

**CURRENT ASPECTS OF FOOD RETAILING WITHIN BRAZIL AND AT INTERNATIONAL  
LEVEL**    UPDATED – 03/14/2000

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**Abstract**

This article, which analyzes some aspects of the food retailing segment within Brazil and throughout the world, is divided into two major topics: the first deals with a number of issues relating to the largest food retailing chains in the world, while the second presents certain recent features of food retailing in Brazil.

The restructuring of the international food retailing sector that is still in progress may lead to a growing increase in concentration, raising the possibility that four or five large chains that already have significant operations in a series of countries will account for the lion's share of revenues and markets, expanding in an integrated way beyond the countries in which they are present.

Since the large international chains already have operations within the Brazilian market, it may be presumed that their strategic plans are contemplating the same trend towards concentration in the domestic market, most notably through various corporate operations such as mergers, incorporations, associations and acquisitions. It is also clear that this segment will undergo a series of competitive adjustments, exerting inexorable competitive pressure that will affect all the remaining segments of food retailing.

## **Introduction**

At the international level, food retailing is segmented into different kinds of store. Some of these formats are not found in Brazil, where supermarkets and hypermarkets are the principal form of outlet.

Supermarkets are characterized by the predominant sale of fresh foods or groceries as well as household cleaning and personal hygiene products with a high turnover and low margin, that maintain competitive prices and work with the concept of self-service with at least two check-outs and a selling area greater than 350 m<sup>2</sup>.

Hypermarkets are characterized by the sale of food, household cleaning and personal hygiene products, household appliances, apparel and home products, that have a high turnover and low margin, and also work with the concept of self-service and a selling area generally in excess of 5,000 m<sup>2</sup>.

Other important types of retail outlets are the minimarkets, grocery stores and street fairs. Minimarkets sell food and basic necessities with limited range and variety, provide higher margins and self-service, and are generally located in areas with high levels of customer transit, consisting of small outlets with a maximum area of 250 m<sup>2</sup>.

The hyper- and supermarket formats show the greatest similarity to concepts used by the large international chains, in which the major strategic changes at global level are concentrated, albeit with effects on all the other segments of food retailing.

This paper concentrates on some of the aspects of food retailing worldwide and within Brazil, and is divided into two main topics:

- The first deals with a series of issues related to the principal international food retailing chains;
- The second presents some recent aspects of food retailing in Brazil.

## **Considerations Regarding the Principal International Retailing Chains**

**The situation in 1998: changes in the global ranking of food retailers**

In 1998, the 10 largest global food retailers achieved global revenues of some US\$ 466.7 billion, with the world leader, the U.S. group, Wal-Mart, alone representing 30% of this total. Table 1 provides a profile of the principal global chains in the food retailing segment. As may be seen, 1998 was characterized by changes in the ranking of some of the large chains, reflecting the ongoing process of mergers between them, and resulting in the constitution of megachains, a significant current feature, for example, of the food retailing market in the United States.

Table 1

**Ranking by Revenue of the 10 Largest International Food Retailing Chains, 1998**

<b>RANK 1998</b>	<b>RANK 1997</b>	<b>COMPANY</b>	<b>COUNTRY</b>	<b>1998 SALES (US\$ BILLION)</b>	<b>NO. OF STORES</b>
1	1	Wal-Mart <sup>a</sup>	USA	139.3	3,673
2	2	Metro	Germany	49.8	2,085
3	12	Kroger	USA	43.0	3,381
4	3	Rewe Zentrale	Germany	36.0	11,230
5	22	Albertson's	USA	35.9	2,569
6	7	Promodès	France	34.5	5,978
7	13	Ahold	Netherlands	34.3	3,732
8	6	Intermarché	France	33.0	8,436
9	9	Edeka	Germany	31.1	11,183
10	11	Tesco	Britain	29.8	852

Source: *Abras (Aug 1999, p. 103)*.

<sup>a</sup> Includes sales in *supercenters*, as well as the German supermarket chain, Spar.

Kroger rose to the number three position in 1998, mainly as a result of its acquisition of the Fred Meyer and Ralph chains, among others. In turn, Albertson's rose to fifth place after it acquired the third largest U.S. chain, American Stores, which operates a number of well-known supermarket chains, such as Jewel Osco, Acme Markets and

Lucky. Tables 2 and 3, below, present important information for the Albertson and American Stores chains that illustrate the combined strength of the two companies.

Table 2  
**Financial Data for Albertson's**

ITEM	1998	1997	CHANGE 1998/97 (%)
Sales (US\$ million)	16,000	14,700	+ 8.8
Net income (US\$ million)	567	517	+ 9.7
Net margin (%)	3.5	3.5	-
Earnings per share	2.31 cents	2.09 cents	+10.5
Number of stores	-	-	+ 0.3

Source: *Abras (Aug 1999, p. 102)*.

