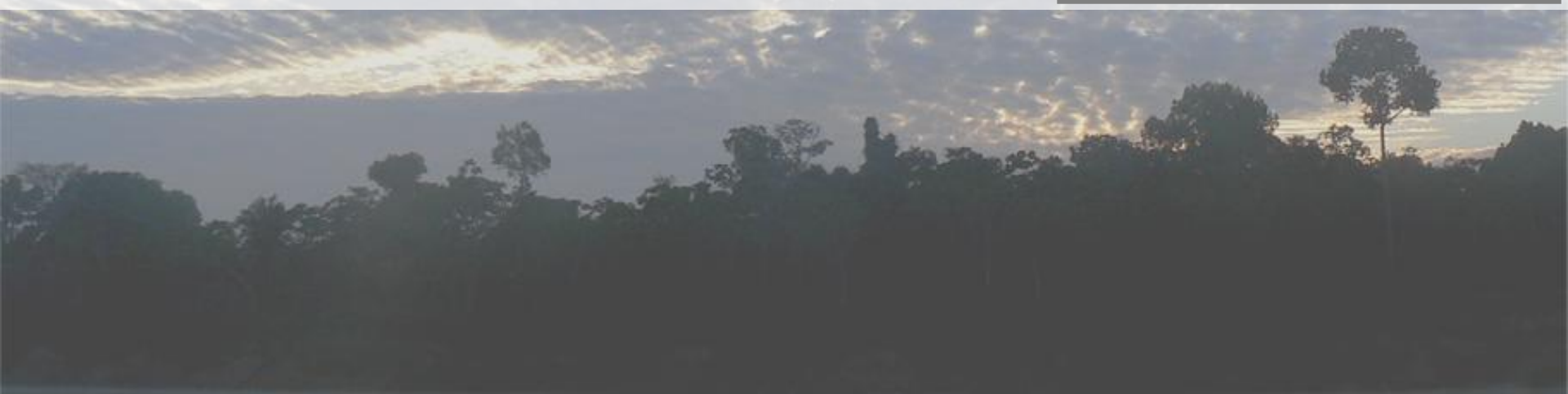


Brazil

A COUNTRY OF CONTRASTS



Integration



A photograph of the Rio-Niteroi Bridge, a long concrete bridge spanning a wide body of water. The bridge's massive concrete piers and deck are visible, extending from the foreground into the distance. The water is calm, reflecting the bridge and the sky. In the background, there are mountains and a cityscape under a blue sky with scattered clouds. A semi-transparent white box is overlaid on the center of the image, containing text.

OBJECTIVE

Brief presentation and discussion to
put Brazil's market reality in
perspective

A scenic view of a cave with a river and stalactites. The cave walls are covered in yellowish-brown stalactites and the water is clear and blue. The lighting is dramatic, highlighting the textures of the rock and the clarity of the water.

THREE ASPECTS TO UNDERSTAND THE MARKET

1

Brazil

2

CONSUMER

3

TRADE

A rusty metal frame, possibly a goalpost or a simple structure, stands on a sandy beach. The frame is made of thick, weathered metal pipes. The background shows a clear blue sky and a distant horizon line. The overall scene is bright and sunny.

1

Brazil IS A LARGE CONSUMER MARKET IN GROWTH AND AT THE SAME TIME A LAND OF DIVERSITIES.

THERE ARE IMPORTANT STRATEGIC CONSIDERATIONS DEPENDING ON THE TARGET CONSUMERS.

Brazil is a large consumer market even when compared to developed countries...

USA



FRANCE



BRAZIL



Length ('000 km²)

