Welcome!

You should hear music while you’re waiting.

Please check your audio settings if you do not hear this music.

Country Briefing: Brazil

A Country Overview and Introduction to Marketing Management Practices

Welcome! We will begin shortly.
Best Practices in Global Business Education: UNC CIBER Webinar Series

Country Briefing: Brazil

A Country Overview and Introduction to Marketing Management Practices

April 20 2011

This webinar is designed for the novice who has minimal knowledge or experience in Brazil and is looking for a basic introduction to this country.
BRASIL

Country Briefing & Market Analysis

Kenan-Flagler Business School
Brazil Webinar April 2011

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Executive Summary

Background
• Geography, History, Demographics

Culture
• Social Influences, Customs, Business Etiquette

Economy
• Economic Overview, History, Major Industries

Business
• Emerging Markets, Business Trends & Issues

Marketing
• The 4 P’s, Strategy, Success
Geography & Major Cities

- 8,456,510 sq km
- 3,265,059 sq miles
- 5 regions
- 26 states

São Paulo
Rio de Janeiro
Brasília

Demographics

Ethnic groups

- White: 53.70%
- Mulatto (mixed black and white): 38.50%
- Black: 6.20%
- Other (Japanese, Arab, Indians): 0.90%
- Unspecified: 0.70%

Age

- Under 5: 1.50%
- 5 to 14: 4.50%
- 15 to 24: 7.80%
- 25 to 59: 17.70%
- 60 to 79: 17.30%
- over 80: 52.70%

Life expectancy in years

- Men: 68.8
- Women: 76.1
- Medium age: 26.9

http://www.laposte-export-solutions.co.uk/uk/markets/country-profiles/brazil/population-structure
In relation to U.S.

- U.S. has higher IDV rating, indicating our individualistic culture
- Brazil has higher UAI and LTD rating
In 2009 Index Survey, Brazil was 9th with HPI of 61.1

Source: New Economics Foundation
**Religion**

Source: IBGE 2000 Census

- **74%** Roman Catholic
- **15%** Protestants
- **7%** Agnostics/Atheist
- **3%** Other

**Carnival**

- The event of the year in Rio de Janeiro
  - Annual carnival held 46 days before Easter
  - Most famous holiday spanning over a week of parades and celebrations
- In relation to religion…
  - Many abstain from eating meat and poultry
  - A farewell to all bad things occurring the previous year

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Source: IBGE 2000 Census
Fútbol: The 2nd Religion of Brazil

Fútbol

• Always a good topic for conversation in any setting
• Ranked in top 5 by FIFA for past 10 years
• 5 world cup titles over past 50 years

2014 World Cup in Brazil

• June 13-July 13
• Second time to host since 1950
• 5th country to ever host World Cup twice
Education & Poverty

- Literacy rate: 88.6%
- 5.2% of GDP goes to education (61 out of 186 in world rankings)
- College attendance rate: 17%
- Poverty declined 22% between 2003 and 2009

Social Programs

Bolsa Familia and Fome Zero: two government programs to reduce poverty and give better access to education and social mobility

Politics

Executive
- President & Vice President
- 4 Year Terms (2 term max)

Legislative
- 81 Senators (3 per state)
- 8 year terms
- 513 Deputies
- 4 year terms

Judicial
- Judges and officials are appointed by the President for life
- Must be approved by the Senate
- Must retire at age 70

Government Type: Federal Republic
- 26 states
  - Semi-autonomous
  - Keep their own taxes
- 5,564 Municipalities
  - Autonomous local government
  - Mayor & Legislative body
  - Can:
    - Approve own laws
    - Collect taxes
    - Receive funds from State and Union govt.
  - No judicial power
**Business Etiquette and Customs**

**Communication**
- A prolonged hand-shake is common
- Women kiss in the air while touching cheeks when greeting
- First names used often, but titles are important
- ALWAYS make an appointment

**Behavior**
- Never start into business discussions before the host
- Business meetings start on-time
- Some American hand gestures not appropriate
- Avoid purple gifts; mourning

**Appearance**
- Three-piece suits carry an "executive" connotation
- Female dress is conservative
- High-heels are okay, clean nails are expected

Source: USA Today
GDP by Nation ($ trillions)

