Dining in Brazil

Brandy Pass
Alberto Martinez
Amanda Pringle
Sean Swenson
Cultural Environment

- Very Diverse
- 5th most populated country, 207.4 million
- Official language is Portuguese
- Majority of population is Roman Catholic, 65%
- Ethnicity - White 47.7%, Multiracial 43.1%, Black 7.6%, Asian 1.1%, Indigenous 0.4%
Hofstede Comparison

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance</td>
<td>69</td>
<td>40</td>
</tr>
<tr>
<td>Individualism</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>Masculinity</td>
<td>49</td>
<td>62</td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>76</td>
<td>46</td>
</tr>
<tr>
<td>Long Term Orientation</td>
<td>44</td>
<td>26</td>
</tr>
<tr>
<td>Indulgence</td>
<td>59</td>
<td>68</td>
</tr>
</tbody>
</table>
Food Culture

- The diverse culture is reflected in the food.
- Staple foods in the Brazilian diet include meat, bread, rice, beans, cheese, and eggs.
- Common drinks include lemonade, milk, fruit juices, shakes, soft drinks, coffee, and herbal tea called Mate (MAH-tay).
- Brazilians value mealtime with family and friends.

Feijoada (Bean Stew with Beef and Pork)  
Bife à cavalo com fritas (Steak with Egg and Fries)
Social Environment

- More than half of the population is considered Middle class.
- Yet, poverty and income inequality levels remain high.
- Brazilian Economic Classification (Brazilian Criteria) - A, B1, B2, C1, C2, D, E.
- Social status is commonly measured by one's power to acquire possessions and their education level.

<table>
<thead>
<tr>
<th>Social Economic Stratum</th>
<th>Average Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>20,888</td>
</tr>
<tr>
<td>B1</td>
<td>9,254</td>
</tr>
<tr>
<td>B2</td>
<td>4,852</td>
</tr>
<tr>
<td>C1</td>
<td>2,705</td>
</tr>
<tr>
<td>C2</td>
<td>1,625</td>
</tr>
<tr>
<td>D-E</td>
<td>768</td>
</tr>
</tbody>
</table>
## Social Class Distribution - 2016

<table>
<thead>
<tr>
<th>SEL</th>
<th>Brazil</th>
<th>Southeast</th>
<th>South</th>
<th>Northeast</th>
<th>Midwest</th>
<th>North</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2.9%</td>
<td>3.6%</td>
<td>3.4%</td>
<td>1.4%</td>
<td>4.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>B1</td>
<td>5.0%</td>
<td>6.2%</td>
<td>6.2%</td>
<td>2.7%</td>
<td>5.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>B2</td>
<td>17.3%</td>
<td>21.0%</td>
<td>20.6%</td>
<td>10.5%</td>
<td>18.7%</td>
<td>11.7%</td>
</tr>
<tr>
<td>C1</td>
<td>22.2%</td>
<td>25.3%</td>
<td>28.0%</td>
<td>15.1%</td>
<td>23.0%</td>
<td>17.9%</td>
</tr>
<tr>
<td>C2</td>
<td>25.6%</td>
<td>25.4%</td>
<td>24.8%</td>
<td>25.6%</td>
<td>27.5%</td>
<td>26.3%</td>
</tr>
<tr>
<td>D-E</td>
<td>27.0%</td>
<td>18.5%</td>
<td>17.0%</td>
<td>44.7%</td>
<td>21.3%</td>
<td>38.9%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Legal Environment

- Very high crime rates, usually related to the illegal drug trade, police brutality, and corruption

- Corruption in the legal and political systems is considered a serious problem

- Labor and Human Rights issues plague the business environment
Legal Environment - Role of Federal Judiciary

- Civil Law System
- Divides cases into several jurisdictions including labor, electoral, military, constitutional, and non-constitutional
- Operates at state and federal levels, similar to the United States
Legal Environment - Starting a Business

- Timely and costly to open a business
- Complex and bureaucratic labor legislation

**Business Setup Procedures**

<table>
<thead>
<tr>
<th>Setting Up a Company</th>
<th>Brazil</th>
<th>Latin America &amp; Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures (number)</td>
<td>11.00</td>
<td>8.30</td>
</tr>
<tr>
<td>Time (days)</td>
<td>79.50</td>
<td>31.60</td>
</tr>
</tbody>
</table>

