
GCE Consultoria

Market Entry Brazil – General Information

Contents

BRAZIL TODAY 3
CHANCES FOR MIDDLE-SIZED COMPANIES..... 4
BIG BUSINESSES AND MIDDLE-SIZED COMPANIES 4
MARKET ENTRY OPTIONS 5
OPENING A COMPANY IN BRAZIL 6
MARKET ENTRY IN BRAZIL – MOST COMMON MISCONCEPTIONS..... 8
SUMMARY 9
ABOUT GCE CONSULTORIA 10
APPENDIX 1 11
APPENDIX 2 12

Brazil today

In the past decades, Brazil has become one of the biggest economies in the world. The country's GDP is the 10th highest worldwide. The formerly accelerated growth has been stabilized to some solid 3-5 % per year. The hyperinflation, for which Brazil was formerly known has been reduced to 3-4 % per year more than ten years ago and equals that of stable industrialized countries.

With almost 190 mi inhabitants Brazil is one of the most populous countries in the world. The population growth for the country overall has started to stagnate, with regional differences. Population is expected to peak in the 2030ies at some 230 mi.

Regarding these macroeconomic data, the country is entering a phase of stable development and can be expected to reach the development level of weaker industrialized European countries within the next decades.

Despite many recent corruption scandals, Brazil's political life is much more stable than in the past decades. 20 years of military dictatorship from 1964 to 1984 were overcome fairly well. Public life has normal, democratic traits, without constraints of freedom of speech and religion.

Economic power and wealth are unevenly distributed throughout the country. Generally speaking, the South and Southeastern regions are the richer parts of country, while the Brazilian Midwest, Northeast and North are significantly poorer.

Especially the Southeast is highly industrialized. Here, the federal state of Sao Paulo distinguishes itself with it's thousands of big national and international enterprises. Infrastructure, services and markets are similar to those of many industrialized and developed countries.

Within the population, there is a notable contrast between the rich and the poor. Unqualified laborers' incomes in services and industry are much below the income of highly qualified professionals. A restaurant bill in São Paulo's Jardins neighborhood can easily equal the wage of a factory worker in the ABC industrial belt a few kilometers away. In general, on the labor market, there is a huge offer of unqualified workers, but a lack of qualified specialists.

Overall, the security level for private persons and businesses is sufficiently high, as long as a few basic precautions are made. Only the far hinterlands have frontier town atmosphere.

The legal system is based on the Roman law. Despite recent efforts to raise the judiciaries efficiency, legal procedures are still slow. A dispute over unpaid bills can take years to be settled. For now, negotiations and arbitrage chambers are a better alternative to litigation.

Chances for Middle-Sized Companies

Brazil's GNP per capita is increasing continuously and stronger than in many other countries. In many areas of private and business life there is a strong demand for a great variation of products and services. A general innovation and pioneering spirit can be felt clearly in daily life. It seems that Brazilians want to catch up with richer countries.

Increasing labor costs and new financing possibilities push more and more a modernization of Brazil's partially antiquated machineries and equipment.

These factors make Brazil an interesting market for foreign companies. But high import taxes and long delivery times from the USA, Asia and Europe often demand a local production.

Big Businesses and Middle-Sized Companies

In Brazil, there is a strong contrast between big business and small to middle-sized companies (SMEs) – more than in European countries and the USA. This can be observed in management, controlling, organization and finances.

While big businesses are run like everywhere else in the world, the SMEs are usually family-run and less professionally organized. A typical Brazilian SME has annual sales of 10-200 mi USD and from 30 to 1,000 employees. Smaller business exist in far greater number than bigger companies. Shareholders and management are usually the same, from the same family. Family members are usually in key positions, with only a few contracted managers in charge. Slowly, this is changing. Business planning, controlling and dedicated professional financial management were adopted by very few SMEs yet.

When a foreign company takes over a Brazilian SME, usually a business restructuring project becomes necessary.