Table 3  
**Financial Data for American Stores**

ITEM	1998	1997	CHANGE 1998/97 (%)
Sales (US\$ million)	19,900	19,100	+ 4.2
Net income (US\$ million)	234	281	- 16.7
Net margin (%)	1.2%	1.5%	
Earnings per share	0.85 cent	1.02 cent	- 16.7
Number of stores	-	-	+ 1.5

Source: *Abras (Aug 1999, p. 102)*.

In the same way, by acquiring Stop-Shop, Pathmark and Giant Food among other companies, the Dutch chain Ahold moved up to seventh place. Another important event was the operations carried out by the US group, Safeway, which acquired the Dominick (within Illinois) and Carr Gottstein (within Alaska) chains to reach overall revenues of around US\$ 25 billion, even if it is not yet among the 10 largest global food retailers. This operation has already conferred financial benefits on the Safeway chain, as may be observed by its results for the first half of 1999, when compared to the same period of 1998 (Table 4).

Table 4

**Financial Data for Safeway**

ITEM	1H99	1H98	CHANGE 1999/98 (%)
Sales (US\$ million)	12,500	11,000	+ 13.6
Net income (US\$ million)	442	358	+ 23.5
Net margin (%)	3.5	3.2	-
Earnings per share	86 cents	71 cents	+ 21.1
Number of stores	-	-	+ 1.5

Source: *Abras (Oct 1999, p. 260).*

- **The situation in 1999 - Carrefour and Promodès join forces**

Wal-Mart, the global leader in the food retailing segment, recently announced (November 9, 1999) the financial results presented in Table 5, which bear witness to its strong performance during 1999. Revenues for the year to October amounted to some US\$ 113.62 billion, representing an increase of 17.32% relative to the same period of 1998. During the same period of 1999, net income was approximately US\$ 3.66 billion, with an increase of 27.5% relative to the same period of 1998, for which the corresponding figure was US\$ 2.87 billion.

Table 5  
**Financial Data for Wal-Mart**

	SALES FOR THE QUARTER ENDED 10/31/99 (US\$ MILLION) (A)	SALES FOR THE QUARTER ENDED 10/31/99 (US\$ MILLION) (A)	CHANGE 10/31/99 VS 10/31/98 (%) (A)/(B)*100	SALES FOR THE NINE MONTHS ENDED 10/31/99 (US\$ MILLION) (A)	SALES FOR THE NINE MONTHS ENDED 10/31/99 (US\$ MILLION) (A)	CHANGE 1999/98 (%) (C)/(D)*100

Wal-Mart	26,460	23,244	13.84	77,000	67,214	14.56
Sam's Club	6,011	5,589	7.55	17,747	16,316	8.77
McLane	2,051	1,715	19.59	5,989	4,805	24.64
International	5,910	2,961	99.59	12,883	8,514	51.32
Group Total	40,432	33,509	20.66	113,619	96,849	17.32

Source: *Wal-Mart (1999)*.

It should be emphasized that the results reported by Wal-Mart for 10/31/99 already include the operating benefits resulting from its most recent acquisition, the retail chain Asda (the third largest in Britain). On October 31, 1999, Wal-Mart owned in the U.S. alone, 1,803 stores, 682 supercenters and 456 Sam's Clubs. Internationally, it operates in the following countries: Argentina (13), Brazil (14), Canada (163), Germany (95), Mexico (444), Puerto Rico (15) and Britain (229). In addition, it has joint-ventures in China (6) and South Korea (5), with some 815,000 employees in the United States, and a further 220,000 in the other countries in which it operates.

On August 30, 1999, the two groups Carrefour and Promodès made the joint announcement that they were forming an association in the form of a public share exchange offer on the shares and other securities of Promodès, with 6 Carrefour shares offered per Promodès share. On October 1, 1999, the operation was approved by Carrefour's stockholders. In this way, during 1999 alone, we may observe a significant change in the ranking of the 10 largest international food retailing chains, with the new group formed by Carrefour and Promodès taking the first place in the European ranking, and the second in the global ranking, with global 1999 revenues estimated at US\$ 62 billion [Abrás (Dec. 1999, p. 100)]. The new group, which is present in 26 countries and headquartered in France, includes some 9,000 stores, of which 680 hypermarkets, 2,600 supermarkets and 3,200 *maxidiscompte* stores, with 240,000 employees, of which 110,000 are in France alone.

### The Growing Internationalization of the Food Retailing Segment

Current and prospective international scenarios for the food retailing sector point towards a series of mergers, incorporations, associations and acquisitions at both local and global level, reflecting a phenomenon that has arisen from the process of economic internationalization itself, as may be seen, for example, in France, where there has been a high level of merger and acquisition activity (Table 6).