*Source: Doing Business.*
Legal Environment - Starting a Business

Rankings on Doing Business topics - Brazil

<table>
<thead>
<tr>
<th>Rank</th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Minority Investors</th>
<th>Paying Taxes</th>
<th>Trading across Borders</th>
<th>Enforcing Contracts</th>
<th>Resolving Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>190</td>
<td>176</td>
<td>170</td>
<td>45</td>
<td>131</td>
<td>105</td>
<td>43</td>
<td>184</td>
<td>139</td>
<td>47</td>
<td>80</td>
</tr>
</tbody>
</table>
São Paulo v. Rio de Janeiro
Money laundering increased in the late 1990s and so did:

- drug trafficking
- terrorism and its financing
- weapons smuggling and trafficking
- extortion through kidnapping

On the eve of the 2014 World Cup, massive demonstrations protesting against corruption erupted around the country. Following that, the National Congress passed the new Anti-Corruption Law in record time.

On 29 January 2014, the new Anti-Corruption Law came into force
Political Environment

Petrobras Scandal

“Operation Car Wash”

MAJOR PLAYERS IN THE BRAZILIAN PETROBRAS SCANDAL

RULING COALITION

Dilma Rousseff
President of Brazil (PT)

Michel Temer
Vice President of Brazil (PMDB)

Renan Calheiros
President of the Senate (PMDB)

OPPOSITION

Aécio Neves
Congressman and 2014 presidential candidate (PSDB)

Cassio Cunha Lima
Congressman (PSDB)

Aloysio Nunes
Senator (PSDB)

DISSIDENT PMDB

Eduardo Cunha
President of the lower house of Congress (PMDB)

Note: PMDB = Party of the Brazilian Democratic Movement; PSDB = Brazilian Social Democracy Party; PT = Workers’ Party

Copyright Stratfor 2016 www.stratfor.com
POLITICAL ENVIRONMENT: Petrobras Scandal

- Also known as “Operation Car Wash”
- Between 2004-2014
- Involved the energy firm Petrobras, the country's largest company and one of the largest corporations in the world.
- Players: Petrobras leaders, executives at major construction companies, and Brazil’s politicians
- Included somewhere upward of $5.3 billion
- How it worked:
  - Construction execs overcharged Petrobras in contract bids.
  - Construction execs pocketed money, as well as paid off partners inside Petrobras with bribes. They also bribed politicians to elect Petrobras executives since it is owned by the state.
Q: Do you think corruption in Brazil has increased over the past year?
ECONOMIC ENVIRONMENT: Economic System

• 8th largest economy in the world
• Currently recovering/experiencing the country’s worst recession in history
• Prior government’s spending pushed debt to 70% of GDP
• Economy shrank (GDP contracted) 3.6% in 2016
• Unemployment is 12.6%, 13 million Brazilians
• Stock market is up 60% in the past 12 months
• Economic reforms proposed by the new President Michel Temer aim to lower government spending and reduce foreign barriers.
ECONOMIC ENVIRONMENT:

Reasons for Recession

• Brazil used to do the majority of its exports to China, but now China needs less imports from Brazil.
• Prices of Brazil’s commodities such as oil, sugar, coffee, and metals have gone down and lost value which has reduced export revenue and investments.
• Public debt is denominated in foreign currency but this debt is now harder to pay off due to the weakened real.
• The primary reason is due to the Petrobras corruption scandal.
ECONOMIC ENVIRONMENT:

Main Industries

• Manufacturing
  • 3rd largest in the Americas
  • Accounts for \( \frac{1}{3} \) of its GDP
• Automobile Industry
• Oil and Gas
  • 2nd largest ethanol producer in the world
  • 2nd largest identified oil reserves in South America
  • Petrobras controls 90% of the country’s natural gas
• Iron and Steel
ECONOMIC ENVIRONMENT:
Main Industries

- **Machinery and Equipment**
  - Accounts for 7% of the nation’s Industrial Production Index
  - 90% of the agricultural machines are purchased domestically
  - Wheel tractors are one of the top exports

- **Agriculture**
  - Fundamental aspect of their economy
  - Major products: tobacco, fruit, cotton, soy, cassava, coffee, sugarcane, corn, beans, wheat, and rice

- **Textile**
  - Valued at $63 billion, workforce is the 2nd largest in the nation
  - 5th largest producer and consumer of cotton, 2nd largest of denim
MONETARY ENVIRONMENT:  
Currency System

- Official Currency: Brazilian Real R$  
- Exchange Rate: $1 US Dollar = 3.30 Brazilian Real  
- Central Bank: Central Bank of Brazil  
- Banknote features “effigy of the republic” and Brazilian fauna
Brazilian Trade

At the 2017 Davos World Economic Forum, Brazilian Finance Minister Henrique Meirelles argued that Brazil needs to open its economy to fully benefit from the advantages of globalization.