It is not uncommon that small business do not declare parts of their income properly to the tax authorities. The amounts undeclared can vary between 5-30%, depending on the industry. Therefore, balance sheets and tax statements cannot always be used for business evaluation.

Market Entry Options

In many cases, only a small part of the Brazilian market can be reached by export from a foreign country. Long delivery times, minimum delivery amounts and huge difficulties for an efficient after-sales make it impossible to satisfy most local customers. A more direct presence on the Brazilian market becomes necessary.

There are some basic options to enter the Brazilian market. The following list is sorted by increasing order of investment and option effectiveness.

Sales Representatives

Sales representatives are usually Brazilian sales partners who have customers in some sectors of the Brazilian industry. Except sales commissions, customs fees and import taxes, there is no investment necessary.

On the downside, sales Brazilian sales representatives enjoy a number of legal privileges. Changing a sales area our a sales representative is difficult and usually subject to severance payments.

Especially for selling more complex products and for an efficient after-sales, the sales representatives lack the necessary training and experience. It is common that a sales representative offers competitors' products to the same client. It is almost impossible to generate an own customer base.

Sales Organization

Starting up an own sales organization in Brazil is more costly, but avoids most sales representative problems. A presence on the Brazilian market with own sales staff helps to raise the company's reputation with clients. A local warehouse shortens delivery times to a competitive level.

Joint Venture

The partial or total acquisition of a local company helps to reduce the initial investment necessary. Customer base, production facilities and administration can be used as they are for some time, to be restructured step by step afterwards.

The most frequent risks of this options are in hidden liabilities (usually legal and taxes) and in the original shareholders, who might start up competitors through third parties, despite contractual obligations.

Start-up of an own company

If no joint venture partner is available or desired, an own company can be started up anew. By importing used machinery and equipment – technically obsolete, but still modern in Brazil – initial investments can be maintained on a low level.

Detailed business plans, market surveys and a well-structured time implementation process are absolutely necessary to guarantee the success of this option.

Opening a company in Brazil

Most foreign companies start up with founding a Brazilian Limited company. This type of legal structure is very similar to internationally common standards.

Brazilian Limited company

To constitute a Ltd. Company in Brazil, two or more natural or legal persons (companies), foreign or Brazilian, as stockholders are obligatory. The subscribed capital can be of any amount, no upper or lower limits are given.

A locally resident administrator, foreign or national, has to be appointed

From the moment of obtaining the necessary foreign documentation in Brazil, opening procedures will take 3-4 weeks. A detailed workflow and running times can be found in APPENDIX 1.

administrator

The administrator not being a Brazilian national, he has to have residency visa for Brazil. This can be obtained through an administrative procedure with the Brazilian Labor Ministry and the Federal Police. Additionally, the administrator has to obtain a CPF tax number.

To obtain the visa, the foreign held Brazilian company to be opened has to subscribe and transfer USD 50,000.00 – USD 200,000.00 (depending on expiration date of the visa) to their Brazilian bank account.

To obtain the permanent residency status, a processing time of three months is common.

RADAR import-export license

Any entity within Brazil that imports or exports goods has to obtain a RADAR license to do so. Obtaining the full license takes approximately six months. A simplified license with import-export value restrictions can be obtained faster. Until then, the services of a third-party importer can be used.

All import processes are strictly scrutinized by the Brazilian customs, Federal Police, Central Bank and Internal Revenue Services.

Renting of office space and warehouse

There are no restrictions to foreign companies for renting or buying real estate. Minimum contract periods are significantly shorter than in the European Union.

Hiring staff

While manual labor is cheaper than in the EU and USA overall, specialized technical workers receive salaries on European levels, and specialized administration and engineering staff can be significantly more expensive.

Having expatriates with foreign work contracts working for a Brazilian company, the total of their salaries cannot exceed one third of the payroll value.

Accounting and taxes

Brazilian taxes and social charges are complex. After opening the business, the services of an accountant need to be retained.

Some 70 different federal, state and municipal taxes are in use. Their amounts vary between business sectors and regions. The most common corporate taxes can be found in APPENDIX 2.