**Table 6**  
**Mergers and Acquisitions in the French Food Retailing Sector: 1997-98**

<b>MERGERS AND ACQUISITIONS</b>	<b>FOOD RETAILING CHAINS</b>	<b>MARKET SHARE 1997</b>	<b>MARKET SHARE 1998</b>
1	Leclerc	17.3	22.6
	Système U	5.8	
2	Carrefour	11.4	14.5
	Stoc	2.6	
3	Auchan	7.7	13.1
	Mamouth-Atac	3.4	
4	Géant	5.5	7.2
	Casino	1.5	
	Monoprix	0.4	

*Source: Abras (May 1999, p. 17)*

After acquiring the German chains, Wertkauf and Interspar, Wal-Mart, the global leader in the food retailing sector, has expressed its intention of entering other European markets, a strategy that already concerns even the French retailers. It is nevertheless interesting to note that if and when Wal-Mart enters the French market, it will encounter a highly competitive market, taking into account significant differences in culture and consumption habits among other factors. Indeed, the supercenter is considered to be an American adaptation of the French hypermarket. Table 7 presents some of the differences between French hypermarkets and Wal-Mart supercenters:

Table 7  
**Differences between French Hypermarkets and Wal-Mart Supercenters**

<b>Item</b>	<b>Wal-Mart Supercenters</b>	<b>French Hypermarkets</b>
Selling Area (m <sup>2</sup> )	10,000-20,000	10,000-16,000
Employees	220-550	200-500
Number of Items	80,000	70,000
Food Sales (% of total)	30	57
Strong Points	<ul style="list-style-type: none"> <li>- Sport, children's goods, audio-visual and toys/games</li> <li>- Excellent logistics</li> </ul>	<ul style="list-style-type: none"> <li>- Food, mainly in the fruit and vegetable sections</li> <li>- "Seductive" presentation of products</li> </ul>

Source: *Abras (May 1999, p. 217).*

Present in Germany since 1997, Wal-Mart has been causing intense pricing competition, as well as an improvement in the quality of service offered by companies in the food retailing segment, having contributed, on account of its aggressive selling strategy, to an average reduction in prices of up to 30% by its direct competitors, the German chains Metro and Rewe, at the same time as it has incurred substantial losses itself.

The Carrefour-Promodès group intends, for its part, to enter the Italian market through the proposed acquisition in 2000 of stockholding control of Gruppo GS, which operates 406 stores in Italy.

The scenario outlined for 1998-2003 in the U.S. food retailing segment reflects expectations of faster growth than was observed during the period 1993-98, as shown in Table 8.

Table 8  
**Prospective Outlook for the U.S. Food Retailing Segment: 1998-2003**

<b>ITEM</b>	<b>1993</b>	<b>1998</b>	<b>ANNUAL GROWTH RATE (1993-98) (%)</b>	<b>2003<sup>a</sup></b>	<b>ANNUAL GROWTH RATE (1998-2003) (%)</b>

Total segment sales (US\$ billion)	118	156	5.7	216	6.7
Total sales (US\$ billion)					
Of the 5 largest companies	105	144	6.5	200	6.8
Of the other companies	13	12	-0.9	16	5.9
<i>Market share (%)</i>					
Of the 5 largest companies	89	92	-	93	-
Of the other Companies	11	8	-	7	-

Sources: *Discount Store News*, *Company Filings* and Donaldson, Lufkin & Jenrette (*DLJ estimates*).

<sup>a</sup> Estimate.

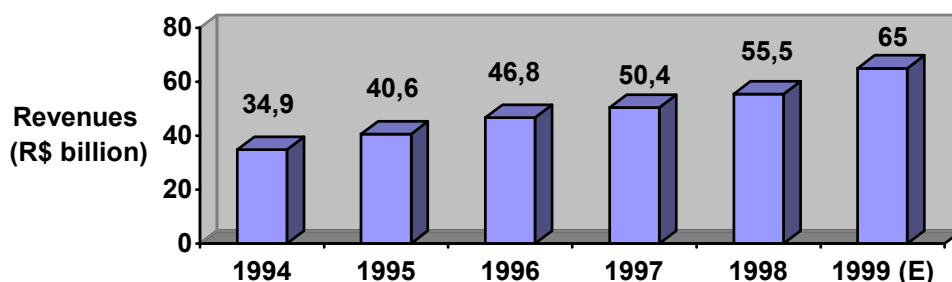
### **Considerations on Food Retailing in Brazil**

The food retailing segment in Brazil has been undergoing a significant restructuring and consolidation process, characterized, most notably, by the entry of new global retail chains as well as sizeable corporate operations such as incorporations and associations between retailers.

