

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Brazil

Food Service - Hotel Restaurant Institutional

2018

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Report Highlights:

Brazil's GDP reached R\$6.6 trillion (US\$2 trillion) in 2017. This represented not only an increase of one percent growth, but also a way out of the recession that hit Brazil in 2014. In 2017, consumption of food-away-from-home responded positively and the food service sector, estimated at R\$407 billion (US\$126 billion), expanded four percent in real terms, compared to 2016. Brazilians are still gradually recovering from the crisis and investors are still on hold mode because of the presidential elections in 2018, however unlike other segments of the economy, food responds to various needs and for this reason new-to-market companies and U.S. exporters should view this moment as an opportunity.

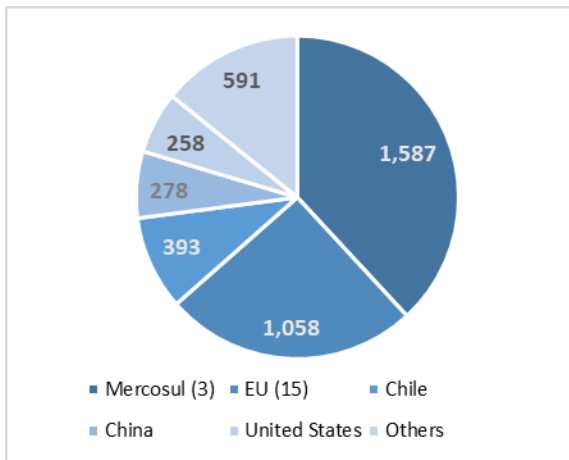
Executive Summary

In 2018, Brazil's GDP growth is expected to be 1.4 percent, a slight increase over 2017. GDP growth is forecast at two percent in 2019. The currency remains volatile and investments are on hold until the presidential elections in October 2018. The ability of the next president to conduct the necessary reforms to put the country back on track are a major concern for economic watchers. Fiscal adjustments and the political scheme will play a key role in the future performance of Brazil.

Imports of Consumer-Oriented Products

In 2017, the United States accounted for eight percent of Brazil's overall agricultural imports, and Brazil's imports of consumer-oriented products from the world reached US\$4.2 billion, a 1.6 percent increase compared to the previous year. Exports of consumer-oriented products from the United States to Brazil rose by 7.6 percent, which helped the United States maintain its market share of six percent. Mercosul countries (Argentina, Uruguay and Paraguay) and Chile benefit from duty-free status, and China is considered a source of inexpensive goods to Brazil, while the United States and Europe compete directly, facing the same level of tariffs and price challenges, and supplying similar products. European companies are very aggressive in the market and take advantage of Brazilian consumer perception of EU-origin goods. Nevertheless, the United States is able to compete on quality and price, and is therefore able to increase market share in the Brazilian market.

Brazil Imports of Consumer-Oriented Products (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 Service Sector

Due to the high level of informality and fragmentation in the Brazilian food service sector, analysts frequently follow sales from the food processing industry to the food service channel to monitor the sector's performance. In 2017, the food service sector purchased R\$165 billion (US\$51 billion) from the domestic processing industry. This result pointed to a four percent growth in real terms compared to 2016. The Brazilian Food Processors Association (ABIA) estimated food service sector revenues at R\$407 billion (US\$126 billion) in 2017.

Quick Facts CY 2017

Top 10 U.S. Consumer-Oriented-Products Imported by Brazil

1. Prepared food	6. Fresh Fruit
2. Dairy Products	7. Non-Alc. Beverages
3. Cocoa and Products	8. Condiments, Sauces
4. Tree Nuts	9. Alcoholic Bev.
5. Processed Vegetables	10. Beef and Products

Source: SECEX

Food Industry Sales by Channels (US\$ Billion)

Food industry Output	198
Food Exports	38
Food Imports	5
Domestic Market	155
Retail	104
Food Service	51

Source: ABIA

Food Service Purchases (US\$ Billion)

Processed Products	51
Perishables Goods	5

Source: ABIA

Food Service Purchases by Segment (US\$ Billion)