Social charges on payroll amount to some 50% of payroll net value and include contributions to worker's funds, social security and 30 days paid vacation.

Market Entry in Brazil – Most Common Misconceptions

In general, there are some misconceptions about Brazil and its business environment – apart from the usual samba-sun-soccer-jungle-gangland impressions conveyed in movies and the media.

From our experience, the most common misconceptions are:

Low-Cost Country

Brazil is not a low-cost country anymore. Even though labor costs are lower, most industrial and consumer products cost the same or more as in the USA and EU.

Truly qualified service personnel like lawyers, business consultants and engineers cost the same or more than in industrialized countries.

Far West

Even though there is some elbow room in many areas of tax and business law, legal flexibility has decreased considerably in the past ten years.

Tax fraud is discovered easily through an impressive depth of systems integration between federal and state revenue services, social security, central bank registers and foreign trade databases. Environmental and health regulations are very rigid and aggressively controlled, and non-compliance can close down entire production plants.

Corruption is still a reality, but not as easy and cheap as it used to be. Jail sentences and high fines for passive or active corruption are not a rarity anymore. Companies with foreign shareholders are usually tighter controlled than national companies and should always act according to local laws and regulations.

Amazing Possibilities!

Having once grasped the size and development level of the Brazilian market, many entrepreneurs become excited about the possibilities and chances in Brazil.

But it is untrue that any foreign product and service has inherent advantages over local alternatives and automatically enjoys a big demand. In some sectors, the Brazilian industry is highly competitive even on international level. Local competitors can put up a fierce fight to defend their market share. Some other products might not have a local demand at all, due to cultural differences.

In any case, a detailed market study is necessary before high investments in sales and production are to be made.

New, Friendly Business Partners

Foreign companies looking for local partners usually attract to some degree the wrong companions. First meetings and forecasts are excellent, and the foreign entrepreneur travels home happily. Then, exaggerated fees and commissions might be paid, and no new business is generated.

Before starting a tighter partnership or even a joint venture, a deeper analysis of the Brazilian business partner should always be made.

Easy-Going

Despite its tropical image, Brazil is a country of bureaucrats. Regulations, administration processes, taxation and laws sometimes can become an absurd entanglement for any company – foreign or national. Some rule or the other might be bent, but mostly not.

But it helps that the public administration staff usually tries to help out as much as possible and is not out to cause unnecessary difficulties.

Summary

For many foreign companies Brazil can be an interesting market. If approached well-prepared and well-informed, a business venture will lead to success.

About GCE Consultoria

GCE Consultoria is a business consulting firm in Sao Paulo. Quality standards are competitive with those of big international consulting firms.

Managing director Matthias Gösch and his team have local and international consulting experience in the SME and big business environments.