### **Profile of the Brazilian Food Retailing Segment**

In 1998, according to the Brazilian Association of Supermarkets (Abras), aggregate revenues of the food retailing segment of some US\$ 47.7 billion (R\$ 55.5 billion) represented approximately 6.1% of GDP. During the period 1994-98, nominal revenues measured in Reais grew by around 59% (equivalent to 27.7% in US dollars), as is shown in Chart 1. According to preliminary estimates by Abras, the nominal aggregate revenues of the segment for 1999 should amount to R\$ 65 billion, representing growth of some 17.1% relative to 1998.

**Chart 1 - Nominal Revenues of Supermarket and Hypermarket Segment, Brazil - 1994-99**



Source: Abras.

<sup>a</sup>Estimate.

In 1999, according to the survey by the research institute, ACNielsen, sharp growth of some 19.6% relative to 1998 was observed in the number of self-service type stores (supermarkets and hypermarkets), with the number of such outlets reaching 57,080. Over the same period, the number of traditional retail outlets (mainly warehouses and grocery stores) grew by only 1.8% to 262,348 outlets, with this poor performance associated with the transformation of many such outlets to the self-service variety, “as a way of remaining competitive, and an attempt to present a modern image to their customers” [Abras (Nov. 1999, pp. 101-102)].

In this way, while self-service type stores represented only 17.9% of the segment in 1999, they increased their share of the food retailing market to 86.3% of sales (in 1998 the figure was 84.4%). Table 9 presents a profile of the 10 principal national food retailing chains, ranked by gross 1998 revenues.

**Table 9**

**Classification of the 10 Largest National Food Retailers in 1998 by Gross Revenues**

RANK 1998	RANK 1997	COMPANIES	GROSS REVENUES 1998 (R\$ BILLION)	NUMBER OF CHECK-OUTS	SELLING AREA (M <sup>2</sup> )	NUMBER OF STORES	NUMBER OF EMPLOYEES
1	1	Carrefour	7.00	5,087	674,374	82	28,195
2	2	Cia. Brasileira de Distribuição	5.47	4,095	475,381	285	28,398
3	3	Bompreço S.A.	2.41	2,013	237,094	91	15,016
4	4	Casas Sendas	1.91	1,591	162,639	60	12,257
5	9	Sonae Distribuidora	1.54	1,512	159,490	49	10,630
6	6	Nacional	0.90	1,104	98,129	84	7,367
7	5	Paes Mendonça	0.83	850	119,403	26	4,393
8		Wal-Mart	0.78	437	98,017	9	3,943
9	8	Cia. Zaffari	0.66	575	65,959	19	6,550
10	11	Sé S.A.	0.58	533	48,346	28	3,582

Source: Abras (May 1999, pp. 32-33).

A survey carried out by Abras in 1998 of a total sample of 688 companies within the super- and hypermarket segments, including 3,902 stores, 42,473 check-outs and some 4.71 million m<sup>2</sup> of selling areas, found that:

- the 300 largest food retailing companies were responsible for some 68.6% of the gross revenues of the segment, or approximately R\$ 38.1 billion;
- the 20 largest food retailers were responsible for some 46% of the gross revenues of the segment, or approximately R\$ 25.5 billion;
- the 5 largest food retailing companies were responsible for some 33% of the gross revenues of the segment, or approximately R\$ 18.3 billion.

For 1999, the ranking of the 5 largest food retailing chains in Brazil by gross revenues should show some changes in position, as may be observed in Table 10.

**Table 10**  
**Projected Classification by Gross Revenue of the Five Largest Food Retailing Chains in Brazil, 1999**

RANK 1999	RANK 1998	COMPANIES	GROSS REVENUES 1999 (R\$ BILLION)
1	1	Carrefour	7.5 <sup>a</sup>
2	2	Cia. Brasileira de Distribuição	7.0 <sup>b</sup>
3	5	Sonae	3.2 <sup>c</sup>

		Distribuidora	
4	3	Bompreço S.A.	2.8 <sup>d</sup>
5	4	Casas Sendas	2.3 <sup>e</sup>

Sources:

<sup>a</sup> *Gazeta Mercantil* (11/29/99).

<sup>b</sup> *O Globo* (12/22/99, p. 40).

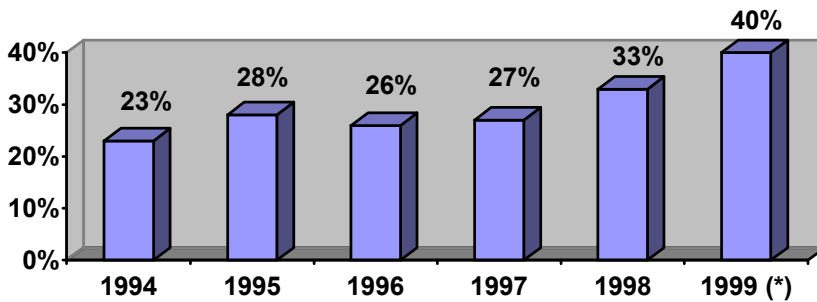
<sup>c</sup> *Gazeta Mercantil* (12/15/99).

