores but also maintained investments in neighborhood stores, mainly through modernization of existing units. On the other hand, investments in new stores waned.

The Brazilian retail sector is the most important channel in food distribution, capturing about 80 percent of food and beverage flows through a considerable number of strong retail operators. The industry is well-integrated, dynamic, and sophisticated. Much of the sector's growth will depend on whether certain government policies are implemented in the near future.



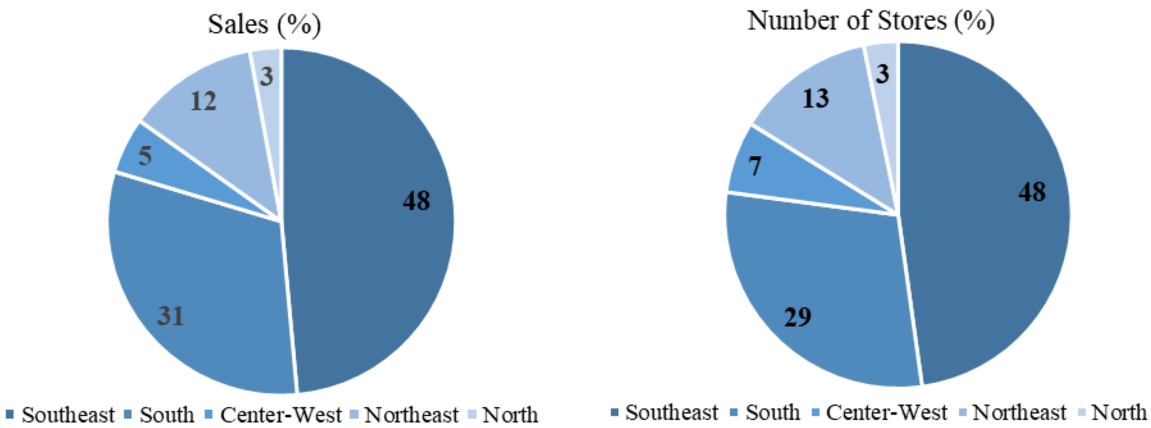
Source: Brazilian Supermaket Association (ABRAS)



Source: Brazilian Supermaket Association (ABRAS)
Note: Baseline Index =1994

Brazil is a country of continental size, and regionalism plays a crucial role. The country's 26 states and Federal District are divided into five regions: Southeast, South, North, Northeast and Center-West. According to ABRAS research, in 2018 the Southeast region, which includes the states of Sao Paulo and Rio de Janeiro, accounted for 48.4 percent of retail revenues and 47.8 percent of total stores. Although the Southeast region registered some retraction, it is still responsible for almost half of the retail business. Alone, the state of Sao Paulo represented 27.8 percent of total industry sales. The South region, the second largest in retail sales, a 3.5 percent increase in sales, which represented 31 percent of the overall revenues. The South also accounted for 29.3 percent of all stores. The Northeast region, one of the least wealth regions in Brazil, saw a 2 percent decrease, accounting for a 12.2-percent share of sales and 13 percent of stores. The Center-West and North regions remained relatively minor players in the retail sector. The Center-West accounted for 5.2 percent of sales and 6.7 percent of total stores, while the North had just 3.1 percent of overall revenues and 3.2 percent of stores.

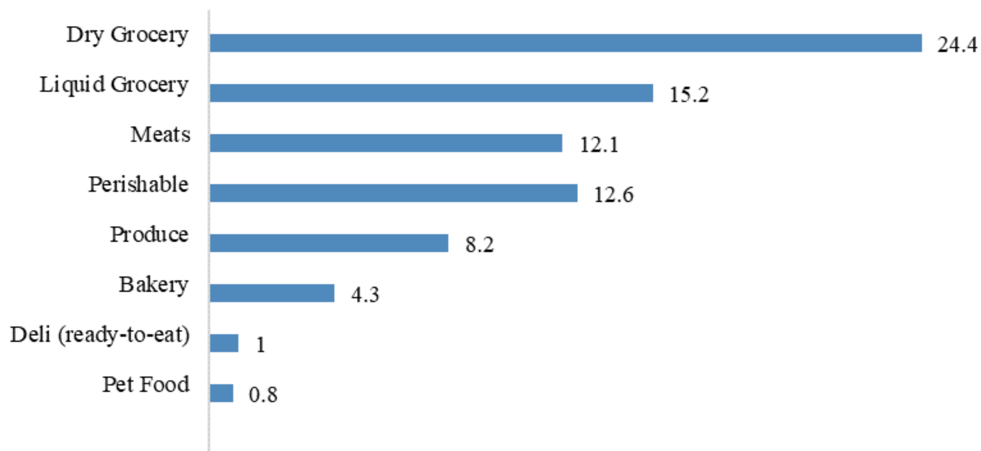
Retail Snapshot by Region (2018)



Source: Brazilian Supermaket Association (ABRAS)
Note: Research conducted among 924 supermarket companies, accounting for 37 percent of industry share.

