

Required Report: Required - Public Distribution

Date: September 30,2019

Report Number: BR2019-0019

Report Name: Food Service - Hotel Restaurant Institutional

Country: Brazil

Post: Sao Paulo ATO

Report Category: Food Service - Hotel Restaurant Institutional

Prepared By: FABIANA FONSECA

Approved By: NICOLAS RUBIO

Report Highlights:

The Brazilian economy continues to grow at a modest pace. In 2018 the Brazilian food service industry registered a 5 percent increase compared to the previous year, reaching R\$428.5 billion (US\$117 billion). According to food service operators, Brazil has a solid food service industry which is becoming more dynamic. The performance of online delivery platforms and changes on nutritional habits will likely change the profile of the industry. In the near future, new trade agreements may also play a key role. After twenty years of negotiations, Mercosul and Brazil concluded a trade deal to be ratified. The current government has also demonstrated willingness to negotiate a trade agreement with the United States.

Executive Summary

Brazil's gross domestic product increased by 1.1 percent in 2018, reaching R\$6.6 trillion (US\$1.8 trillion). The Brazilian Central Bank indicates growth for 2019 at 0.87 percent and 2.1 percent for 2020. The low-growth scenario of the last two years was highly affected by the slow pace of consumers' spending and cautious investors. Since President Bolsonaro took office in January 2019, structural reforms are expected to take place to boost economic activity and restore public finances.

Imports of Consumer-Oriented Products

With a two-digit fluctuation in the exchange rate in 2018, importers became more cautious as business climate became harder to predict. Brazil's imports of consumer-oriented food products stood at US\$4 billion, a decrease of 3.5 percent compared to the previous year. Despite the duty-free tariff advantage by Mercosul countries, their sales to Brazil decreased by 6.5 percent. European Union's sales to Brazil expanded by 6.2 percent. Exports from the United States to Brazil shrank more than expected, 12.8 percent drop. Products imported from the United States and Europe fit in the premium price category, therefore more susceptible to market turbulences. According to ATO contacts, E.U. distributors are very aggressive and respond quickly to market demands, which translates into market share gains. In 2018, the rank of main partners Brazil imported products from remained unchanged: Mercosul, European Union, Chile, China and the United States.

Quick Facts CY 2018

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

1. Prepared Foods	6. Tree Nuts
2. Chocolate & Cocoa	7. Beef Products
3. Eggs & Products	8. Processed vegetables
4. Dairy Products	9. Non-Alc Bev.
5. Distilled Spirits	10. Condiments & Sauces

Source: BICO

Food Industry Sales by Channels (US\$ Billion)

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

Source: ABIA

Food Service Purchases (US\$ Billion)

Processed Products	47
Perishables Goods	5

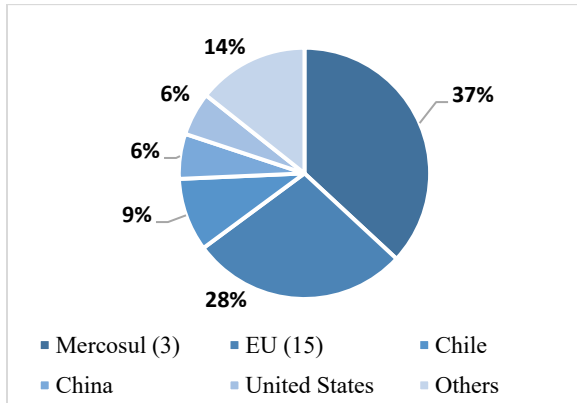
Source: ABIA

Food Service Purchases by Segment (US\$ Billion)

1. Restaurants	11
2. Bakeries	7
3. Bars	6
4. Fast-Food Chains	6
5. Snack Bars	5
6. Institutional Caterers (exc. Airline)	3
7. Hotels and Motels	2
8. Airline Catering	1
9. Others	6

Source: ABIA

Share of Consumer-Oriented Products Imports (2018)



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

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 2018, the Brazilian Food Processors Association (ABIA) estimated the food processing industry at R\$656 billion (US\$179.23 billion). Twenty-six percent of overall sales were directed food service, which led to an estimated food service market size of R\$428.5 billion (US\$117 billion). This result pointed to a 5 percent growth compared to 2017.