<sup>d</sup> *BNDES* (AO2, Depan5 and Geset4).

<sup>e</sup> *Gazeta Mercantil* (12/17/99) and *Gazeta do Rio* (10/10/99, p. 1; 12/23/99, p. 1; and 12/27/99, p. 3).

The Brazilian food retailing segment is undergoing an accelerated process of concentration. In October 1999, the five largest chains represented 40% of gross revenues for the segment, against 23% in 1994. [Abrás (Dec. 1999, p. 16)]. Chart 2 shows the evolution of the degree of concentration of the Brazilian food retailing sector since 1994. The trend points towards further growth in the degree of concentration, even if this is still lower than in other European and Latin American countries.

**Chart 2 - Share of Segment Revenues of 5 Largest Brazilian Food Retailers**



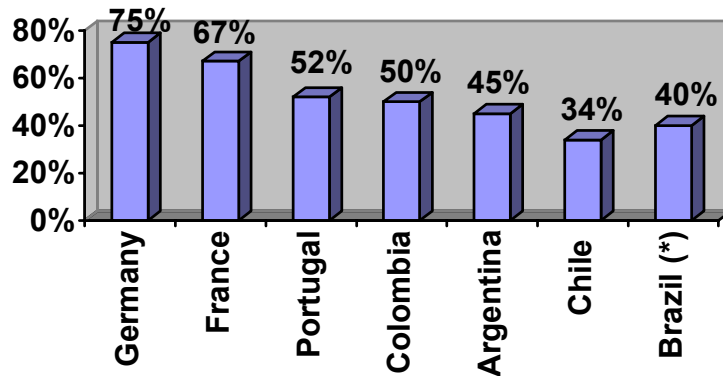
Source: *Abrás* (Dec. 1999, p. 16).

<sup>a</sup> Accumulated data to October.

The process of concentration should intensify to the highest degree in the major urban centers, such as São Paulo and Rio de Janeiro, where a small number of self-service type outlets (most of which are hypermarkets) will dominate the market. This should not prevent the survival of the small retail chains that operate locally, such as

convenience stores that have a high level of technology and a suitable service policy for their customer bases. The increase in concentration within the segment should begin, on the other hand, to encourage the small- and medium-sized retailers to form consortia, on the lines of “Rede Economia” in Rio de Janeiro, thereby allowing the entry of new companies to this market. Chart 3 below illustrates the degree of concentration in the food retail segment at international level.

**Chart 3 - Share of Segment Revenues of 5 Largest Food Retailing Chains, by Country**



Sources: *Abras* (May 1999, p. 29, and Dec. 1999, p. 16)

<sup>a</sup> Accumulated data to October 1999.

The number of mergers, incorporations, associations and acquisitions within the super- and hypermarket segment at international level has increased, with the association between the French groups, Carrefour and Promodès, the most recent example of this. Within Brazil, there is an observed trend towards concentration within the segment, with the incorporation by the large chains, most notably Carrefour and Companhia Brasileira de Distribuição (Pão de Açúcar group), of outlets, or of outright control of small- and medium-sized retailers. In 1999, for example, Carrefour acquired HiperManaus, Planaltão, Roncetti, Mineirão, Rainha, Continente and Dallas.

In addition, Brazil has witnessed the entry of international retail chains such as Wal-Mart, Royal Ahold (via Bompreço), Sonae, Jerônimo Martins and Casino (via Pão de Açúcar), all of whom have been attracted by the size of the domestic consumer market, among other reasons. There has been recent speculation regarding the entry into Brazil of the German retail chain, Metro AG.

### **Competition in the Brazilian Food Retailing Segment**

In recent years, the larger companies in the super- and hypermarket section of the food retailing segment have shown a tendency to strengthen their positions at the expense of small- and medium-sized chains. These latter are, in general, being absorbed by or sold to larger and better capitalized groups. In this way, increased competition has been noted, a process that is expected to favor the large food retailing chains that benefit from economies of scale in service provision, as well as from the implementation of measures that aim to reduce costs and secure gains in efficiency and productivity.

As a result of the concentration of supply among a small number of large retail chains, we may also expect a reversal in the practice of negotiations between the super- and hypermarket segment and the industrial sectors that are characterized as the primary suppliers, with the latter likely to suffer a significant loss of bargaining power in supply negotiations. In addition, the entry of international retail chains into Brazil also raises the possibility that retail purchases will be quoted on a global basis, presupposing the acquisition of products in the international market. The opportunities for opening new export channels with the entry of international retailers appears, in the same way, to be an inexorable trend, considering that the global activity of an international retailer could allow it to introduce Brazilian products to the countries where it is present.