9,800

674

8,500



Population ('000 inhab.) 2010

309,050

64,877

194,946



GDP (Current US\$ trillion) 2010

14.582

2.560

2.088



% Unemployment 2010

9.6

9.8

6.7



% Bellow poverty-line 2008

12%

6.2%

26%



% Illiteracy 2008

1%

1%

11.4%



% Internet Users 2009

79%

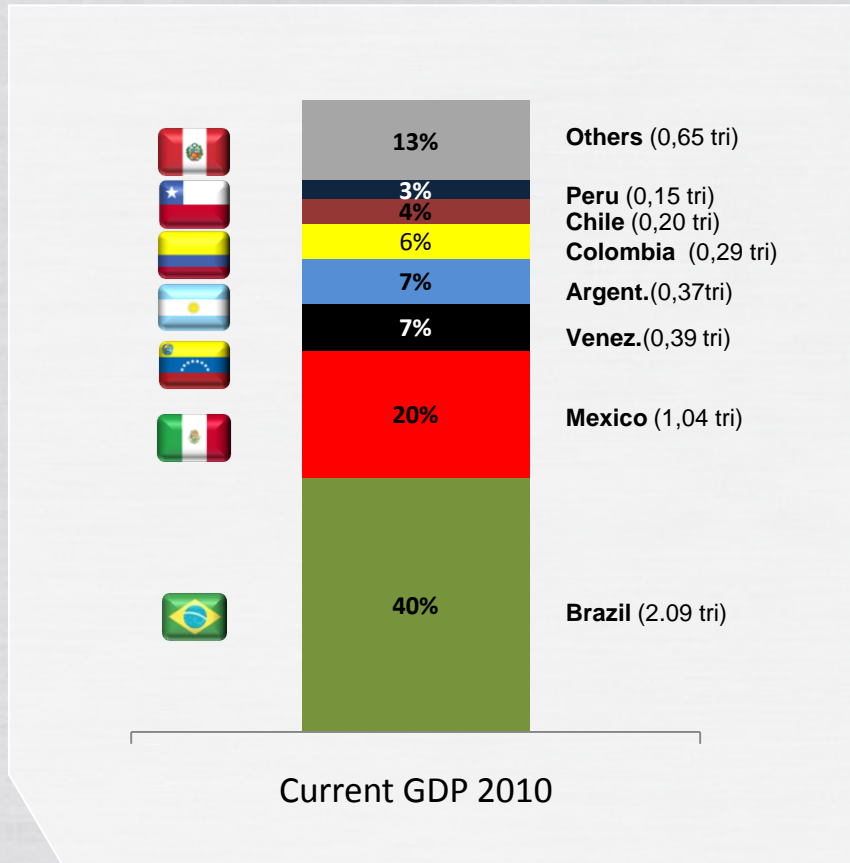
70%

39%

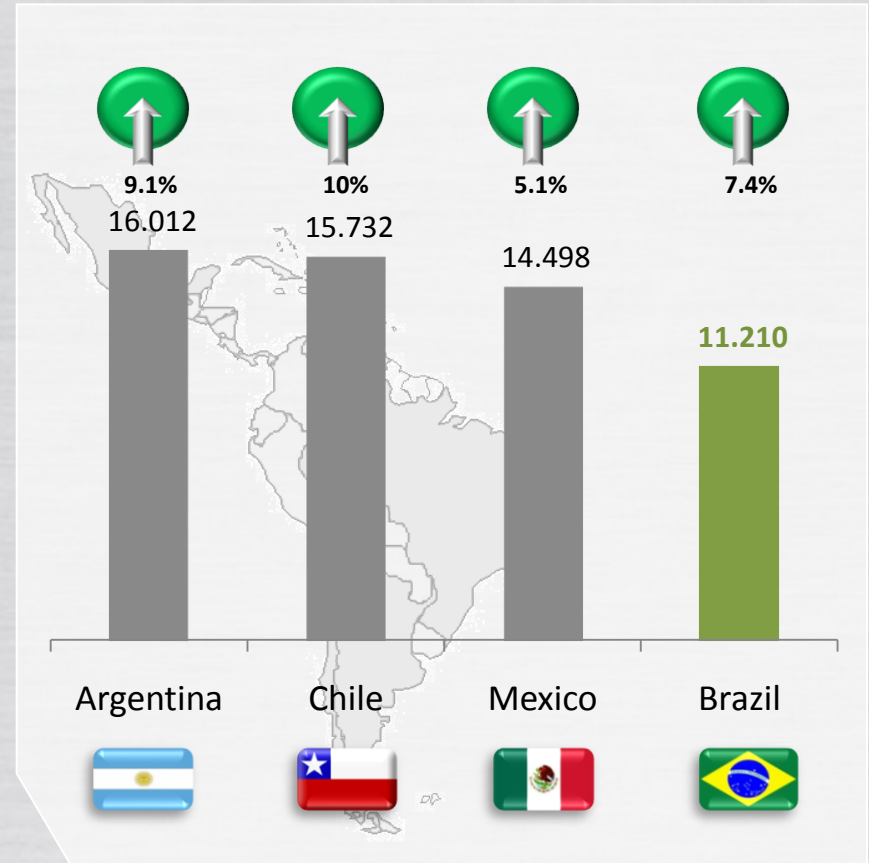
In comparison to its neighbors, despite being the largest economy in Latin America, Brazil has the lowest income distribution (GDP per Capita)

THE BRAZILIAN ECONOMY COMPARED TO LATIN AMERICA

Current GDP - Brazil vs. LATAM (US\$ Trillion)