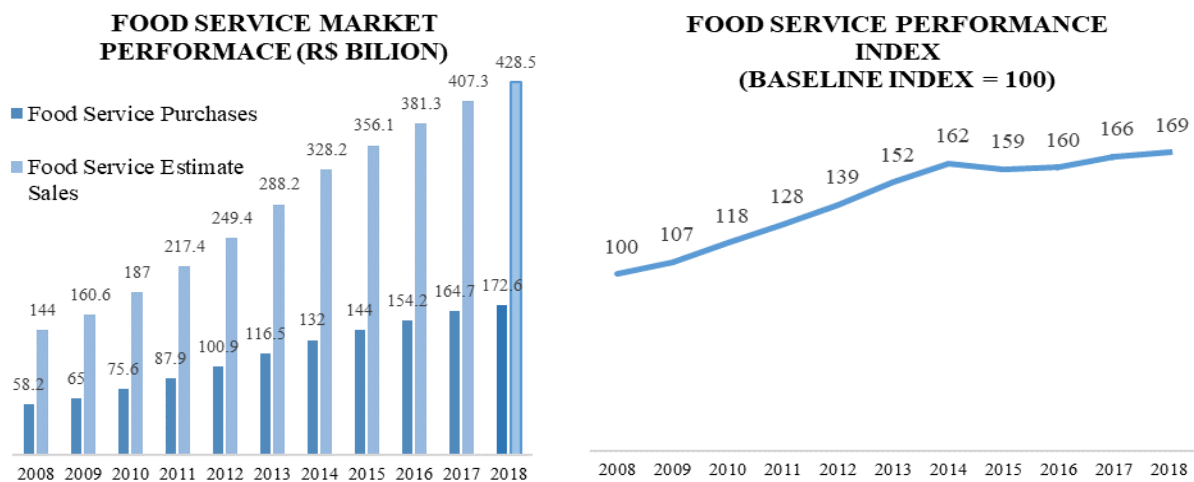
Section 1. Market Overview

A. Country Overview

With the end of the recession, Brazil's gross domestic product (GDP) was expected to grow by 1.4 percent in 2018 and 2 percent in 2019. By the end of 2018, results were more modest than estimated; GDP growth increased 1.1 percent, reaching R\$6.6 (US\$1.8 trillion), while the Brazilian Central Bank indicates growth for 2019 at 0.87 percent and 2.1 percent for 2020. According to economists, the low-growth scenario of the last two years was highly affected by the slow pace of consumers' spending, in one side, and cautious investors highly averse to risk, on the other. Brazil is still in an environment without much space to make a turnaround through monetary and fiscal measures - inflation is low, the Brazilian currency remains weak, and government spending is at a critical level. Although domestic and external uncertainties reduced business confidence, investors were optimistic with the election of President Jair Bolsonaro in October 2018. Since the new administration took office in January 2019, financial analysts pointed out that recovery would come through major structural reforms, where the pension reform would open a new cycle, boosting economic activity and restoring public finances. The pension reform will likely be approved by the end of 2019 and is expected to save around US\$250 billion over ten years, but Brazil will likely need other pro-growth policies. The debate now is how the government will stimulate demand and design policies in favor of supply, such as tax reform, privatization, concessions, and reduce bureaucracy.

B. Food Service Market

According to the Brazilian Food Processors' Association (ABIA), approximately 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 represent 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 2018, the food service sector purchased R\$172.6 billion (US\$47.2 billion) domestically from the processing industry, while food service market size was estimated at R\$428.5 billion (US\$117 billion). For 2019, ABIA projects the food service market to increase by 3.5 percent compared to 2018.



Source: Brazilian Food Processors Association (ABIA)

C. Key trends and developments in the Food Service Sector

The demand for food away-from-home is highly affected by socio-demographic 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.

Single-person Households: According to Brazilian Institute of Geography and Statistics (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 Brasil 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 continue to boost food delivery. According to the Bars and Restaurants Association (Abrasel), online food delivery amounted to R\$11 billion (US\$3 billion) in 2018. In Brazil, the most used App is iFood, which was launched in 2011, but now competes with high-stature competitors, Uber Eats, and Rappi. The “new-delivery system” is expected to rapidly increase sales of restaurants. This business model is growing fast at 20 percent per year.