1. Restaurants	12
2. Bakeries	8
3. Bars	7
4. Fast-Food Chains	6
5. Snack Bars	5
6. Institutional Caterers (exc. Airline)	4
7. Hotels and Motels	2
8. Airline Catering	1
9. Others	6

Source: ABIA

Exchange Rate 2017: US\$1=RS3.24

Section 1. Market Overview

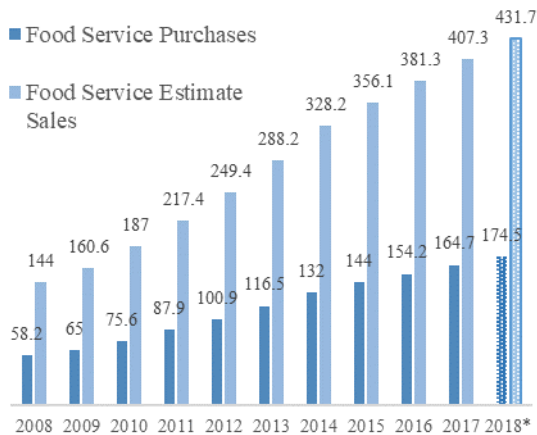
A. Country Overview

Brazil technically overcame recession in 2017, when the country reached GDP growth of one percent and 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. While growth was expected to accelerate in 2018, forecasts for the economy have been adjusted a few times, pointing to a more gradual recovery. Currently, GDP growth is estimated at 1.4 percent for 2018 and 2 percent for 2019. Due to financial volatility and an uncertain political climate, investments are on hold until Brazil elects its next president, which will take place in October. The political scenario presents the most *sui generis* race the country has ever seen, with strong support for the far left and the far right. Although former president Lula is not participating in the presidential race due to his corruption conviction, leftist voters are expected to transfer their votes to whoever he supports. The capacity of the new president to conduct fiscal reforms and moderate the political scenario will definitely impact the economy in years to come. It is fair to say that at the moment, it is more prudent to wait for the elections to forecast scenarios for the Brazilian economy.

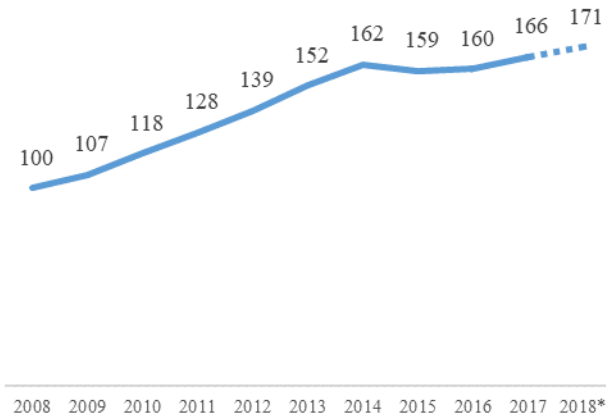
B. Food Service Market

According to the Brazilian Food Processors' Association (ABIA), approximately one 1.3 million food service outlets are distributed throughout the country, with over 95 percent of establishments characterized as small-medium size, family-owned operations. Large and multinational food service chains represents less than five percent of food service companies. The food service sector is marked by informality, therefore analysts frequently refer to sales of the food processing industry directed to this channel to estimate the size of the food service sector. In 2017, the food service sector purchased R\$165 billion (US\$51 billion) domestically from the processing industry, which represents 26 percent of total food industry revenues. In the past ten years, sales from the food processing industry to the food service sector have expanded 13 percent per year. For 2017, ABIA estimates total revenues of the Brazilian food service sector at R\$407 (US\$126 billion). Analysts forecast the food service sector will expand by six percent in 2018 and seven percent in 2019, which translates into two and three percent in real terms for the respective years.

FOOD SERVICE MARKET PERFORMANCE (RS BILION)



FOOD SERVICE PERFORMANCE INDEX (BASELINE INDEX = 100)



C. Key trends and developments in the Food Service Sector
The dema

for food away-from-home is highly affected by sociodemographic and lifestyle variables, which means that to estimate the potential of this market, analysts have to follow not only economic but also consumption patterns. The major trends Brazilian food service analysts follow closely are:

Population Growth: the Brazilian population is expected to keep growing until 2042-43, then begin shrinking. The fertility rate is also expected to decrease from 1.7 children per woman in 2018 to 1.5 in 2030. With an increase in older age groups and smaller size families, a new profile of consumers are likely to affect consumption of food.

