Bloomberg news

Nestle to Sail Amazon Rivers to Reach Consumers (Update1)

By Tom Mulier and Iuri Dantas

June 17 (Bloomberg) -- Nestle SA will begin sailing a supermarket barge down two Amazon river tributaries tomorrow as it competes with Unilever to reach emerging-market customers cut off from branded goods.

The world's largest food company will send a boat with 100-square meters (1,076 square feet) of supermarket space on a journey to 18 small cities and 800,000 potential consumers on the Para and Xingu rivers in Brazil, before starting the journey again. The vessel will carry 300 different goods including chocolate, yogurt, ice cream and juices.

"Direct distribution gives them a competitive edge over regional competitors who don't have the resources to do this kind of thing," said James Targett, an analyst at Consumer Equity Research in London. He has a "positive" rating on Vevey, Switzerland-based Nestle.

Nestle expects as many as 1 billion people in emerging markets to exit poverty and be able to afford its products in the coming decade. The foodmaker has adapted its products in such regions by offering smaller, cheaper versions of products such as Alpino ice cream and Ninho milk powder through direct distribution to make them more accessible to low-income shoppers. Unilever has also been building a distribution network into Brazil's shantytowns.

River Streets

"In Para, rivers act as streets and avenues," Nestle Brazil President Ivan Zurita said today in an interview. "We have to adapt to this reality." People's "daily lives here are linked to fishing, to the region they live in. They don't have the time or money to get to the capital."

Nestle has invested 1 million reais ($560,000) in products and partnerships with local suppliers for the project, Zurita said. If successful, Nestle may expand it in Brazil or in other countries such as the Philippines, he said.

Supermarket purchases in Brazil's impoverished northern and northeast regions have outpaced growth from richer states in the south and southeast for the last two years as social programs and a higher minimum wage increased disposable income for the poor, Sussumu Honda, head of the national supermarkets association, said in an interview June 2.

Brazil's supermarket sales rose a record 15 percent in March from a year earlier, according to data from the country's statistics agency. The increased demand means that supermarkets in remote areas have had difficulty keeping products on the shelves as suppliers are unable to meet orders, Honda said.

Economic Growth

Latin America's biggest economy expanded 9 percent in the first quarter, the fastest annual growth rate since 1995, led by domestic demand and investments, the statistics agency said last week. Policy makers raised the benchmark interest rate for the second time this year to 10.25 percent last week to keep the economy from overheating.

Nestle sells 3,950 products in "popularly positioned" formats designed for low-income consumers. Smaller packs allow poor consumers to afford branded goods like richer shoppers rather than turn to generic alternatives. The company often adds nutrients such as iron, zinc, iodine and vitamin A to address deficiencies among the poor.

The Swiss company has a team of 7,000 saleswomen who peddle packs of Nestle goods door-to-door in Brazilian slums. In Indonesia, Nestle cut out middlemen and began shipping directly to wholesalers to expand its reach to consumers among the country's 17,000 islands.

Unilever

Nestle has forecast global sales from such products eventually reaching 20 billion Swiss francs ($18 billion) from 8.8 billion francs last year. Unilever, which sells smaller sizes of its products, such as Seda shampoo, in Brazil, already gets half its sales from developing countries.

"Unilever is very strong in Brazil and has been there a long time, and is used to getting poorer consumers in rural areas," said James Amoroso, a food industry consultant based in Walchwil, Switzerland. "It's obviously more expensive to establish yourself before the retail distribution is there, and this is what Nestle is trying to do."

Nestle had 2009 food and beverage sales growth in emerging markets of 8.5 percent, more than double the rate of its total business. The company has said it aims to boost the proportion of sales from developing countries to 45 percent in a decade from 35 percent now.

Nestle isn't the only one to take to water transport in the Amazon. Banco Bradesco SA, Brazil's second-biggest bank by market value, started to offer banking services in December via the Solimoes River, also in the Amazon. Bradesco made 700 new clients after six months, Director Odair Afonso Rebelato said.

"These clients don't want to be labeled as poor," Rebelato said. "They want the same products as everybody else."

To contact the reporters on this story: Tom Mulier in Geneva at tmulier@bloomberg.net; Iuri Dantas in Brasilia at *idantas@bloomberg.net*

Last Updated: June 17, 2010 15:04 EDT