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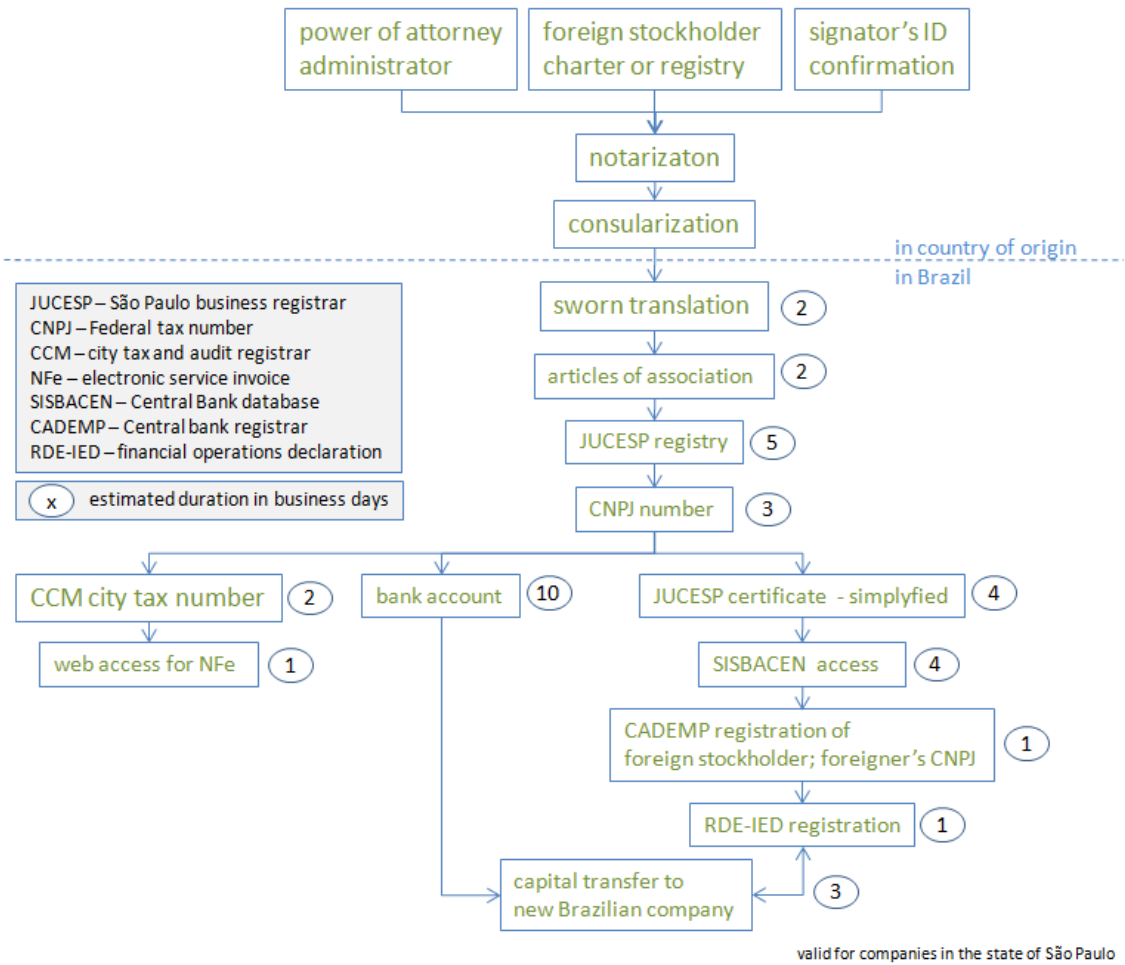
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APPENDIX 1



APPENDIX 2

Most Frequent Brazilian Corporate Taxes							
tax	name (Portuguese)	name (English)	authority	tax base	buying credits*	amount (%)	observations
ICMS	Imposto sobre Circulação de Mercadorias e Serviços	VAT on goods	state	gross turnover goods	yes	0-30	varies for different products and states
IPI	Imposto sobre Produtos Industrializados	VAT on industrial products	state	gross turnover industrial products	yes	0-15	average, depending on products
II	Imposto de Importação	import tax	federation	CI value of merchandise	no	0-60	depending on products
PIS	Programa de Integração Social	social integration program	federation	gross turnover	depends*	3,00	
COFINS	Contribuição para o Financiamento da Seguridade Social	social security contribution	federation	gross turnover	depends*	0,65	
ISS	Imposto sobre Serviços	VAT on services	municipality	gross turnover services	no	0-5	depending on municipality; São Paulo: 5%
IRPJ	Imposto de Rende de Pessoa Jurídica	company income tax	federation	gross profit	no	25	exponentially degressive
CSLL	Contribuição Social sobre Lucro Líquido	social security contribution on income	federation	gross profit	no	10	exponentially degressive
IOF	Imposto sobre Operações Financeiras	financial transactions tax	federation	loans, insurance, imports, other	no	0-1,5	weekly discount by banks
IPTU	Imposto sobre a Propriedade Predial e Territorial Urbana	realty property tax	municipality	official estimate of realty value	no	0,60	10 monthly payments, starting each january

fiscal year = calendar year

* tax included in items bought/consumed deductible from tax due for items sold

** "lucro presumido": no; "lucro real": yes