A good example is the exports of meat and tropical fruit to Europe. From January 2000 onwards, the North Eastern companies Maísa (the largest fruit exporter in Brazil), Nolem (2<sup>nd</sup> largest exporter) and Cajazeira will begin to supply melons to the Carrefour chain, from which they will receive the “Carrefour Guarantee of Origin” stamp, valid for its stores in 21 countries, in addition to its 67 stores in Brazil [*Gazeta Mercantil* (12/20/99, p. B-20)].

In order to obtain this stamp of approval, melon producers must undergo rigorous tests, ranging from the planting of seeds to environmental measures.

Maísa’s exports are concentrated in the European market (around 70% of fruit exports), with half going to Britain (Germany is the 2<sup>nd</sup> largest destination). With the “Carrefour Quality Guarantee”, the company hopes to win share in new markets such as Spain, in addition to increasing melon exports during 2000 by around 15%, (In 1999, its exports amounted to US\$ 10 million), a third of which will be due to its partnership with Carrefour [*Gazeta Mercantil* (12/20/99, p. B-20)].

Another important feature is the supply within the super- and hypermarket segment of products that had formerly been the exclusive area of large chains in the department store segment, such as consumer durables (brown and white goods), apparel and footwear, CDs and books. Between 1994-99, the number of items sold by hypermarkets rose from 16,000 to 65,000, representing a 306.3% increase [Abrás (Dec. 1999, p. 20)].

Hypermarkets have also recently begun to install gasoline pumps in parking areas adjacent to their stores. In November 1999, for example, Carrefour inaugurated a new hypermarket in Nova Iguaçu (Rio de Janeiro state), with an adjacent gasoline station bearing the Carrefour brand (selling products distributed by the Ipiranga group). The Pão de Açúcar chain is also analyzing the installation of gasoline posts with its own brand from 2000 onwards.

In any case, competition in the food retailing segment will be permanently overshadowed by one of the phenomena of modern times: “*gadgets*: substitute objects with an enjoyment value” [*Dora Revista de Psicanálise e Cultura* (1998, pp. 36-37)], reflecting an unbridled consumerism based on utilitarian principles (that associate happiness with immediate pleasure) propagated by John Stuart Mill [Ramos (1999)], for which novelty is an attribute with an intrinsic value for consumers, who are keen to know and manipulate “the new”.

It is also worth highlighting the major importance of the competition that is already apparent, even if only in a marginal way, between traditional and electronic retailers (*e-commerce*), with the latter gradually advancing and taking over sections of the market that were previously the exclusive preserve of the former. Electronic sales appear initially to be limited to globally and currently traded goods, i.e. *commodities*, and do not yet extend to products that require a personal and individual assessment, as is the case with fashion and perishable goods.

In this way, we may infer that electronic commerce represents a potential source of competition for the super- and hypermarket segment, which mainly trade non-durable consumer commodities. It should nevertheless be emphasized that the large domestic food retailing chains have recognized the importance of this form of electronic distribution, and are already using it as a complementary commercial channel through which they are offering their products in a segmented and targeted way.

### **Distribution Logistics**

In the field of logistics in recent years a significant portion of the new investments realized by companies in the super- and hypermarket segment have been directed towards the construction of large-scale distribution centers, some of which have been financed by the BNDES. The resulting benefits in terms of reductions in operating

costs have shown themselves to be significant due to the optimization offered in supply logistics.

In this way, with the centralization of supply in a distribution center, the processing of ordering and supply to stores (super- and hypermarkets) now constitutes a variable in the planning, operation and control of the retail chain itself, whose gains in efficiency, productivity and agility are reducing the risk represented by the uncertainty of deliveries made directly by suppliers to a geographically dispersed chain of outlets, a factor that complicates the planning of delivery routes. In addition, retail chains have increasingly been negotiating larger purchase volumes from their suppliers, exerting a bargaining power that may be reflected, as a final consequence, in lower retail prices.

An important resulting benefit that should also be mentioned is the flexibility in physical capacity acquired by the outlets, that no longer need to keep high levels of inventory on their own premises. In this way, the retail chains have gained greater autonomy in planning the area and layout of their stores, allowing them, among other things, to enter areas that were previously considered unfeasible.

This constitutes, in reality, the adding of value to the concept of the supply chain, in which logistics is used to optimize the whole of the productive chain, that in the case of retailing ranges from distribution centers to programmed deliveries to stores for subsequent sale.

