REFLECTIONS ON AGRICULTURAL MARKETING PROBLEMS IN BRAZIL

by

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Discusses three major problems of the food distribution industry in Brazil: quality control, storage and transportation and population characteristics.

Preconceived ideas that Americans have when going to South America as advisors or consultants to government or industry are often shattered immediately. They arrive to a mixture of twentieth century progress in some areas of food production and distribution, and at best eighteenth century methods in other areas.

Brazil is the fifth largest nation in the world, larger than the continental United States, and has the potential to produce most foods grown anywhere in the world. However, the present marketing and distribution system has several impediments to achieving its real potential. The transportation system is poor with a shortage of good roads and railroads, as are communication systems, especially in the rural areas. The population is about half that of the United States and growing at about three percent a year, so potentially it should be a marketers dream. However, the distribution system used in Brazil is quite different from that of the United States with regard to production, processing and marketing as well as with the allied factors that affect these systems.

The agricultural sector employs about 45 percent of the population compared to about four percent in the United States, and farm sizes range from a few hectares to many thousands, especially in the beef industry. There are also a large number of landless agricultural workers.

Agriculture accounts for about 20 percent of Brazil's GDP and about 55 percent of its total exports. The major exports are coffee, sugar, soybeans, cocoa, cotton and meat. Meat exports are about the only product that is shipped as a finished product, being boned and frozen.

There are three primary problem areas in Brazil's food marketing and distribution system: (1) the demographic and sociological breakdown of the population, (2) quality control of food products and (3) the storage and distribution system.

The demographic situation is that the population is for the most part young, poor and about one-third illiterate. Over fifty percent of the population is under 20 years of age, extremely mobile with large numbers of people moving from rural areas to the cities. Especially from the poverty stricken Northeast with the lure of jobs and more money is high, but unfortunately very few if any skills are available so that tremendous slum areas have developed in the major cities. This limits the demand for processed foods, and people tend to follow rural traditions in both eating habits and food buying.
The income breakdown among the population has the poorest twenty percent of the population receiving about 3.5 percent of the national income and sixty percent of the income received by about twenty percent of the people. The remaining sixty percent, the middle class, which is growing quite rapidly, and tend to shop in supermarkets and have an interest in new food products, about 35 percent of the income.

Those families with the higher incomes are in the position to purchase the food products they want, while the rest of the country is limited to a primarily rice and bean diet.

There are also a number of regional differences in food consumption both by tradition, (there are over two hundred food taboos in Brazil, including the fear in the Northeast that eating fish may cause pregnancy) and the fact that there are many ethnic groups from other parts of the world including large settlements of Japanese, Chinese, Germans, Italians, and Portuguese who have brought their cravings for their traditional foods with them. Most Brazilian families are very close and whenever possible the workers go home for the noon meal, leaving fast food restaurants and brown bagging it out of the question. This also has an effect on the demand for different types of foods.

Traditionally towns and cities have regular street fairs that move from one location to another on different days of the week, usually within walking distance or public transportation for large numbers of people. Fresh fruits and vegetables are available at reasonable prices, especially if one is willing to haggle, along with fresh meat, fresh and dried fish, poultry, dairy products, some grocery items, housewares and especially fresh flowers. These fairs are open between six and ten in the mornings and by noon completely gone with the streets clean.

Quality Control

The quality control problem in Brazil also stems from a number of reasons. A lack of grades and standards for most processed agricultural products and excellent quality fresh produce is available the year round at reasonable prices, making processed second best in the eyes of the Brazilian shopper. Also the high price of foreign import of processed foods makes comparison with good quality difficult.

As far as meat is concerned, many Brazilian housewives, especially those in rural areas and small towns prefer what is known as warm meat, meat that is slaughtered and consumed the same day, a holdover from a lack of refrigeration, which is still scarce in many rural areas.

Even though Brazil has one of the GNP growth rates both industrially and agriculturally, the rate of inflation tends to keep per capita income at a fairly stable level when it comes to expanded buying power.