2009 GDP by Economy ($ trillions)

http://www.elikaassociates.com/brazil-real-estate

Background  Culture  Economy  Business  Marketing
Gini Index Over Time

Gini index (June 2009): 49.3

Brazil ranked 11th in the world Gini index ratings
Brazil: 8.1%
USA: 9.2%

Unemployment declining in recent years with decreases of 10% in urban centers

Brazil: 8.1%
USA: 9.2%

Labor Force-101.7 Million
6th largest in the world

Services: 20%
Agriculture: 14%
Industry: 66%

Recent trend

Current Unemployment

Background
Culture
Economy
Business
Marketing
Reasons for the country’s appeal to international investors:

- A market of almost 200 million inhabitants
- A booming and diversified economy
- Easy access to raw materials

http://www.exportgalicia.com/es/perfiles-de-paises/mercados-internacionales/brazil/invertir
Major Economic Sectors

- **Services** (66%)
- **Industry** (28%)
- **Agriculture** (6%)

**Soybeans, coffee, sugarcane, cocoa, rice, livestock, corn, oranges, cotton, wheat and tobacco**

**Steel, commercial aircraft, chemicals, petrochemicals, footwear, machinery, motors, vehicles, auto parts, consumer durables, cement and lumber**

**Mail, telecommunications, banking, energy, commerce and computing**

http://www.state.gov/r/pa/ei/bgn/35640.htm#econ
Trade Partners and Products

Main export partners
- China (12.9%)
- United States (10.5%)
- Argentina (8.4%)
- Netherlands (5.4%)

Main import partners
- United States (16.2%)
- China (12.6%)
- Argentina (8.77%)
- Germany (7.7%)

Export goods
- Transport equipment
- Iron ore
- Soybeans
- Footwear
- Coffee
- Autos

Import goods
- Machinery
- Electrical and transport equipment
- Chemical products
- Oil
- Automotive parts
- Electronics

CIA World Factbook
Oil and Gas

Becoming a player
Brazil would move from 17th to 12th on the list of countries with largest oil reserves; in billions of barrels:

1. Saudi Arabia 137.5
2. Iran 115.0
3. Iraq 101.5
4. Kuwait 97.8
5. UAE 80.0
6. Venezuela 79.5
7. Russian Federation 65.0
8. Libya 41.5
9. Kazakhstan 39.8
10. Nigeria 36.2
11. United States 29.9
12. Brazil 20.2
13. Canada 17.1
14. China 16.3
15. Qatar 15.2
16. Mexico 12.9
17. Algeria 12.3
18. Brazil 12.2

In recent news:
Obama announces last week U.S. to be Brazil’s biggest oil customer after investing $2B in Petrobras offshore exploration in 2009

30% of Latin American oil demand by 2013
Production of 3MM b/day by 2013
Domestic companies to collaborate with international partners

http://www.economywatch.com/world_economy/brazil/industry-sector-industries.html
http://www.examiner.com/finance-examiner-in-national/obama-to-brazil-we-will-buy-your-oil-after-giving-you-2-billion-to-drill-it
Renewable Energy

46% of energy production in Brazil

Hydropower
- 90% of electricity
- Itaipu Dam
- Under-utilized

Biofuel
- Ethanol
- U.S./Brazil aviation biofuel development

Wind
- Big potential
- Grew by 50% in L.A. last year

Between 2009 and 2019 electricity consumption is projected to grow 60%, requiring investments of approx. $128 billion
Tourism

Two sports “mega events” in next 5 years

Needed reforms in infrastructure

“This is no time for the United States, particularly our business community, to be sitting on the sidelines.”

$200 Billion in planned infrastructure investments

http://today.msnbc.msn.com/id/42309516/ns/business-world_business/
http://www.huffingtonpost.com/fred-hochberg/american-business-needs-t_b_840060.html?ir=World
The IAOP 2010 Global Outsourcing Ranking

