Posted on Sun, Jun. 17, 2007

Brazil's strong currency -- the real -- is forcing importers to be creative

By Martha Brannigan

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Brazil's soaring currency, the real, has driven Fort Lauderdale importer Valnei Santos to turn increasingly to liquor.

Not to drink, but to sell. Liquor, wine and beer are among the Brazilian goods that Santos, owner of All Brazilian Imports, can still make a buck on despite the real's relentless rise against the U.S. dollar.

"These days it's becoming almost impossible to import stuff from Brazil," says Santos, 57, a Brazilian-American who has been in business in South Florida for 21 years. "The real is so strong and the dollar is so weak."

Since the start of 2003, the Brazilian real has gained 83 percent in value against the dollar, including 10 percent so far this year alone. That makes Brazilian imports relatively more expensive and U.S. exports to Brazil relatively cheap.

So entrepreneurs like Santos have to be a lot more selective and strategic.

"If it weren't for my export business, I'd be hurting," says Ernani Verlangieri, president of UNIExpress Global Trading in Fort Lauderdale. He exports computer notebook parts and security systems from the United States to Brazil and provides marketing, sales and support services to help Brazilian companies sell goods into the U.S. market.

Brazil is Florida's biggest trading partner by far, ahead of No. 2 Japan and No. 3 Germany: Total trade between Florida and the Latin American giant rose 3.8 percent to $11.31 billion in 2006, with rising exports more than compensating for the drop in imports.

To be sure, that vibrant trade with Brazil, Latin America's largest country, is expected to remain strong despite the distorted exchange rates. And most of Brazil's key exports to the United States and the rest of the world -- from raw materials and commodities like iron ore, fuel and wood to manufactured goods and machinery -- keep flowing at a robust pace, pulling in dollars and contributing to Brazil's strong currency.

Still, many small South Florida entrepreneurs who import items such as Brazilian apparel and footwear are feeling the pain.

BIG SURPRISES

"Not in my wildest dreams would I ever have forecast the real getting so strong," says Verlangieri, 44, who after growing up amid Brazil's huge currency devaluations and rampant inflation is now having to readjust his perspective to a weak dollar. "We grew up with the dollar always going up at some point."

As they strive to keep pace with what works and what doesn't, he and Santos have cut back on importing Brazilian prepared foods. Instead, they are looking for unique or niche products that can withstand the currency disadvantage or commodities that sell at a fixed price everywhere.

Santos, for instance, is zeroing in on unique products like *cachac¸a*, the sugar-cane liquor, used in the popular caipirinha cocktail. "You can't buy *cachac¸a* from China," he says.

Even so, it's tough going. Santos started bringing in the Matraga brand of *cachac¸a* two years ago. "We made the price when the exchange was at 2.86 reais to the dollar and we still charge the same today," with the dollar fetching 1.94 reais, says Santos.

That means the product sells at the same wholesale price of $10.61 a bottle but brings in only about two-thirds as many reais as it used to. The Brazilian supplier has absorbed some of the decrease in margin "and we took some of it too," he says. "But they told me they won't keep the same price for the next batch."

For his part, Verlangieri has stopped dealing in Brazilian pasta goods, because they are no longer price competitive. Similarly, many Brazilian ready-to-drink juices can no longer hold their own against juices from El Salvador and Ecuador, he says.

Such juices typically retail at around three cans for 99 cents in stores, he says, while he'd have to get at least 38 cents a can from the supermarket to cover his costs and markup.

SEVERING TIES

Verlangieri has had to tell a number of Brazilian clients he's cutting ties because their products aren't competitive under current exchange rates. "I have to go to people [in Brazil] and say there's no market for the goods at my cost," he says, adding he is reluctant to burn bridges.

He's focusing now on developing imports of Brazilian wood products such as doors, he says, because the availability and quality makes Brazil a preferred provider.