About 80 percent of the industrial output of Brazil is located in a triangle between Sao Paulo, Rio de Janeiro and Belo Horizonte, the three largest cities, which means that most of the skilled and best paid people live within or near this area. It also means that many of the newer arrivals live in this area and tend to hold on to their traditional methods of buying food. Small corner grocery stores, street fairs and specialty stores are still the main sources of food for the poorer people. And only in the central city or higher income neighborhoods does one find supermarkets. The supermarkets themselves are somewhat different from those in the United States. A great
many bulk items are sold from bins, along with service meat and produce. Grocery items are primarily produced by Brazilian companies of foreign companies with plants in Brazil. There is usually a gourmet section with canned goods from the United States or other countries, but the prices are from six to ten times higher than domestically produced foods, which makes them primarily display items only.

Convenience foods are gaining slowly in popularity because most middle class families have servants who do the shopping on the one hand and more and more of the younger married women have jobs and are looking for quick meals.

The beef industry in Brazil is rather unbelievable to one familiar with the industry in North America. When the present government took over in 1966, they promised that even the poorest people would be able to afford beef so a ceiling price was set taking most of the incentive away from the producers to produce a superior product. The animals are grass fed for four to five years before being marketed by weight not grade, which tends to leave the quality something to be desired. The animals are transported by truck to the slaughtering plants in the cities without feed, water or stops. The producers pay for the transportation of the beef in rented trucks and are docked for bruised animals again taking away incentive for producing a quality product the trucker may ruin.

Inspection of the slaughtered animals may be done federally, by the individual states or by municipalities and the quality of the inspection appears to be in that order. It is estimated that about thirty percent of the animals receive no inspection whatever, this is usually the "warm meat." Most of the larger cities do have federally inspected plants that are as clean and efficient as possible under the circumstances.

Most of the meat sold in supermarkets and all that is exported come from federally inspected and licensed plants. Those American food companies who produce their products locally do a comparable job to the products they produce at home, but the Brazilians tend to shy away from direct competition with these foreign companies. For foreign companies, the possibility seems to exist for a tremendous potential growth which will either take over the industry or the Brazilian firms will be forced to improve.

One interesting experience the author had was to buy a can of tender young spring peas that turned out to be dried split peas imported from Argentina with a little water added. To give the benefit of doubt, however, sometimes the labels do read true and the quality is consistent.

Poor quality control is also one of Brazil's major problems in the food export market since almost all products are shipped either semi-processed or in the raw state, giving a lower per unit return than if the goods were processed.

Those industries that are government controlled by cartels, tend to do a much better job in export quality than the private sector, (all exports are controlled), mainly the Coffee Institute and the Sugar and Alcohol Institute who control the quality and volume of exports.

Distribution and Storage

The third major problem confronting the Brazilian agricultural industry is that of storage facilities and the transportation industries. The government does have extensive programs to
improve its rail and road construction but like the construction of new storage facilities a certain time lag is involved. The railroad system is under extensive renovation with some twenty thousand miles to track, but forty companies and three different gauges. The railroads carry about 16 percent of the total product, trucks 74.2 percent mostly over roads that need extensive work, especially during the rainy season. Water navigation accounts for the remaining 9.6 percent. Potentially Brazil has 27,000 miles of inland waterways that could do much to take the burden off the other transportation systems.

Poor storage facilities account for a large loss of both products and quality in most stored commodities. The Brazilian government is building a number of large refrigerated warehouses to store products through the dry or low production seasons for year round availability at more stable prices. Large amounts of beef are sold before the dry season sets in, lowering the price, but causing high prices and shortages later on.

All in all, there is a tremendous potential for the continued development of the Brazilian food industry in all areas from production to consumer acceptance. They have come a long way in a short period of time and are in a position to be a major competitor to the United States in the world export market. Brazilians have a very high regard for American products and know-how so the job may not be as difficult as it sometimes appears.