In this light, various important investments have been made, such as the recent ones by the Pão de Açúcar chain (of around R\$ 7 million) in the construction and installation of the first distribution center located outside the state of São Paulo, located on Avenida Brasil (Rio de Janeiro) with a built-up area of 27,000 m<sup>2</sup>, that includes, among other characteristics, 9 refrigerated rooms, one of which is specifically intended for storing salt cod (*bacalhau*), the consumption of which is higher in the state of Rio de Janeiro than in the state of São Paulo [*O Globo* (11/22/99, p. 40)]. In the same way, Carrefour is investing some US\$ 35 million in building in

two phases (the first of an area of 45,000 m<sup>2</sup>, and the second with a further 35,000 m<sup>2</sup>, bringing the total built-up area to 80,000 m<sup>2</sup>) of its most important distribution center in the world, to be located on the Anhangüera highway (state of São Paulo), next to Pão de Açúcar's warehouse (the latter with a much larger built-up area of 202,000 m<sup>2</sup>) [*Gazeta Mercantil* (09/26/99), p. A-1].

To an increasing degree, corporate logistics is becoming a vitally important instrument for competitiveness, productivity and cost reduction. According to the Brazilian Transportation and Logistics Association (ABML), "a well-organized supply chain can reduce a company's costs by up to 25%" [*Gazeta Mercantil* (12/21/99, p. C-2)].

With increased concentration and competition, the large food retailing chains are beginning to adopt a more aggressive merchandising strategy, betting on growing customer loyalty and convenience, and thus increasing the number of own brand launches. In addition, the use of own brands contributes to the potential reduction in prices practiced by suppliers (manufacturers), as well as to the negotiation of better terms of purchasing. In the same way, the supplier (manufacturer) of own brand products can also benefit, through a greater guarantee of demand for output that allows it to establish a more economic and stable scale of production, and even to sign longer-term supply contracts, resulting in the strengthening of links in the production chain for food retailing.

This point of view provides a glimpse of a future with a greater degree of integration of the supply chain that benefits very small or small producers or local suppliers that, having been previously qualified by the large retail chains on the basis of given attributes or estimated potential, will be able to use BNDES funding to increase the scale of their production, improve their product quality, generate new jobs and develop their own brands.

According to the Brazilian Association of Proprietary Brands (Abraimapro), an organization of representatives from retailing and industry, between 1997-98 the own

brand segment grew by 88%, and is expected to grow by 20-30% per year over the next five years.

According to a survey carried out by ACNielsen [*Gazeta Mercantil* (12/16/99)] in 1999, in the 10 leading domestic food retailing chains, own brand grew by 84% relative to 1998. Having said this, and despite the observed growth, the survey also states that the own brand segment accounts for only 2% of the Brazilian food retailing market, a figure well below that of European countries such as Finland and Germany, where they represent around 75% of the market, or even the United States, where they account for 25% of the market.

In December 1999, for example, Carrefour, which already offers some 420 own brand products on its shelves, announced growth of 134% in this segment relative to 1998, which represents 2% of its overall revenues [*Gazeta Mercantil* (12/16/99)]. The Casas Sendas chain, which offers 362 own brand products (household linen, food, household cleaning and personal hygiene products, children's apparel and beverages), has been concentrating its merchandising efforts in this segment, which represents 10% of its overall revenues, and hopes to launch a further 100 new own brand products by August 2000 [*Jornal do Brasil* (12/15/99)].

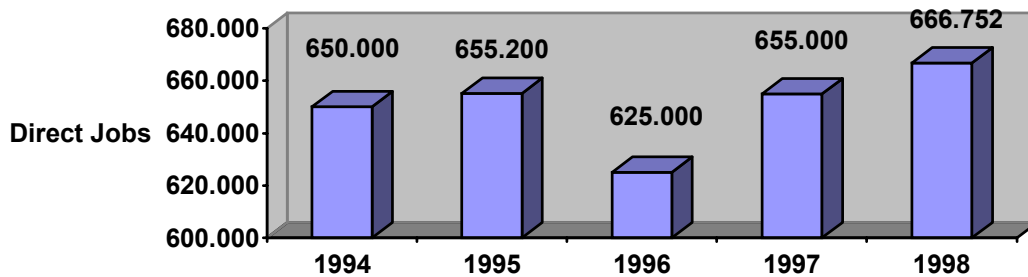
At the same time, the low level of penetration of own brands in Brazil shows their enormous growth potential, which will largely depend on the levels of reliability and quality perceived by consumers. According to Dieese (1997, p. 16), by the end of 2002, the use of own brands by super- and hypermarkets that represented 2% of the total number of products placed on shelves, should reach 10%.

This suggests, therefore, a specific mode of operation for the BNDES that targets the development of local suppliers of super- and hypermarket chains, most notably very small and small companies, through onlending of resources, preferably by the beneficiary retail chains that will manage the risks of these operations.