<table>
<thead>
<tr>
<th>Rank</th>
<th>Top companies with operations in Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accenture</td>
</tr>
<tr>
<td>2</td>
<td>Infosys Technologies</td>
</tr>
<tr>
<td>3</td>
<td>Sodexo</td>
</tr>
<tr>
<td>4</td>
<td>Wipro Technologies</td>
</tr>
<tr>
<td>5</td>
<td>IBM</td>
</tr>
<tr>
<td>7</td>
<td>Tata Consultancy Services</td>
</tr>
<tr>
<td>9</td>
<td>CSC</td>
</tr>
<tr>
<td>10</td>
<td>Convergys</td>
</tr>
<tr>
<td>11</td>
<td>ACS</td>
</tr>
<tr>
<td>12</td>
<td>Jones Lang LaSalle</td>
</tr>
<tr>
<td>13</td>
<td>CB Richard Ellis</td>
</tr>
<tr>
<td>14</td>
<td>Johnson Controls</td>
</tr>
<tr>
<td>15</td>
<td>Diebold</td>
</tr>
<tr>
<td>16</td>
<td>Amdocs</td>
</tr>
<tr>
<td>17</td>
<td>Capgemini</td>
</tr>
<tr>
<td>18</td>
<td>Colliers International</td>
</tr>
<tr>
<td>19</td>
<td>NCR</td>
</tr>
<tr>
<td>22</td>
<td>Hewitt Associates</td>
</tr>
<tr>
<td>27</td>
<td>Lionbridge</td>
</tr>
<tr>
<td>30</td>
<td>ADP Employer Services</td>
</tr>
<tr>
<td>31</td>
<td>Sitel</td>
</tr>
<tr>
<td>34</td>
<td>TeleTech Holdings</td>
</tr>
<tr>
<td>40</td>
<td>Softtek</td>
</tr>
<tr>
<td>41</td>
<td>Pitney Bowes – Business Solutions</td>
</tr>
<tr>
<td>48</td>
<td>CPM Braxis</td>
</tr>
</tbody>
</table>

8th largest market for IT-BPO

IT Services

- Customer Application Development
- Infrastructure Services
- Business Process Outsourcing
- IT Consulting Services

Banking

Increasing foreign investment
Expansion of credit and capital markets

Fast economic growth
São Paulo: top emerging financial center

Demand for private banking

Fast economic growth

Demand for private banking

São Paulo: top emerging financial center

Expansion of credit and capital markets

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Bank</th>
<th>Total Assets as of Dec, 2008 (in US $ Mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banco Central do Brasil</td>
<td>448,203</td>
</tr>
<tr>
<td>2</td>
<td>Itau-Investimentos Itau S.A.</td>
<td>273,404</td>
</tr>
<tr>
<td>3</td>
<td>Itau Unibanco Holdings</td>
<td>270,837</td>
</tr>
<tr>
<td>4</td>
<td>Banco Itau Unibanco SA</td>
<td>255,019</td>
</tr>
<tr>
<td>5</td>
<td>Banco do Brasil S.A.</td>
<td>223,129</td>
</tr>
<tr>
<td>6</td>
<td>Banco Bradesco SA</td>
<td>194,509</td>
</tr>
<tr>
<td>7</td>
<td>Banco Santander SA</td>
<td>145,808</td>
</tr>
<tr>
<td>8</td>
<td>Caixa Economica Federal</td>
<td>126,667</td>
</tr>
<tr>
<td>9</td>
<td>Banco Nacional de Desenvolvimento</td>
<td>116,695</td>
</tr>
<tr>
<td>10</td>
<td>Banco ABN Amro Real SA</td>
<td>90,089</td>
</tr>
</tbody>
</table>

Source: BankScope

http://thebrazilbusiness.com/article/are-brazilian-banks-ready-for-foreign-business
http://www.entrepreneur.com/growyourbusiness/exploringnewmarkets/article204556.html
Brazil’s Growing ‘Megacities’

**São Paulo**
- GDP growth: +$394 billion
- Population growth: +3 million
- Per capita GDP growth: +$15,904

**Rio de Janeiro**
- GDP growth: +$206 billion
- Population growth: +1 million
- Per capita GDP growth: +$13,194

- 24MM out of poverty in last 5 years
- Larger labor force & consumer market
- 58MM people in middle class
Current Issues

- Education
  - Improving but still ranked in bottom third

- Infrastructure
  - Need for more foreign investment

- Legal System
  - Weak regulatory system and high crime rates

- Favelas

Corruption Percentage Index 2010 (10 Being Best-1 Being Worst)

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>8.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.6</td>
</tr>
<tr>
<td>United States</td>
<td>7.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.7</td>
</tr>
<tr>
<td>China</td>
<td>3.5</td>
</tr>
<tr>
<td>India</td>
<td>3.3</td>
</tr>
<tr>
<td>Russia</td>
<td>2.1</td>
</tr>
</tbody>
</table>

http://www.economist.com/node/17679798
http://www.businessinsider.com/10-reasons-investors-are-wild-about-brazil-2009-10#its-leading-latin-america-1
Brazil became the second country in the world and first in Latin America to implement health warnings on cigarette packages when they initiated their policy starting February 2002.