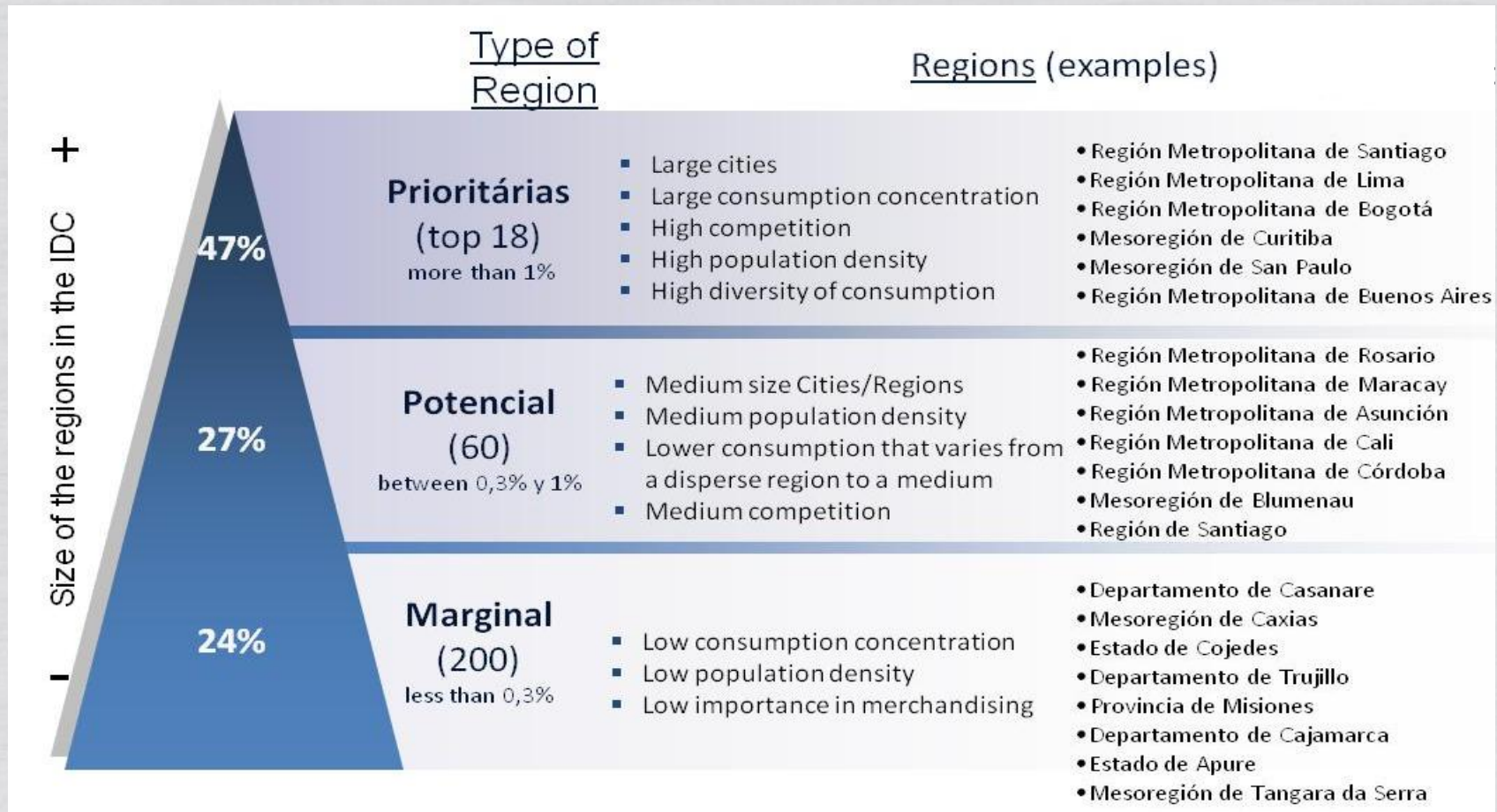


GDP per Capita 2010 - Brazil vs. LATAM (US\$ ppp)



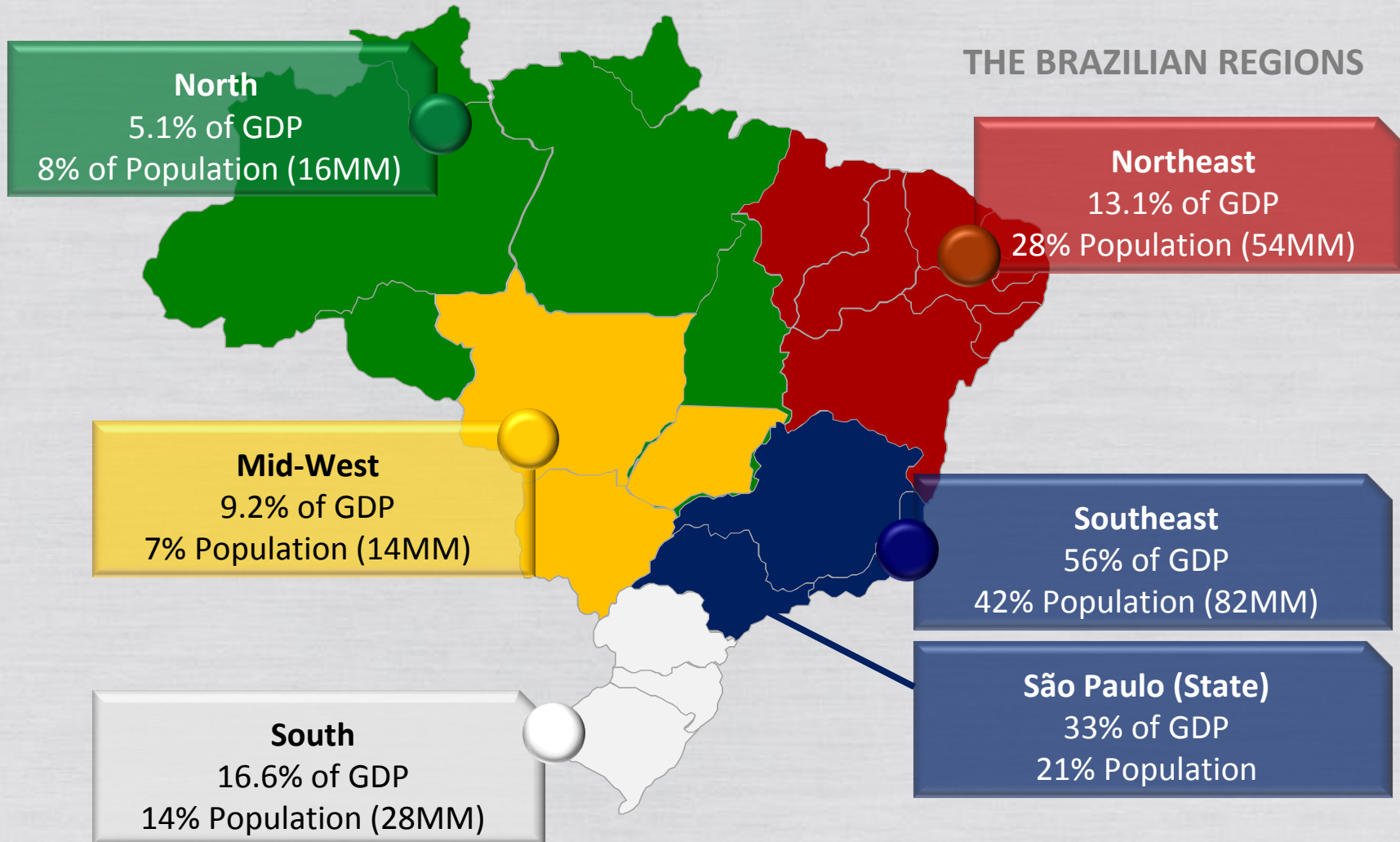
The income concentration is also reflected in the cities. In a study we recently carried out for other FMCG, only 18 cities throughout Latin America represent almost 50% of the potential market.