Environment Consciousness: Brazilian consumers are becoming more engaged with environmental causes. Customers are paying more attention on how companies are impacting the environment, which has pushed food service companies to drastically decrease the use of non-biodegradable materials used to pack and serve meals.

Healthier Eating: Consumers are more inclined to purchase products with no artificial ingredients. Doctors and TV programs about food impact on health are trusted sources and highly influence how people eat. Clean label, whole products, gluten free, organic products, sustainable products, vegan are all attributes that fit into this trend. The limitation to a healthier eating habit relies on costs of products that fell in this category.

Considering the current scenario and trends for the HRI sector, the U.S. Agricultural Trade Office (ATO) presents the following opportunities and challenges:

ADVANTAGES	CHALLENGES
Although purchasing power has been affected by the 2014-2016 economic crisis, 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 niches 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 US, 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.

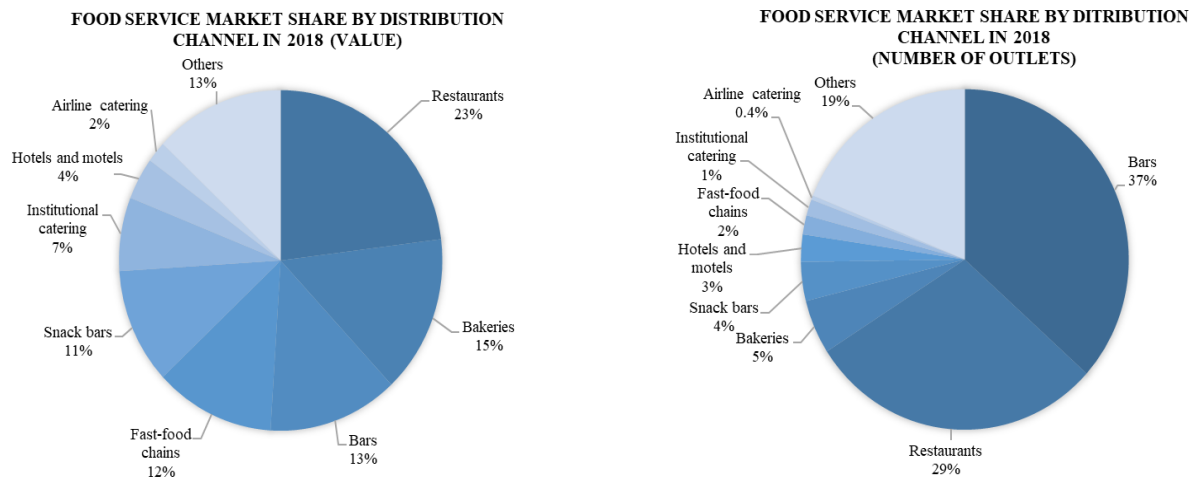
Section 2. Road Map for Market Entry

A. Market Entry

The ATO 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 BR18031](#) and [Exporter Guide BR18032](#).

B. Market Structure

In 2018, the HRI sector purchased R\$172.6 billion (US\$47.2 billion) in processed products and R\$16.9 billion (US\$4.6 billion) in perishable goods, totaling R\$189.5 billion (US\$51.8 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.

