

## RETAIL MARKET IN BRAZIL

### 1. Evolution of the Retail Market in Brazil

Retailing in Brazil is without doubt one of the sectors that has shown much dynamism. To keep strengthening, the sector has focused on expanding and rendering more comprehensive services which emphasize convenience to the end customer, thus investing in improving its management.

Trends in a highly competitive market combined to determination of a consumer increasingly demanding and aware of their purchasing power, push the industry to a constant renewal.

It is estimated that by the early 80's about 70% of consumers were loyal to a particular store or supermarket chain, for example. More recent studies indicate that almost 80% of the representatives of Brazilian households attend three to four different places to keep them supplied<sup>1</sup>.

Brazilian companies began to invest in new sales channels to increase their geographical area of operation, gain new customers and increase market share.

The tactic prioritizes the channels of electronic commerce, or e-commerce, and direct door-to-door sales, considered by the entrepreneurs, the most attractive due to factors such as low investment value and great service area. Currently, 600 (six hundred) new companies requested to join the e-bit, which represents the e-commerce in Brazil<sup>2</sup>.

According to Forrester Research, online sales of products reached US\$ 2.8 billion in 2005 and should reach \$ 12.8 billion by 2010, representing an annual growth rate of 38%.

Similarly, sales of online services should also grow rapidly. According to Jupiter Research, online sales of travel reached R \$ 2.6 billion in 2005 and should reach U.S. \$ 10.2 billion by

2010, representing an annual growth rate of 31%.<sup>3</sup>

### 2. Examples of Retail Success in Brazil



Drogasil was born from the merger between two pharmacies, Drogaria Braulio and Drogaria Brasil in 1935.

The new company, which always followed the trends of the market, soon became a joint-stock company.

Drogasil currently has 276 stores across Brazil, maintaining always the best care and service. This company is the second largest drugstore chain in Brazil, according to the report distribution published by IMS Health Institute and has increased its market share in pharmaceutical products in Brazil at 0.7%., from 3.8% in September 2008 to 4.5% September 2009.<sup>4</sup>



Throughout its 70 years, Todeschini became a company in constant rebuilding its brand and products to serve well its customers.

For six consecutive years, Todeschini appears in the list of 100 Best Companies to Work for in America. For all this, Todeschini is synonymous of success in the market it serves.

Today, Todeschini has an industrial park with 54.000m<sup>2</sup>, which places it among the largest and most modern furniture factories in Latin America. Currently, the company produces residential furniture in composable modules for

<sup>1</sup> George Washington, Director of Ray & Berndtson in Brazil and specialist retail.  
[http://www.varejista.com.br/novo\\_site/desc\\_mat\\_eria.asp?id=30286](http://www.varejista.com.br/novo_site/desc_mat_eria.asp?id=30286)

<sup>2</sup> <http://www.ebit.com.br/>

<sup>3</sup> Business to World – Global Retail Company  
<http://www.b2winc.com/pt-br/institucional/comercio-eletronico-no-brasil>

<sup>4</sup> Drogasil website: <http://www.drogasil.com.br>

kitchens, bedrooms, laundry rooms and bathrooms.



Casa do Pão de Queijo is a 40-year-old Brazilian company. It is the first company in Brazil to sell “cheese buns” and is also responsible for making it a national habit: eating cheese rolls.

Today, after 14 years from opening the first franchising, Casa do Pão de Queijo figure as the absolute leader in their services, with more than 456 stores spread throughout the country nationwide.

All of that is the result of a history of success, commitment, hard work and above all, dedication to the consumer.



With a diversity of shops specializing in architecture, design and house appliances, the Rio Plaza Shopping became the youngest decorating mall in the South Area of Rio de Janeiro. The gastronomic potential of the shopping is also a great attraction, the presence of good restaurants strengthens and ensures the convenience of its customers.

Retailers, especially in the Brazilian market shopping malls, have become even more competitive within the last decade. Shopping in malls increased by 10% in recent months of 2009<sup>5</sup>.

### 3. Retail Installation in Brazil

There are many ways to install a retail business in Brazil. Below are the most common forms:

- Starting a Business: In the most usual form to create Retail Company in Brazil, an investor can bring up a famous brand from around the world that does not exist in Brazil or create a New-Co, with planning and market research.

<sup>5</sup> Retail Market – Website

[http://www.varejista.com.br/novo\\_site/desc\\_mat\\_eria.asp?sessao=sucesso\\_no\\_varejo](http://www.varejista.com.br/novo_site/desc_mat_eria.asp?sessao=sucesso_no_varejo)

- Amalgamation: The Brazilian Law No. 10.406 of 2002, the New Civil Code, defines the concept of amalgamation: “Article 1.119. The amalgamation determines the termination of the companies joined, to form a new society, which will succeed to its rights and obligations”.

- Merger: The New Civil Code also defines the concept of merger: “Article 1.116. Upon the merger, one or more companies are absorbed by another, which succeeds to all rights and obligations, and all partners must approve it, as prescribed for each type”.

- Spin Off: The Brazilian Law n. 6.404 of 1964, Joint-Stock Law, defines the concept of Spin-Off: “Article 229. The Spin Off is an operation whereby a company transfers parts of its assets to one or more companies, established for this purpose or already existing, extinguishment with the spined off company, in the existence of the version of its assets, or by dividing its capital, if partial the version.”

- Acquisition: Brazil has solids companies that bring investments in acquisitions around the world. Companies interested in acquiring a Brazilian retailer have a huge market to invest, with companies well organized and distributed in all Brazilian states, what shows that retail businesses are a good opportunity for investors who wish to acquire a retail market in Brazil.

In relation to all above mentioned manners to install a retail business in Brazil it is necessary the registration before a some public bodies, such as Commercial Registry, Federal Revenue, State and City Hall. The procedures for the registration before all Brazilian bodies shall take approximately two months.

### 4. Main Problems Found

According to international studies that measure the tax burden of several countries, Brazil is one of the places that have the highest tax burden, representing 36.54% of Gross Domestic Product (GDP), bringing huge problems for the Retail Market. Additionally, Brazil has an ultra protective Consumer Code, reversing the burden of proof in court and demands from the company several responsibilities after sales duties, with long warranty periods to be respected and the right of repentance by the consumer<sup>6</sup>.

<sup>6</sup> Brazilian Stock Exchange - Website

<http://www.bmfbovespa.com.br/en-us/home.aspx?idioma=en-us>

Thus, for a retail company which sets up in Brazil there are many obstacles to be overcome for growing the business, requiring planning and market research considering those barriers.

## **5. Conclusion**

Therefore, to survive in an ultracompetitive market and overcome the dangerous threat of emerging e-commerce in Brazil, the entrepreneurs must invest in innovation, focusing their strategies on creating unique experiences and able to individuals' identity themselves with the proposition presented.

The consulting department of Almeida Advogados has a specialized team with expertise on commercial law, and is available for any further clarifications deemed necessary in connection with the matter discussed herein.