CONSUMPTION DISTRIBUTION



The 5 country regions are in different development stages, and the Southeast region is the most developed and economically important .

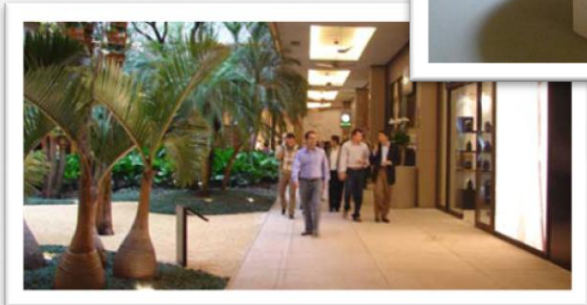
THE BRAZILIAN REGIONS



These regional differences are so deep that Brazil is often called *Belindia* : a mixture of Belgium's and India's reality... For many industries it represents a completely different product mix.


Bel India

FROM THE LUXURY MARKET IN SOME CITIES OF THE SOUTHEAST REGION ...



...TO THE INFORMAL RETAIL IN THE NORTHEAST REGION.





As a conclusion there are some important strategic considerations when looking at Brazil...

Even having low political risk, the country has its complexity in terms of legislation → local knowledge is key

There are many countries inside Brazil → Solutions (product, GTM, logistics,...) have to be regionally adapted;

Overall market is growing and there are opportunities to be explored in many categories → Time to make changes / investments

There are opportunities for high end categories but there is a challenge of critical mass to explore all regions → Different Solutions/ partnerships or concentrate in major cities

Great potential to explore consumers from B/C classes → in order to profit, there's a need to adapt to this new consumer



2

OVERALL CONSUMPTION HAS A FAST GROWING RATE.
SOME CATEGORIES HAVE MORE SIGNIFICANT IMPACT
DUE TO NEW CONSUMERS FROM CLASS C.

There has been a great enhancement in economic variables linked to consumption in general. As a result, many categories have experienced double-digit annual growth.

CONSUMPTION DRIVES	2003	2010	▲ %
Unemployment	12.3%	6.7%	-46%
Interest rate	23.19%	9.8%	-58%
Inflation	15%	5.0%	-67%
Consumer credit (R\$ bi - December)	99	549	455%
Consumer credit (% of GDP)	9.2%	37.7%	310%
Retail volume (index)	100	235	135%
Retail revenue (index)	100	305	205%



The country is catching up with globalized population trends. One important aspect to take into account is the recent ingression of new consumers in the market.