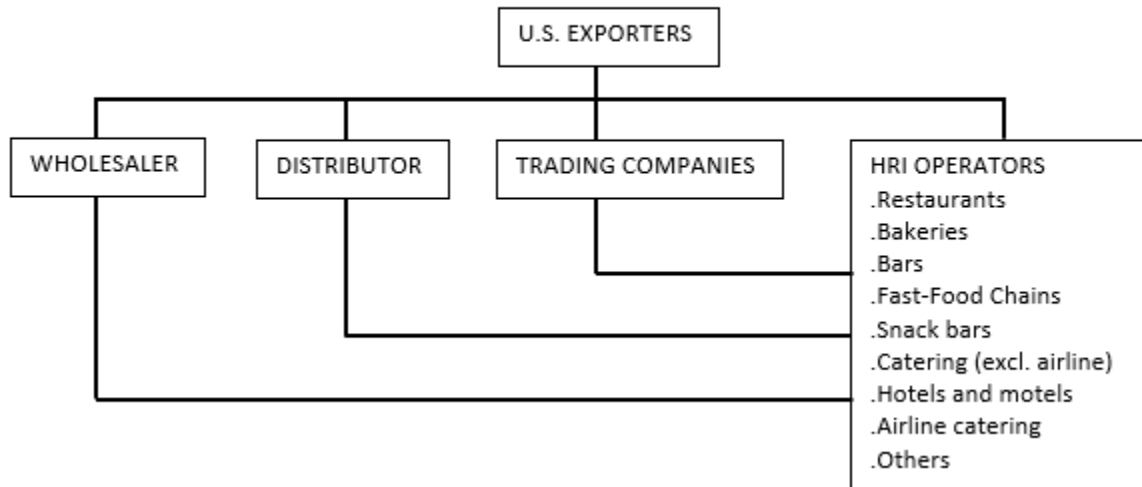


Source: Brazilian Food Processors Association (ABIA)

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.

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 processed 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 (2018)	# rooms	# hotels
Accor (www.accorhotels.com.br)	49,847	300
Choice (www.choicehotels.com)	10,656	67
Nobile (www.nobilehoteis.com.br)	6,993	31
Wyndham (www.wyndhamclubbrasil.com.br)	6,142	32
Nacional Inn (www.nacional-inn.com.br)	5,986	53
Intercity (www.intercityhotel.com.br)	5,743	35
Hplus (www.hplus.com.br)	4,559	16
Transamérica (www.transamerica.com.br)	4,482	24
Blue Tree (www.bluetree.com.br)	4,298	23
Windsor (www.windsor.com)	4,150	16

Source: JLL's Hotels & Hospitality Group

Major Restaurant Chains (2017/18)	Sales (US\$)	# outlets
McDonald's (www.arcosdorados.com)	1,661	943
Subway (www.subway.com/pt-BR)	1,052	2,094
Burger King (www.burgerking.com.br)	792	793
Habib's (www.habibs.com.br)	520	318
Bob's (www.bobs.com.br)	370	565
Giraffa's (www.giraffas.com.br)	319	394
Domino's Pizza (www.dominus.com.br)	130	243
Spoletto (www.spoletto.com.br)	129	356
Chiquinho Sorvetes (www.chiquinho.com.br)	96	453
Casa do Pao de Queijo (www.casadopaodequeijo.com.br)	80	254

Source: Euromonitor International

Major Caterers (2018)	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 (www.pratofeitorefeicoes.com.br)	N/A	110,000
Vivo Sabor (www.denadai.com.br)	N/A	100,00
Exal (www.exal.com.br)	N/A	85,000

Source: Brazilian Association of Institutional Caterers (ABERC)

Section 3. Competition

Agricultural goods imported from Mercosul members (Argentina, Paraguay and Uruguay) and Chile enjoy duty-free status. Imported products (from other non-Mercosul countries) 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 well positioned. In general, a processed product imported from the United States, Europe and other non-Mercosul countries are 80 to 90 percent more expensive than its FOB price once it clears Brazilian customs.

Brazil's imports of consumer-oriented food products stood at US\$4 billion, a decrease of 3.5 percent compared to the previous year. With a two-digit oscillation in the exchange rate during the year, importers became more cautious than usual as business climate became harder to predict. At a 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. U.S. exporters should bear in mind that imported products fit in the premium price category, therefore more susceptible to market turbulence, slowing sales.

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.

In July 2018, Mercosul and EU concluded a trade agreement that started to be negotiated in 2000. The deal is expected to remove tariffs on 91 percent of EU products, while the remaining 9 percent will enjoy preferential treatment. The agreement still need ratification from all EU countries, and due to the environmental debate Brazil is in, it might take longer than both sides can estimate. On the other side, the United States-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. Under Bolsonaro administration, a free trade deal with the United States would successfully conclude his market-oriented goals. In the following years the competitive scenario for imported goods may face major changes.

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.
- Specialty beef. Although the United States has market access for beef, in 2019 governments of the United States and Brazil started to discuss changes on the Export Certificate.
- Brazil is not self-sufficient in potatoes. Companies depend on imports to supply the market.

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:

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: atosapaulo@fas.usda.gov

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: agbrasil@fas.usda.gov

Attachments:

No Attachments