Source: Brazilian Food Processors' Association (ABIA)
Note: (*) Forecast

Women in the workforce: as woman carry out the lion’s share of food preparation at home, a larger number of female in the workforce is expected to lead to significant growth of food service activity. In 2017, 56 percent of females in Brazil were in the workforce. These so called “multifunctional” women not only have limited time but value moments away from domestic responsibilities, including food preparation for the family. According to Brazilian Institute of Geography and Statistics (IBGE), in the 1970’s the average time spent to prepare a meal in Brazil was two hours, by 2000, the average time was reduced to 15 minutes.

Single-person households: according to IBGE, approximately 10 million individuals live by themselves, about 14 percent of total households. From 2003-2013 the share of single households increased four percentage points. A recent study conducted by SPC Brazil in all state capitals demonstrated that 41 percent of single households do not consider the possibility of living with another person in the future. One-person households spend more per capita, but also influence the way products and services are being offered, a trend expected to continue in Brazil.

Millennials and Generation Z: considered the most influential and inspired age group at the moment, millennials (1980 to 1995) broke long established consumption patterns, and value experiences over acquisitions. The “Zs” (1996 to 2010) are the first generation truly born in the online world and consider social engagement and authenticity extremely important. Although each group presents its own peculiarities, both are redesigning the relationship between companies and consumers. They are the first generations to regularly watch culinary programs on TV and use YouTube as a tool to learn how to cook. These generations are constantly taking pictures of what they eat to share on social media.

Delivery: on-line food delivery platforms are boosting food delivery options, making it possible for consumers to order different foods from different restaurants with one click. In Brazil, the most used App is iFood, which was launched in 2011 to take orders and route them to restaurants. According to the Brazilian Association for Bars and Restaurants (Abrasel), this App receives 11 million orders per month, covers 100 Brazilian cities and connects more than 15 thousand restaurants. With the new delivery player in the market, UberEats, providing logistical services themselves, iFood launched SpoonRocket early 2018. This “new-delivery system” is expected to rapidly increase sales of restaurants, allowing new players like high-end restaurants to join in.

Considering the current scenario and trends for the HRI sector, ATO Sao Paulo presents the following opportunities and challenges:

ADVANTAGES	CHALLENGES
Although purchasing power has been affected by the economic crisis that hit Brazil from 2014 to 2016, Brazilian consumers spend on average 35 percent of the food budget to eat away from home.	Convenience, reliance and quality, well-being, and sustainability are all current trends. Although consumers are willing to eat healthier and demand more natural ingredients, products that combine all these aspects are often premium priced, which increases the price of food.
The United States is known as a supplier of high quality and consistent food products.	U.S. companies are oriented toward markets that present short turnover, which makes the dialogue between Brazilian importers and U.S. exporters more challenging.
HRI operators offer foreign goods to differentiate themselves from competitors, develop new niche markets and gain awareness among high-end consumers.	Consumers tend to associate European products with luxurious attributes. U.S. companies face stiff competition with European products. There is need to build brand recognition among high-end consumers.
Large HRI companies from the United States, such as Taco Bell, Fleming’s, TGI Friday’s, P.F. Chang, and Olive Garden, are present in the Brazilian market, which opens room for U.S. ingredient suppliers.	Price, logistics, and bureaucratic costs of imported products encourage larger players to identify local suppliers.
Brazilian HRI importers are open to products that help improve efficiency, such as pre-prepared items.	Importers tend to buy small quantities to test the market. U.S. companies are usually not willing to sell smaller volumes.