MORE WORKING WOMEN

1991 18% house hold sponsor to 31% today

LONGER & BETTER LIVES

7,2% of population over 70 in 80's
19% of population over 70 in 2006

DINKS – DOUBLE INCOME NO KIDS COUPLES

1992 5,6 to 8,6 mm households today +54% or
growth 3,2% Cagr

PEOPLE LIVING ALONE

6 million Brazilians are living alone and this
figure will double until 2016

NEW CONSUMERS DUE TO GROWTH IN C CLASS

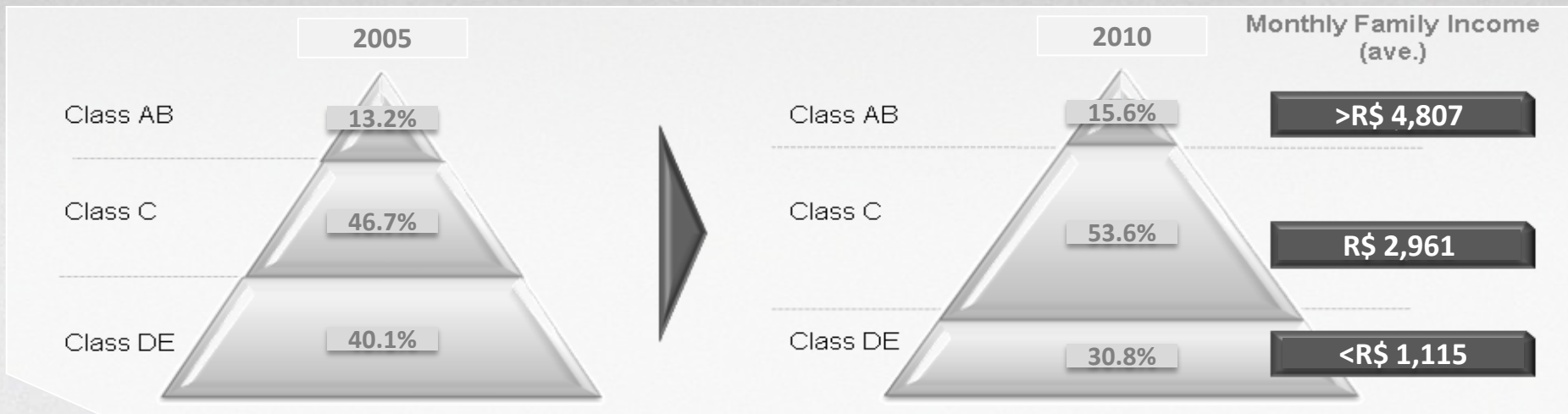
16% CAGR over last 3 years
70% declare to be willing to spend more on consumption

CONSUPTION OF HEALTH / FUNCTIONAL PRODUCTS

Brazil is the 6th market
in consumption of functional/ health products

CLASS C GROWTH

In five years, over 17 million Brazilians migrated from poverty to C class. Nowadays class C represents 53.6% of the population (104 million people!).



Class C represents 56% of total national income – income and consumption increase, more employment, more availability of credit, lower interest rates and social programs.

1 in 3 has a bank account



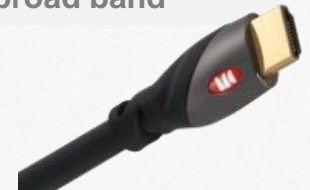
1 in 4 has a credit card



1 in 5 has a computer

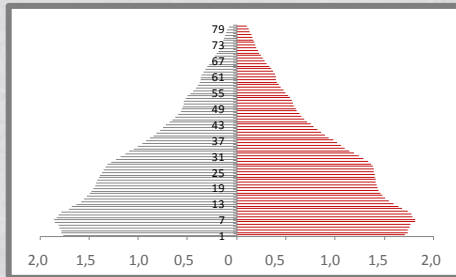


1 in 20 has access to broadband



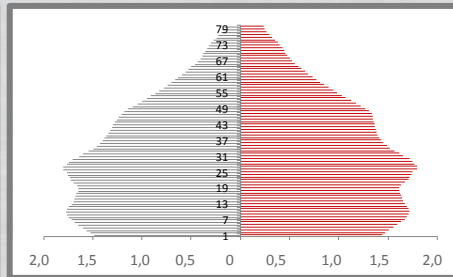
Demography and salary projections

1990



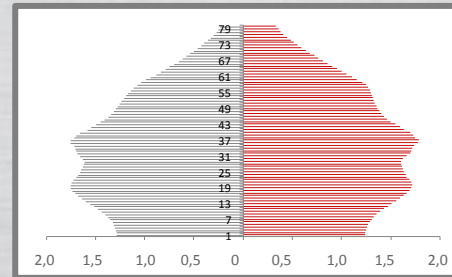
Average age: 22

2010



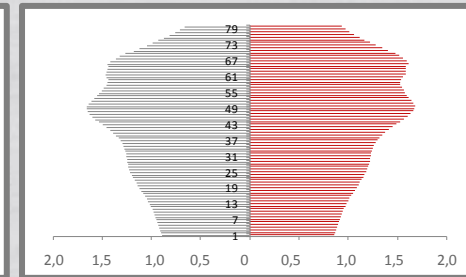
Average age: 29

2020



Average age: 34

2050



Average age: 46

Projection of average annual salaries (US\$)

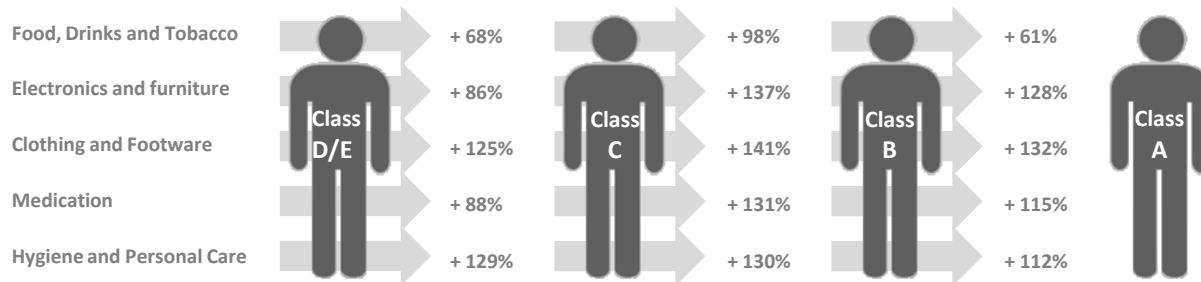
Country	2007	2030	Growth (% per year)
China	1,294	5,165	6.2%
South Korea	16,685	31,294	2.8%
Brazil	4,240	7,549	2.5%
Mexico	8,347	14,536	2.4%
Russia	4,979	8,263	2.2%
United States	38,066	55,137	1.6%
Italy	36,622	49,453	1.3%
Argentina	4,672	6,135	1.2%
Japan	34,261	44,393	1.1%
Germany	34,298	43,986	1.1%
Great Britain	35,686	45,496	1.1%
France	39,384	49,711	1.0%