**Major Exports**
- Soybeans
- Raw Sugar
- Crude Oil
- Poultry Meat
- Crude Petroleum

**Major Imports**
- Crude Oil
- Auto Parts
- Drugs and Medicine
- Liquid Oils
- Automotives

**Major Trade Partners**
1. [China](https://www国旗.png)
2. [United States](https://www国旗.png)
3. [Argentina](https://www国旗.png)
4. [China](https://www国旗.png)
5. [Japan](https://www国旗.png)

**Brazil also has trade agreements with Suriname, Argentina, Uruguay, Guyana, Mexico, as well as WTO members.**

**Exports/Imports in Billions per Region**
- North
- Northeast
- Midwest
- South
- Southeast

**Exports/Imports With Trading Blocks**
- ALIPAC
- Mercosur
- EU
- NAFTA
- ASEAN
- BRICS

**Number of Free Trade Agreements**
- 4
- 20
- 34

In 2016, Brazil had a record trade surplus in 2016 ($47.7 billion). Imports fell 20% due to slower domestic demand as the economy continues to struggle, and exports fell 3%.

Sources:
- Foreign Trade Information System
- The Observatory of Economic Complexity
- World’s Top Experts
- Ministério da Indústria, Comércio Exterior e Serviços
- Edited by Julia Decarapo, Brazil Institute
TRADE ENVIRONMENT:
Trade Balance
TRADE ENVIRONMENT:
Main Trading Partners (Exports)

Total: $182B

China 19%
- Japan 2.5%
- India 1.7%
- South Korea 1.2%
- Saudi Arabia 1%
- United Arab Emirates 1.2%
- Turkey 0.1%
- Vietnam 0.1%

United States 13%
- Mexico 2.1%
- Canada 1.5%
- Germany 2.7%
- United Kingdom 1%
- Spain 1%

Argentina 7.4%
- Chile 2.2%
- Paraguay
- Peru
- Uruguay

Other:
- Egypt
- South Africa
- Netherlands
- Belgium
- France
- Russia
- Italy
- Brazil
TRADE ENVIRONMENT:
Main Exports

Total: $182B

Vegetable Products: 16%
Mineral Products: 15%
Foodstuffs: 13%

Transportation Machine Animal Products
11% 8.2% 7.6%

Metals Paper Goods Plastics and Rubbers
7.3% 4.1% 2.8% 1.9%

Chemical Product Wood Animal Hides
5.0% 1.2% 1.2%

Textiles Stone and...
TRADE ENVIRONMENT:
Main Trading Partners (Import)

- China: 17%
- United States: 18%
- Argentina: 6.7%
- Germany: 6.7%
- France: 2.7%
- Italy: 1.9%
- South Korea: 4.0%
- Japan: 2.6%
- Brazil: 2.6%
- Thailand: 1.5%
- Malaysia: 1.4%
- China: 1.3%
- Vietnam: 1.2%
- United Kingdom: 1.0%
- Belgium: 1.0%
- Austria: 1.0%
- Sweden: 1.0%
- Chile: 1.0%
- Canada: 1.0%
- Mexico: 1.0%
- Nigeria: 1.0%
- Colombia: 1.0%

Total: $136B
TRADE ENVIRONMENT:
Main Import

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machines</td>
<td>27%</td>
</tr>
<tr>
<td>Chemical...</td>
<td>21%</td>
</tr>
<tr>
<td>Metals</td>
<td>5.3%</td>
</tr>
<tr>
<td>Instruments</td>
<td>3.6%</td>
</tr>
<tr>
<td>Textiles</td>
<td>3%</td>
</tr>
<tr>
<td>Vegetable Products</td>
<td>3%</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>3.7%</td>
</tr>
<tr>
<td>Animal Products</td>
<td>1.6%</td>
</tr>
<tr>
<td>Paper Goods</td>
<td>1.6%</td>
</tr>
<tr>
<td>Stone and Glass</td>
<td>0%</td>
</tr>
</tbody>
</table>