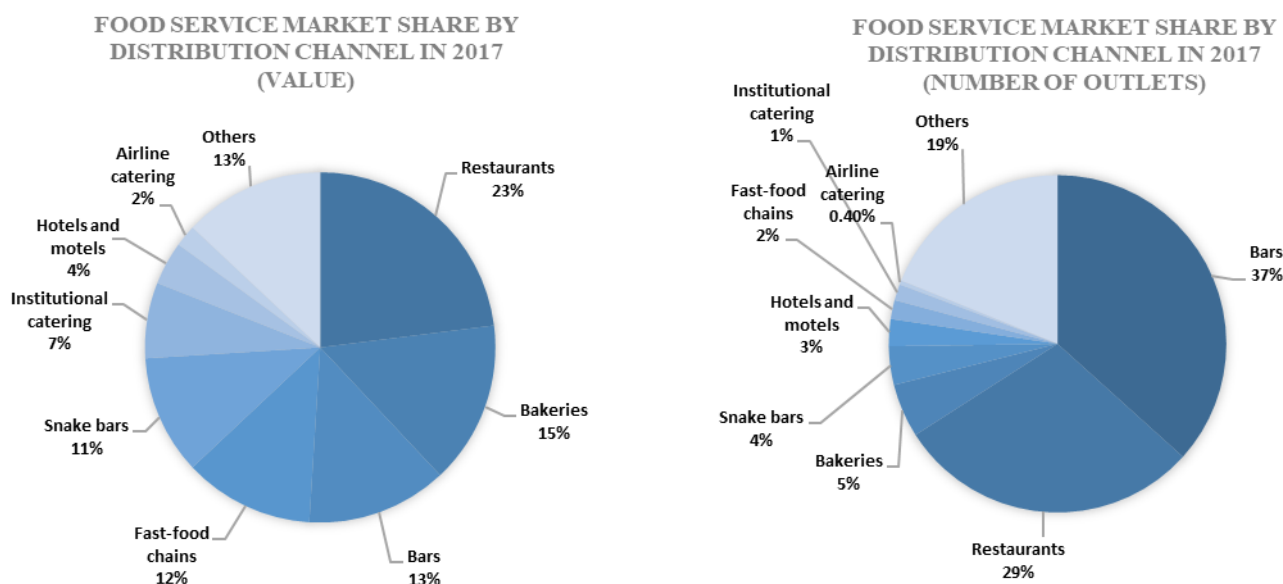
Section 2. Road Map for Market Entry

A. Market Entry

The U.S. Agricultural Trade Office (ATO), which is also located in Sao Paulo, should be considered as a primary source of information and market guidance as the ATO covers the entire territory of Brazil and maintains direct contact with major players in order to promote market entry. U.S. companies can also test market through marketing activities and market intelligence services, which are free of charge. State Regional Trade Groups (SRTGs) and Trade Associations are in constant contact with the ATO and are also valuable partners when approaching the market. To consult regulations related to food and beverage products imposed by the Brazilian government please refer to [FAIRS Report BR17010](#) and [Exporter Guide BR17013](#).

B. Market Structure

In 2017, the HRI sector purchased R\$165 billion (US\$51 billion) in processed products and R\$16 billion (US\$5 billion) in perishable goods, totaling R\$181 billion (US\$56 billion) in domestic transactions. To reach such a fragmented clientele local food processors divide buyers into nine major groups: restaurants, bakeries, bars, fast-food chain restaurants, snack bars, institutional catering, hotels and motels, airline catering and others.