According to ABRAS, Brazilian consumers adopted a more frugal approach to shopping during the economic crisis and have not made significant changes since. Decreases in brand loyalty during the recession period continued into 2018 as shoppers defected to less expensive options, including private label products, which increased market share from 4.7 percent in 2016 to 6 percent in 2018. At larger supermarkets, the mix of imported items is not at the same level as it was before Brazil fell into recession. With consumers not willing to pay higher prices, retailers have changed the selection of products to include more affordable options. Below is the representation of Brazilian supermarket sales by category.

2018 Share of Retail Food & Beverage Categories (%)



Source: Brazilian Supermarket Association (ABRAS)

Although imported products are not part of the basket of goods typically purchased by Brazilian middle-income households, rising income plays a key role in generating changes in consumption of these items. The improvement of economic indicators affect consumption as it expands the base of consumers and consequently the number of individuals willing to trade up.

ADVANTAGES	CHALLENGES
Retailers offer foreign goods to differentiate themselves from competitors, develop new niche markets and gain high-end consumers' 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 factor 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 in order to compete.	Importers tend to buy small quantities to test the market. U.S. companies are usually not predisposed to sell small volumes.
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 options. 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 more likely to guarantee visibility and national coverage. Prior to shipping to Brazil, exporters should work with their imports to make sure the foreign product complies with local regulations. (Please refer to FAIRS Report BR 18031 and Exporter Guide BR18032)

In general, products imported from the United States or Europe face FOB prices three to five times higher at retail outlets. U.S. exporters should bear in mind that when an imported product reaches supermarket shelves it will fit in the premium price category, and thus should have premium attributes 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 major players in the sector to facilitate market entry and can provide assistance to understand Brazilian legislation and standards for imported goods. U.S. companies can test the market through ATO marketing activities and profit from its market intelligence. Another way to test the market is through the various activities developed by State Regional Trade 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

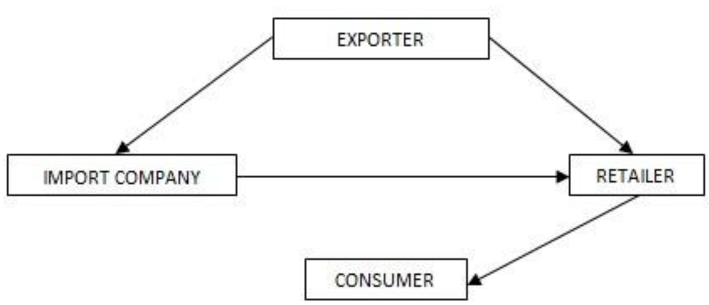
In 2018, ABRAS surveyed 451 retailers to set the structure of Brazilian stores. The stores were divided into five categories: convenience, neighborhood stores, supermarkets, hypermarkets, and wholesale clubs.

	Average Sales Area (m^2)	Average # of Check-outs	Average # of Items
Convenience	81	1	3,365
Neighborhood Store	426	3	8,303
Supermarket	1,556	10	16,052
Hypermarket/Supercenter	3,968	23	27,403
Wholesale Club	3,459	12	7,416

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 to 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. Technological innovation and changes in consumer behavior are affecting the business model. According to the Brazilian Institute of Geography and Statistics (IBGE), 70 percent of the population (over 10 years old) has internet access. 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. Penetration of foreign goods is considerably higher in supermarkets, ranging from 30-60 percent.

D. Company Profiles & Top Host Country Retailers

In 2018, the retail industry got more concentrated among the 50 largest retailers, contrasting the growth trend of the overall industry. While in 2017 the group accounted for 44.8 percent of overall sales, in 2018 that expanded to 46.5 percent, partially due to the expansion of cash-and-carry operations by the leading retailers, which totaled R$96.6 billion (US$26.5 billion). For the 2018 ABRAS Ranking, Nielsen, the company responsible for the research, did not include Walmart's most recent data, as it was not publicized (in 2018 Walmart announced the sale of 80 percent of its operation in Brazil to the private equity firm Advent International, with Walmart keeping the remaining 20 percent). For the list presented below, total retail gross sales are estimated at R$355.7 billion (US$97 billion). In 2018 there was no significant changes on the rank of top 10 retail companies, except Sonda and DMA Distribuidora swapped the ninth and tenth rankings on the list. Only the top three retailers have countrywide coverage in Brazil. The companies from the fourth position on all have a regional profile, which limits the expansion of the first three.