- From January 2003 up to March 2010, the minimum wage had a nominal increase of 155%, and real increase of 73% (above inflation as measured by indexes like INPC/IBGE).
- In January 2003, the minimum wage would buy 1.4 Basic-need grocery packages. With the adjustment to R\$ 510, this capacity grew to 2.3 Basicneed grocery packages (+64%) in March 2010.

Consumption Evolution

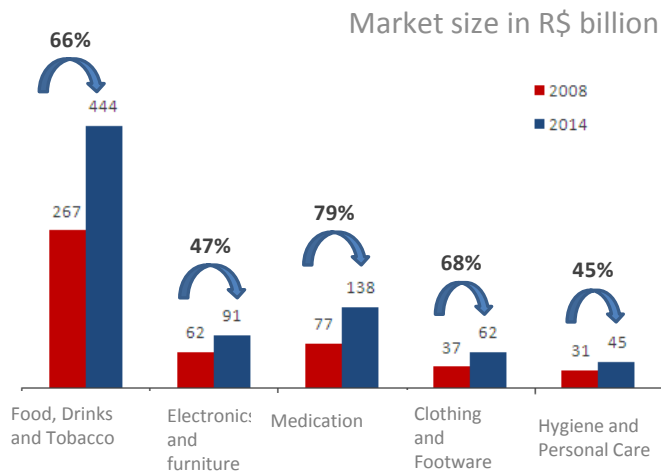
Consumption and Social Mobility

(Expenditure Increase according to social class change)



The 20 biggest consumer markets

Consumption by Category



2007


in US\$ billion*

1 United States	9,125
2 China	3,862
3 India	2,530
4 Japan	2,357
5 Germany	1,489
6 Great Britain	1,365
7 France	1,098
8 Brazil	1,066
9 Italy	1,019
10 Russia	823
11 Mexico	820
12 Spain	723
13 Canada	626
14 South Korea	618
15 Indonesia	602
16 Turkey	458
17 Australia	400
18 Argentina	373
19 Philippines	373
20 Thailand	353

2030

in US\$ billion*

1 United States	15,585
2 China	12,755
3 India	5,265
4 Japan	2,818
5 Brazil	2,507
6 Great Britain	1,924
7 Mexico	1,854
8 Germany	1,813
9 France	1,528
10 Italy	1,340
11 Indonesia	1,141
12 Russia	1,136
13 South Korea	1,072
14 Spain	1,047
15 Canada	989
16 Turkey	974
17 Philippines	966
18 Pakistan	734
19 South Africa	729
20 Australia	721



As a conclusion there are some important strategic considerations when looking at Brazil...

Over the past year Brazil has experienced an enhancement in economic variables, which has stimulated consumption;

With recent economic developments, Brazil is catching up in terms of global social trends and it has direct impact on consumption profile such as increase in ready-to-eat meals, single servings, natural / functional;

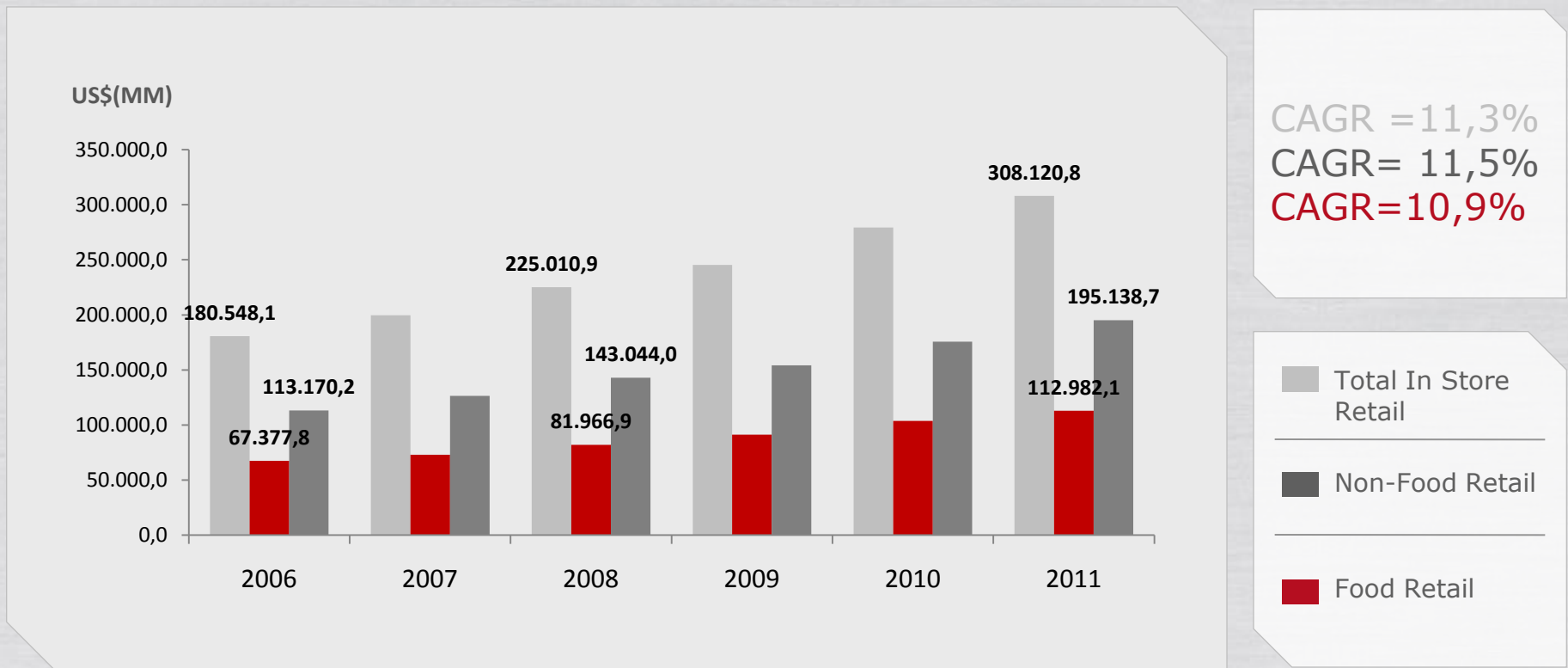
The greatest recent change is the ingression of more than 20 million new consumers in the market emerged from poverty with government incentive programs.