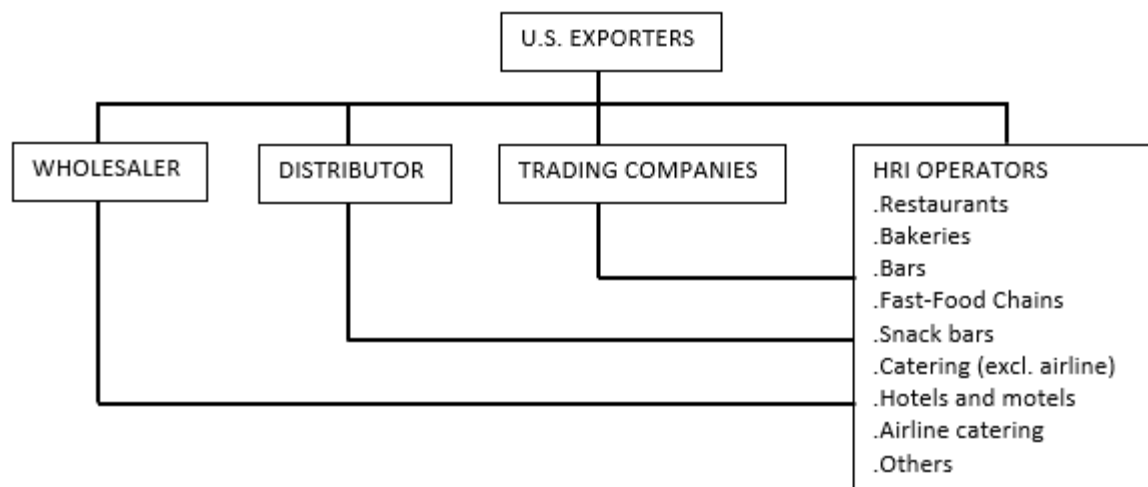


Source: Brazilian Food Processors Association (ABIA)

Although large processing companies have the necessary logistic structure to supply these small-medium size companies throughout Brazil, wholesalers seem to be the most viable option for many suppliers trying to reach the overwhelming majority of small and medium-sized food service operators. Within all eight segments there are opportunities to identify buyers willing to import directly, however, it is fair to say that restaurants, bars, bakeries, snack bars and hotels/motels tend to purchase imported products solely through wholesalers and distributors while fast-food chains and catering (all types) are more likely to reach volumes that justify a direct import. Brazilian companies are considered conservative when it comes to importing. Aversion to risk becomes even more accentuated during challenging economic scenarios, such as the current time.

Volume is the determining factor for a direct import operation. If the HRI buyer cannot be cost efficient to justify logistics and bureaucracy, wholesalers, distributors, and trading companies become important players. In Brazil, there are very few distributors of imported foods specialized in the HRI sector, the companies that provide such services are the ones that manage imports or process products for large fast-food chains, such as McDonald's, Burger King, and Taco Bell. In general, distributors and trading companies deal with retailers and food service customers if the imported product is branded. If the product is an ingredient, the local distributor and trading company tend to target the food industry and food service. Recently, the market share of the various food service segments has been quite stable, which has helped suppliers understand the needs of each group and aggregate services.

HRI SECTOR DISTRIBUTION FLOW FOR IMPORTED FOODS



Source: ATO Sao Paulo

C. Company Profiles

The lists provided below provide a snapshot of the industry profile. This only reflects a partial picture, as full data is not available.

Major Hotel Operators (2016)	# rooms	# hotels
Accor (www.accorhotels.com.br)	35,468	194
Atlantica (www.atlanticahotels.com.br)	15,764	90
BHG (www.bhg.net)	9,300	47
Nobile (www.nobilehoteis.com.br)	7,934	34
Nacional Inn (www.nacional-inn.com.br)	6,101	54
Intercity (www.intercityhotel.com.br)	5,772	33
Allia hotels (www.alliahotels.com.br)	5,083	43
Transamerica (www.transamerica.com.br)	4,547	24
Blue Tree (www.bluetree.com.br)	4,450	23
Hplus (www.hplus.com.br)	4,411	14

Source: JLL's Hotels & Hospitality Group

Major Restaurant Chains (2016/17)	Sales (US\$)	# outlets
McDonald's (www.arco dorados.com)	US\$1496.5 million	929 (2017)
Burger King (www.burgerking.com.br)	US\$550 million	697 (2017)
Subway (www.subway.com/pt-BR)	US\$617 million	2,222 (2017)
Habib's (www.habibs.com.br)	US\$509 million	312 (2016)
Bob's (www.bobs.com.br)	US\$478 million	1,064 (2016)
Giraffa's (www.giraffas.com.br)	US\$207 million	410 (2017)
Outback Steakhouse (www.outback.com.br)	US\$241	80 (2016)
Nosso Bar (www.redenossobar.com.br)	US\$173	1,404 (2016)
Pizza Hut (www.pizzahut.com.br)	US\$149	98 (2016)
Spoletto (www.spoletto.com.br)	US\$136	353 (2017)

Source: Euromonitor International for 2016 data; trade data, company data for 2017.