Appeal for luxury goods continues to increase

Companies have to fully understand the different forms of mandatory product requirements:

- Legal Requirements
- Infrastructure
- Physical Requirements
Product: Packaging

- Verify meaning of the product name
- Trend for sustainable packaging
- Take into account color meanings
- Imported products need Portuguese translation

Green represents Amazon Rainforest
Yellow represents wealth of gold and minerals

SUPERMARKETS and HYPERMARKETS
-Carrefour, Pao de Açúcar, Sendas
-Hypermarkets make 80% of sales of staple commodities.

MARKETS
-Wholesale, retail-wholesale, retail
-Mostly fresh produce
-Exist especially in rural areas

SHOPS, GROCERY STORES
-Retail
-Form a network in rural areas and in poor districts of towns

E-Commerce
-Online sales growth rate is 38% approx.
-Growth of Internet users (21%)
Sea Transportation
- 11 major ports
- 17% of domestic goods
- 97% of Brazilian exports

Air Transportation
- Large cities are served by air
- Goods transportation not developed due to high cost related to air transportation

Ground Transportation
- All state capitals linked by tarmacked roads
- Most frequent transportation used: 85% of the transport of people and products
- Railway network carries 22.5% of goods traffic (7% of lines are electrified)

http://www.laposte-export-solutions.co.uk
Currency fluctuations are increasing strength of Brazilian real compared to the U.S. dollar

http://www.numbeo.com/cost-of-living/cpi_explained.jsp
Promotion: Advertising

Advertisers must be creative and entertaining

Role in constructing common values and desires among population

Models and producers often achieve celebrity status

NO → violence in ads or denigrate the competitor

YES → human body but not complete nudity

Ratio of consumers who say local brands are better than foreign brands (across all categories)

- Brazil: 4.3:1
- Russia: 1.2:1
- China: 1.2:1
- India: 2:1

http://www.aef.com/on_campus/adtext/adtext_unit/16
The average Brazilian watches over five hours of TV a day.

Low average Advertising Index

Promotion: Media

<table>
<thead>
<tr>
<th></th>
<th>TV Ownership</th>
<th>Internet Access</th>
<th>Broadband</th>
<th>Mobile Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>97.4%</td>
<td>16.6%</td>
<td>18%</td>
<td>1.2%</td>
</tr>
<tr>
<td></td>
<td>18%</td>
<td>18%</td>
<td>1.2%</td>
<td>48.6%</td>
</tr>
</tbody>
</table>

http://www.millwardbrown.com/Libraries/MB_Market_Focus_Downloads/MillwardBrown_MarketFocus_Brazil.sflb.ashx
Why Brazil?

- Strong GDP Growth
- High Foreign Direct Investment
- Growing Middle Class
- Democratic & Institutional Stability
- High Consumer Spending

Background  Culture  Economy  Business  Marketing
Why Businesses Have Failed

- **Taxation**: Highly Customized Pricing Strategy
- **Local Culture**: “Little details matter” Large scale difficulties
- **Time**: Allocation of resources Ineffective timeline

http://www.apexbrasil.com.br/portal/publicacao/engine
**Market Entry**

**Branch**
- Prior approval
- Complex Procedure
- Foreign Banks & Airlines
- Not recommended

**Subsidiary**
- Straightforward approach
- Under Brazilian Law
- Limitada (simple & cheap)
- S.A. (extensive provisions)

**Joint Venture**
- Due Diligence
- Merger review filings
- BACEN-Brazilian Central Bank

### Doing Business in Brazil

#### BD 2011 Rank

<table>
<thead>
<tr>
<th>Service</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>128</td>
</tr>
<tr>
<td>Construction Permits</td>
<td>112</td>
</tr>
<tr>
<td>Registering Property</td>
<td>122</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>89</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>152</td>
</tr>
<tr>
<td>Protecting Investors</td>
<td>74</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>114</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>98</td>
</tr>
<tr>
<td>Closing a Business</td>
<td>132</td>
</tr>
</tbody>
</table>

#### Overall Ranking: 127

- **Time-Consuming Procedure**
- **Tax Regulations**
- **Recovery Rate**

*Scores out of 183*  
[http://www.doingbusiness.org/data/exploreeconomies/brazil/](http://www.doingbusiness.org/data/exploreeconomies/brazil/)
Local Presence

Regulations Favor Local Providers
Seek partners on ground
Use reseller & local service providers

Strengthen Relationship
Immersed in community
Importance of family

Sense of Security
Comfort for customers, suppliers & partners
Present in community