Total: $136B
Member of the Common Market of the South (Mercosur)

- Members include: Argentina, Paraguay, Uruguay, Venezuela, and Brazil
- Formed to guard against exposure to the volatility of foreign markets.
- All five membership companies must agree on new policy changes which make it very difficult to make reforms.
Global market size of the restaurant industry in select countries in 2016 (in billion U.S. dollars)
Size and Growth of the Industry

Market value of the consumer foodservice industry in Brazil from 2011 to 2016 (in billion Brazilian reals)
<table>
<thead>
<tr>
<th>Category</th>
<th>Total Establishments</th>
<th>Total Sales $M</th>
<th>Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family restaurants</td>
<td>14,424</td>
<td>9,363</td>
<td>612,246</td>
</tr>
<tr>
<td>Pizza restaurants</td>
<td>24,644</td>
<td>5,002</td>
<td>423,194</td>
</tr>
<tr>
<td>Seafood restaurants</td>
<td>3,708</td>
<td>4,154</td>
<td>165,257</td>
</tr>
</tbody>
</table>
# Industry Establishments, Sales & Employment Trends

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishments</td>
<td>150,915</td>
<td>154,137</td>
<td>157,871</td>
<td>161,632</td>
<td>166,090</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Sales ($Millions)</td>
<td>39,217</td>
<td>41,632</td>
<td>44,327</td>
<td>47,485</td>
<td>51,087</td>
<td>6.2%</td>
<td>6.5%</td>
<td>7.1%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Employment</td>
<td>2,978,694</td>
<td>3,042,306</td>
<td>3,116,051</td>
<td>3,190,244</td>
<td>3,278,236</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Sales (RealsM)</td>
<td>104,317</td>
<td>110,742</td>
<td>117,910</td>
<td>126,311</td>
<td>135,893</td>
<td>6.2%</td>
<td>6.5%</td>
<td>7.1%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>
Trends in the Industry

- Brazil experiencing one of the worst economic recessions in decades.
- Consumers are price sensitive. Spending less
- People who would normally eat out with friends or family are staying home inviting people over instead and eating home
- North American full-service restaurants led growth in 2016, with brands such as Outback Steakhouse expanding and increasing their sales in the country. North American cuisine is very popular in Brazil, with the most successful Outback outlet in the world being located in São Paulo.
- Online ordering/delivery are becoming increasingly more popular. Consumers are opting for these to save on parking, tips etc.
- 10% Service Charge, “Voluntary Obligation” normal in many restaurants.
2015 CONSUMER FOODSERVICE GROWTH IN BRAZIL BY CATEGORY: INDEPENDENTS VS CHAINS

- Street Stalls/Kiosks
- Self-Service Cafeterias
- Fast Food
- Full-Service Restaurants
- Cafés/Bars
- 100% Home Delivery/Takeaway
- Total Consumer Foodservice

Y-o-y % Growth

- Independent
- Chained
- Total
Competitive Environment

Food options include:

- Street kiosks, fast food, dining and fine dining

Competitors Include:

- Mcdonald's, Burger King, Outback Steakhouse, Pizza Hut
What have they done well?

- Leading brand in chained full service restaurants recording value share of 26%
- Attractive pricing on group size appetizers, “happy hour” and new menu options that focus on younger generations.
- Differentiation through pricing and meal sizes encouraging groups to come back.
McDonald’s

Menu Items differ from those in the U.S.

- Healthy options
- “Saver Menu”
Chart 1 SWOT Analysis: Brazil

Strengths
- Recorded the highest R&D spending regionally in 2016
- Generally open policies towards FDI exist in Brazil

Weaknesses
- One of the most difficult places to do business in Latin America
- Recorded the highest time taken to pay taxes globally in 2017

Opportunities
- Recovering economic activity could help reduce unemployment rates
- Declining wages per hour and manufacturing should continue to profit businesses

Threats
- Skill shortage could continue to weigh on Brazil's competitiveness
- Weakening of Brazil's fiscal position could further deteriorate the country's economic freedom ranking

Source: Euromonitor International
Starting a new business remains cumbersome and bureaucratic

Lack of Government Integrity and Judicial Effectiveness

Brazil could potentially be a big market but as of now it's too early to penetrate due to its corruption