Major Caterers (2017)	Sales (US\$)	# meals served/day
Sodexo (www.sodexo.com.br)	N/A	1,600,000
GRSA (www.grsa.com.br)	N/A	1,500,000
Sapore (www.sapore.com.br)	N/A	1,100,000

Lemospassos (www.lemospassos.com.br)	N/A	200,000
Risotolandia (www.risotolandia.com.br)	N/A	160,000
LC (www.lcrestaurantes.com.br)	N/A	125,000
Prato Feito (pratofeitorefeicoes.com.br)	N/A	110,000
De Nadai/Convida (www.denadai.com.br)	N/A	90,000
Exal (www.exal.com.br)	N/A	85,000

Source: Brazilian Association of Institutional Caterers (ABERC)

Section 3. Competition

Brazil imported US\$9.6 billion in total agricultural products from the world in 2017. The United States accounted for eight percent of total imports at US\$763.8 million. Imports of intermediate products and consumer-oriented products accounted for 68 percent of the total, US\$261 million and US\$258 million, respectively. Although there is no public information referring to imports or purchases of imported goods by the food service channel, ATO contacts estimate 25-30 percent of total consumer-oriented products imported are directed to the food service sector. Since mid-2014, the Brazilian Real has depreciated against the dollar, making imports not only more expensive but also more difficult to manage. Despite the uncertain climate, importers were able to maintain inflows of consumer-oriented products above expected levels. The Brazilian government forecast for the exchange by the end of 2018 is set at US\$1 = R\$3.70, however election uncertainty resulted in exchange rate fluctuation beyond four-to-one. Importers estimate purchases will be steady in 2018 and expect a more vigorous rebound after 2019.

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. Products imported from Mercosul members (Argentina, Paraguay and Uruguay) and Chile enjoy duty-free status. U.S. and European products are generally positioned within the premium price category. This is mainly due to entry costs, the local tariff system, and the exchange rate itself. As Brazilians have closer ties with Europe, they are also more inclined to perceive European products as superior when it comes to intrinsic characteristics, which gives some advantage to European companies. Nevertheless when it comes to quality, standards and product consistency, U.S. companies are capable and competitive. In general, a product imported from the United States or Europe is 80 to 90 percent more expensive than its FOB price once it clears Brazilian customs.

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

	2012	%	2013	%	2014	%	2015	%	2016	%	2017	%
World	4,18	10	4,48	10	4,53	10	3,93	10	4,09	10	4,16	10
	5	0	2	0	9	0	5	0	7	0	5	0
Mercosul (3)	1,79		1,97		1,79		1,43		1,69	41	1,58	39
	2	43	6	44	7	40	9	37	5		7	
EU (15)			1,03		1,17		1,03		958	23	1,05	25
	969	23	0	23	6	26	6	26			8	
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	591	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 4. Best Product Prospect Categories

- Food service unit packages, one-year shelf life or more is desired, especially those produced by companies that own well-known brands.
- Functional packages and level of innovation are considered important attributes.
- Products that optimize processes in the kitchen such as dehydrated, lyophilized, pre-cooked and prepared mixes are in high demand.
- Natural, organic and healthier products are top niches among more affluent consumers (although the organic segment is an attractive niche, costs to comply with the Brazilian legal framework may make sales of small quantities unfeasible).
- Products and ingredients for consumers with food allergies and intolerances are growing segments.

- Wheat, chocolate, sauces, condiments, fresh and dry fruits, fish products are all categories that present good sales potential due to demand of high-end food service players.
- Brazilians are demanding more premium and high-end alcoholic beverages. Wines, distilled spirits, and beer are categories with good sales potential.
- Due to recent market opening, U.S. beef demand is expected to grow. The United States can offer different cuts, consistency and high quality, which is appreciated by high-end food service outlets.

Section 5. Key Contacts and Further Information

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

Agricultural Trade Office (ATO)

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04709-110 São Paulo, SP

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