3

GLOBAL MODERN TRADE AND TRADITIONAL SMALL STORES COEXIST. IN A COUNTRY OF CONTINENTAL DIMENSIONS AND GREAT DIVERSITY THE QUESTION IS HOW TO SUPPLY THE CHANNELS EFFICIENTLY




The Brazilian retail market has grown steadily over the past years. 11% CAGR gives an idea of the speed in this growth.

RETAIL SALES BY CHANNEL – IN STORE RETAIL, 06-11



Big retailers have a strong presence and a good share of the retail market in Brazil. Their growth is happening mainly through acquisitions.

SR - R\$ Bi % retail
2011 - ABRAS

	36.1	➔	24%
	29.0	➔	19.2%
	22.3	➔	14.8%
TOP 17 (excluindo top 3)	25.6	➔	17%

Concentrated market:

- Top 3 national retail chains represent approximately 58.1% of the channels' sales revenues;
- Top 17 brands (top 3 excluded) represent other 17%;
- Concentration has grown with recent consolidation movements;
- In 2010, the channel exhibited the highest % growth (13,8%) in the past 5 years.





TOTAL POS: 1647



TOTAL POS: 654





TOTAL POS: 479

Even the big retailers are adapting formats to better serve consumer diversity...



Neighborhood supermarket, focused on consumers A/B



Hypermarket



Convenience Store



Supermarket focused on consumers C



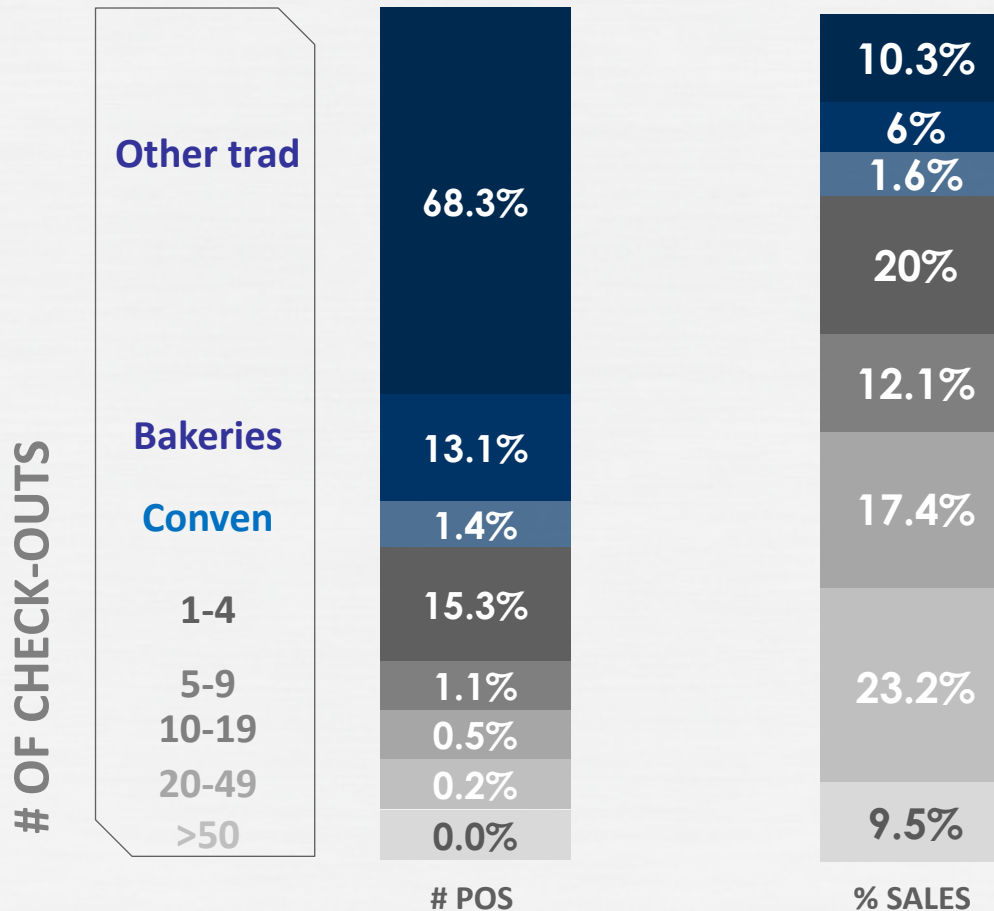
Neighborhood supermarket restrict assortment