Customer Drivers

Service

The Product

The Purchasing Experience

Customer Relationship

Communications Advertising Message

http://www.appliancemagazine.com/editorial.php?article=162
Questions?
# Summary of Market Conditions

## Economic and Demographic Overview

<table>
<thead>
<tr>
<th>Key Stats</th>
<th>Key Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size</strong></td>
<td><strong>Stability</strong></td>
</tr>
<tr>
<td>'08 GDP: $1.4 trillion</td>
<td>• Stable political and economic environments in last decade</td>
</tr>
<tr>
<td></td>
<td>• Buoyant economy, low inflation</td>
</tr>
<tr>
<td><strong>2002-2007 Growth</strong></td>
<td><strong>Business Environment</strong></td>
</tr>
<tr>
<td>3.8% CAGR</td>
<td>• Optimistic business climate</td>
</tr>
<tr>
<td></td>
<td>• Energy independent</td>
</tr>
<tr>
<td></td>
<td>• High tax burden, gov’t bureaucracy and some corruption remain</td>
</tr>
<tr>
<td><strong>Urban Population</strong></td>
<td><strong>Demographics</strong></td>
</tr>
<tr>
<td>84%</td>
<td>• Young population: median age is 27</td>
</tr>
<tr>
<td></td>
<td>• Ageing population: more women in workforce, better family planning</td>
</tr>
<tr>
<td><strong>Total Population</strong></td>
<td><strong>Growth of Middle Class</strong></td>
</tr>
<tr>
<td>192 million people</td>
<td>• Significant increase in middle-class. Lower middle-class was 34% of population in '05 and 46% in '07</td>
</tr>
<tr>
<td></td>
<td>• However, still has highest Gini Coefficient* among key markets</td>
</tr>
</tbody>
</table>

*Gini Coefficient measures inequality in income distribution. Lower coefficients mean that income is more evenly distributed.*

**Sources:** The Economist Intelligence Unit, Euromonitor International, World Bank, IMF, Primary Interviews

## Retail and Marketing Overview

<table>
<thead>
<tr>
<th>Key Stats</th>
<th>Key Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Formal Market</strong></td>
<td><strong>Competitive Landscape</strong></td>
</tr>
<tr>
<td>~$28 billion</td>
<td>• Strong local brands (some sourced from informal market)</td>
</tr>
<tr>
<td><strong>Addressable Market</strong></td>
<td><strong>Channels</strong></td>
</tr>
<tr>
<td>~$23 billion</td>
<td>• Growing awareness for international brands in recent years</td>
</tr>
<tr>
<td></td>
<td>• International brands must cater to domestic trends to succeed</td>
</tr>
<tr>
<td></td>
<td><strong>Consumers</strong></td>
</tr>
<tr>
<td></td>
<td>• Fashion oriented</td>
</tr>
<tr>
<td></td>
<td>• Prefer unique cuts and styles tailored to Brazilian culture and taste</td>
</tr>
<tr>
<td></td>
<td>• Int’l fashion drivers: media, Brazilian models and Sao Paulo fashion week</td>
</tr>
<tr>
<td></td>
<td>• Increase sales of luxury products</td>
</tr>
<tr>
<td><strong>Tariffs</strong></td>
<td>• 30-50% tariffs for non-trade partners</td>
</tr>
</tbody>
</table>

Sources: The Economist Intelligence Unit, Euromonitor International, World Bank, IMF, Primary Interviews
Take-Aways

- Maintain long-term outlook & patience
- Partner with local companies
- Learn in-depth taxation practices
- Keep close attention to local culture & details
- Must have high quality & brand image
- Never speak Spanish to a Brazilian!
## Take Aways

### Key Takeaways from the Marketing Mix

| Product       | - Introduction and customization of product lines based on culture and preferences.  
|               | - Understand the mandatory requirements and localize their products accordingly.  
|               | - Achieving a balance of the functionality and aesthetic aspect in packaging.  
| Price         | - Pricing strategy differs between consumer and industrial goods  
|               | - Formal and Informal markets have adopted very different pricing structures  
| Place         | - Sea transportation is the most common way to access the Brazilian market.  
|               | - Mastering multiple channels even at the risk of cannibalizing sales in a single channel.  
| Promotion     | - Advertisement is KEY! Every Brazilian loves a good ad  
|               | - Be conscious of what offends Brazilians (ex. nudity and violence) 

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### Background

- Culture
- Economy
- Business
- Marketing
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