Top 10 Brazilian Retailers (2018)

Company	Headquarter	Sales (Billion)		Δ 2018-2017 (%)	Share (%)	Number of Stores
		R$	US$			
Carrefour	Sao Paulo	56.3	15.4	13.5	15.8	435
Grupo Pao de Acucar	Sao Paulo	53.6	14.7	10.7	15.0	1,057
Walmart *	Sao Paulo	28.2	7.7	N/A	8	450
Cencosud	Sao Paulo	8.5	2.3	-0.3	2.4	201
Irmaos Muffato	Parana	6.9	1.9	15.0	1.9	57
SDB Comercio	Sao Paulo	6.3	1.7	8.7	1.7	63
Supermercados BH	Minas Gerais	6.0	1.6	9.7	1.7	198
Companhia Zaffari	Rio Grande do Sul	5.3	1.4	1.9	1.5	36
DMA Distribuidora	Minas Gerais	3.7	1.0	9.7	1	138
Sonda	Sao Paulo	3.4	0.9	0.9	1	42

Source: Brazilian Supermarket Association (ABRAS)
Note: Walmart results refer to 2017.

Section III. Competition

Brazil's 2018 imports of consumer-oriented food products amounted to US$4 billion, a decrease of 3.5 percent from the previous year. With a two-digit oscillation in the exchange rate during the year, importers became more cautious than usual, as the business climate became harder to predict. At first glance, it would be expected for Brazil to purchase more products from Mercosul countries due to the benefit of duty-free tariffs among members, nonetheless it did not prove to be the case. In fact, Mercosul lost 2 percent points of its market share but maintained its rank as the top exporter of consumer-oriented products to Brazil. On opposite sides, supplying Brazil with more luxury products and options of less expensive goods, the EU gained 3 percentage points of market share. According to ATO contacts, the relationship importers have with European suppliers is well consolidated. It is a common practice for EU suppliers to negotiate better payment terms with importers during difficult times. This practice tends to increase sales by absorbing competitors' market share, which can be seen from the 2018 data. The United States saw its sales to Brazil decrease in 2018 but was able to maintain the same market share for the past three years. Food and beverage products from the United States are less associated with premium characteristics. By contrast, in consumers' minds, European products (direct competitors to U.S. options) are synonymous with high quality, sophistication, and tradition.

Imports of Consumer-Oriented Products by Brazil (US$ Million)

	2013	%	2014	%	2015	%	2016	%	2017	%	2018	%

World	4,482	100	4,539	100	3,935	100	4,097	100	4,165	100	4,019	100
Mercosul (3)	1,976	44	1,797	40	1,439	37	1,695	41	1,587	39	1,483	37
EU (15)	1,030	23	1,176	26	1,036	26	958	23	1,058	25	1,124	28
Chile	392	9	410	9	355	9	407	10	393	9	378	9
China	280	6	246	5	253	6	303	7	278	7	232	6
U.S.	296	7	329	7	296	8	240	6	258	6	225	6
Others	508	11	581	13	557	14	495	12	592	14	575	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.

Average Dollar Fluctuation in 2018 (US$1=R$)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
R$	3.20	3.24	3.27	3.39	3.62	3.80	3.82	3.93	4.10	3.84	3.81	3.88

Source: Brazilian Central Bank

Section IV. Best Product Prospects Categories

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

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

B. Top Consumer-Oriented Products Imported from the World

TOP COP IMPORTED FROM THE WORLD (2018)	Value (Million)	Δ 2018-2017 (%)
Wine, Fr Grape Nesoi & Gr Must w Alc, Nov 2 Liters	344	12
Potatoes, Prepared Etc., No Vinegar Etc., Frozen	308	-7
Food Preparations Nesoi	241	3
Garlic, Fresh or Chilled	173	-40
Pears, Fresh	143	-5
Meat of Bovine Animals, Boneless, Fresh/Chilled/Frozen	110	-22
Meat of Bovine Animals, Boneless, Frozen	107	-3
Cocoa Preparations, Not in Bulk Form, Nesoi	103	28
Olives Prep/Pres Ex Vinegar/Acetic Acid Not Frozen	88	-13
Apples, Fresh	70	-7

Source: Secretariat of Foreign Trade (Secex)

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

TOP COP IMPORTED FROM THE UNITED STATES (2018)	Value (Million)	Δ 2018-2017 (%)
Food Preparations Nesoi	50	-19
Chocolate & Other Cocoa Preps, Not Bulk, Filled	20	-5
Almonds, Fresh or Dried, Shelled	14	4
Meat of Bovine Animals, Boneless, Frozen	10	170
Sauces Etc. Mixed Condiments and Seasonings Nesoi	7	1
Ice Cream and Other Edible Ice, With Cocoa or Not	6	86
Potatoes, Prepared Etc., No Vinegar Etc., Frozen	5	-27
Nuts (Exc Peanuts) And Seeds, Prepared Etc. Nesoi	3	96
Pears, Fresh	3	-3
Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters	3	-37

Source: Secretariat of Foreign Trade (Secex)

D. Products Not Present in Significant Quantities but 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 also another attractive niche, however, the associate costs to comply with the Brazilian legal framework may be a burden to foreign suppliers.

E. Product Not Present Because They Face Significant Barriers

Brazilian legislation requires all food items be approved prior to shipment by the Ministry of Health (MS) or Ministry of Agriculture, Livestock, and Food Supply (MAPA). 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 for assistance to export agricultural products to Brazil:

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

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