Specialized in electronic products, furniture and bazaar

The number of small / traditional stores represent a challenge to the cost to serve. Even Coke has a drop-size problem to reach directly the POS...

% OF SALES/RETAIL CHANNEL ('09)

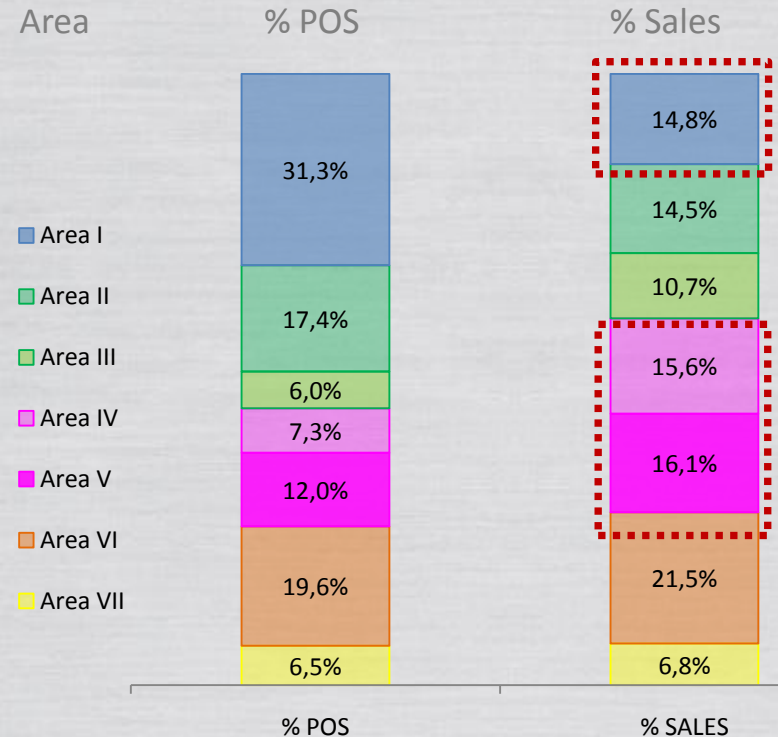


The retail organization greatly differs from region to region. NE has 31% of stores but only 15% of sales (smallest drop-size) while SP has 19% of stores with 32% of sales.

POS DISTRIBUTION



- Area I: Ce, Rn, Pa, Pe, Al, Se, Ba
- Area II: MG, ES, RJ interior
- Area III: Grande RJ
- Area IV: Grande São Paulo
- Area V: São Paulo interior
- Area VI: Sul
- Area VII: Go, MTS, DF



TOTAL # OF POS: **400,512**



Key messages on industry challenges ...

Greater Sales concentration: 5 largest chains in Brazil respond for 42% of the sales → get prepared to work and manage KA

Sustain development of the Regional, Medium and Small → Seek ways to better balance channel profitability and drive sales growth through broader coverage of the retail market

Different regional realities (social class and type of retailers) → challenge to adapt mix and pricing management

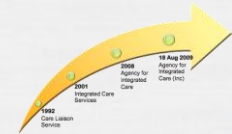
Pepsico Case – Brazil



PRODUCT



WHAT WAS DONE?



CHALLENGES



RESULTS



Other Cases – Brazil



PRODUCT

STRATEGY

ADAPTATIONS IN THE BUSINESS MODEL

RESULTS

1

Brazil IS A BIG COUNTRY AND A LAND OF DIVERSITIES.

Realities: Low political risk but complex law → local knowledge is key

Many countries inside Brazil → Regionally adapt;

Overall market is growing posting opportunities → Time to make changes

High end categories have critical mass problems → Partnership / concentrate geography

New consumers from class D → adapt mix / business model to make money

2

CONSUMPTION GROWTH

Enhancement in economic variables stimulated consumption;

Economic developments led to global consumers trends with direct impact on consumption

More than 20 million new consumers emerged from poverty with government incentives

3

GLOBAL MODERN TRADE AND TRADITIONAL SMALL STORES COEXIST

KA concentration (top 3 are 38% sales) → get prepared to work and manage KA ;

Sustain the Regional, Medium, and Small → Balance channel profitability and broader coverage

Different regional Channel participation → challenge to adapt mix and pricing management

A photograph of a sunrise over a forest in the Amazon. The sky is filled with soft, white and yellow clouds, with the sun low on the horizon. The foreground shows the dark silhouettes of trees.

THANK YOU

Brazil

A COUNTRY OF CONTRASTS



Integration