### Job Creation

During 1994-98, only timid growth in direct job creation was observed in the super- and hypermarket segment (Graph 4), principally as a result of technological advances absorbed by the segment that formed part of an intensive process of corporate restructuring implemented through specific investments such as commercial automation, modernization of information technology, changes in management models through modernization of management methods, professionalization and management by product category, expansion of forms of consumer credit, optimization of selling areas and improvements in quality of customer service [Dieese (1997, pp. 8 and 17)].

**Chart 4 - Levels of Direct Employment in the Supermarket and Hypermarket Segment, 1994-98**



*Source: Abras.*

Between 1994-98, the number of automated stores (e.g. with optical scanners at checkouts) rose from 203 to 2,724, equivalent to growth of 1,241.9% during the period [Abras (Dec. 1999, pp. 18 and 20)]. According to Dieese (1997, p. 12), “the increased use of bar codes has also eliminated some positions within supermarkets”.

At present, the problem of employment opposes, in a generally conflicting way, consumers that are ever more demanding in terms of comfort and quality to sales employees keen to remain within the formal economy and currently willing to accept employment on any terms. However, the retailing sector has one of the highest rates of turnover, in addition to the fact that employment ties are often fragile or informal.

Another important factor is the growing need for qualified labor by the food retailing segment, since it has been observed that the competitive edge between super- and hypermarkets relates increasingly to factors of importance to final consumers, such as specialized and high-quality service. In this light, and from the point of view of managing by product categories, there is a need for qualified sales staff in some or all of the product categories offered by super- or hypermarkets.

### **Prospective Investments Beginning in 2000**

Some of the main food retailing chains have already announced their investment plans, with the five largest chains alone announcing plans to invest between R\$ 1-2 billion.

### **The Role of the BNDES as Provider of Project Finance to the Food Retailing Segment**

Considering the points discussed above, the presence of the BNDES as a supplier of capital necessary for leveraging projects in the super- and hypermarket segments is proving itself to be essential. The activities of the BNDES group in projects within the segment until January 2000 is summarized in Table 11, which shows that the major investments are directed towards the installation, expansion and modernization of stores (super- and hypermarkets) and distribution centers in several states, as well as the computerization of stores, the introduction of new management and training processes and human resources development.

### **Table 1**

**Involvement of the BNDES System in Projects in the Supermarket and Hypermarket Segment –January 2000.**

ITEM	APPROVED/CONTRACTED OPERATIONS
Number of operations	14
Total investment (R\$ '000)	2,155,453
BNDES System funding (R\$ '000)	1,047,096
Job creation within projects	27,122

*Source: BNDES (AO2/Depan5).*

The following retail chains have already contracted or received approval for funding from the BNDES group: Bompreço, Casas Sendas Comércio e Indústria S.A., Companhia Brasileira de Distribuição (Pão de Açúcar), Sonae Distribuição Brasil S.A., Jerônimo Martins (the owner of the Sé supermarket chain), G. Barbosa & Cia. Ltda. (through Banco do Nordeste do Brasil S.A.), Supermercados Gonçalves Ltda. (through Banco do Brasil S.A.), Supermercado Modelo Ltda. and Makro Atacadista S.A. In January 2000, four projects relating to the segment were being analyzed.

In this way, with the implementation of the above projects and since the introduction of the *Real Plan*, an increasing volume of products offered by the supermarket and hypermarket segment has been observed (increase in the scale of production), adequately satisfying and balancing demand that has also been growing, most notably from the section of the population with lower disposable incomes who had previously represented a source of unsatisfied demand. As a result of the observed increase in the scale of production, there has been a notable improvement in use of collective fixed overheads, which has translated into a significant gain in operating efficiency. In addition, there has also been a notable geographical diversification in investments relating to the installation of new stores, providing an increase in supply and demand within the segment at national level.

## **Conclusion**

In the light of the previous discussion, it may be inferred that the reorganization of the food retailing sector at global level that is still in progress could lead to an increasing degree of concentration in which perhaps, four or five large chains (Wal-Mart, Carrefour-Promodès, Royal Ahold and Metro) that already have a significant presence in various countries will take the lion's share of revenues and markets, so as to expand in an integrated way beyond the countries in which they operate.

In this way, considering that this international process of concentration within the sector is being led by the large international food retailing chains that are already present in the Brazilian market, we may presume that the strategic plans of the same companies contemplate the same process of concentration within the country, principally through corporate operations such as mergers, incorporations, associations and acquisitions.

The Brazilian food retailing segment that has in turn already undergone an accentuated process of restructuring and consolidation, characterized most notably by the entry of new retail chains with global activities and by the large-scale corporate operations mentioned above, such as incorporations and associations.

It is also clear that within Brazil, this sector will undergo a series of competitive adjustments under inexorable competitive pressure that will have an effect on all the other segments of food retailing.

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