To hold down costs, Verlangieri shares some of Santos' warehouse space in Fort Lauderdale. He considers Santos a mentor. "He's smart and he's been doing this a long time," says Verlangieri, a computer engineer by training who started his business 13 years ago. "He's probably one of the best-known members of the Brazilian community."

Verlangieri, who came to the United States as a college student 20 years ago and eventually became a citizen, works with Brazilian companies that want to sell in the United States, helping them get a foothold by providing "a virtual presence," he says.

He finds many Brazilian businesses eager to tap the enormous U.S. market, but when they add up the intense global competition, the marketing and sales costs, and the currency challenge, they are daunted. The only ones willing to tough it out, he says, are Brazilian businesses that have a long-term view of selling in the United States.

One reliable niche for imports is Brazilians living in the United States who yearn for a taste of home -- foods such as the popular soft drink *guarana*, hearts of palm, and *yerba mate*. They may shop at Latin markets that stock Brazilian goods or at Brazilian-oriented stores and are willing to pay more than the broader U.S. population, Verlangieri says.

"Brazilians understand the fluctuations in currency. So with them there is more elasticity in pricing," he says. But that market is limited.

'PRICE, PRICE, PRICE'

To compete in the broader U.S. market, which brings goods from every corner of the globe, Verlangieri says, the crucial factor is "price, price, price."

One effective tactic, Verlangieri has found, is to source goods in Brazil for private label use by U.S. firms. That cuts out the marketing, distribution and sales costs. Panettone bread is a popular private-label product, he says, and he's currently working on a project to bring filled Oreo-like cookies from Brazil for private label sale.

But, of course, that strategy also has a downside. "The problem with private label is they may source from you today and tomorrow choose somebody else whose product is cheaper, so manufacturers prefer to have their own products here, but right now they can't afford to."

Santos, who runs the operation with his wife, Elisabeth Mangabeira, says he's seen a lot of would-be importers and exporters come and go because they don't study the intricacies of the business before making the leap.

"A lot of guys come here and they dump a lot of money in this market and in two years they're gone," says Santos.

IN STYLE

One boost for business: The nation is in vogue. "Brazil is in fashion, so we're taking advantage of that," says Santos.

For instance, although Brazilian shoes are getting trounced by cheaper Chinese imports, Verlangieri and wife Gisele are betting Nativa, an upscale women's brand popular in Rio de Janeiro, will do well in South Florida.

The Verlangieris, in partnership with Nativa, which now has about two dozen stores in Rio de Janeiro, are shopping for upscale retail space in Miami-Dade, Broward and Palm Beach counties with plans to open women's shoe stores.

"South Florida is the perfect place for these shoes," Verlangieri says.

Florida's Top Trading Partners

Brazil is Florida's most important trading partner and is the state's top export market.

Total Trade*

	2005	**2006**	**1Q 2006**	**1Q 2007**
1. **Brazil**	10,896.9	11,309.0 (+3.8%)	2,585.5	2,854.6 (+10.4%)
2. Japan	6,013.4	7,271.9 (+20.9)	1,610.5	1,872.9 (+16.3)
3. Germany	4,821.8	6,772.7 (+40.5)	1,529.4	1,517.6 (-0.8%)
4. Venezuela	5,529.9	6,131.5 (+10.9)	1,454.0	1,432.3 (-1.5%)
5. China	4,734.1	5,615.0 (+18.6%)	1,214.1	1,421.5 (+17.1%)

Top Merchandise Import Partners*

	2005	**2006**	**1Q 2006**	**1Q 2007**
1. Japan	5,734.8	6,879.2 (+20%)	1,519.2	1,752.0 (+15.3%)
2. China	4,307.6	5,127.3 (+19%)	1,099.8	1,293.5 (+17.6%)
3. **Brazil**	4,226.0	3,590.8 (-15%)	797.5	792 (-0.7%)
4. Germany	3,202.9	3,305.1 (+3.2%)	757.6	696.6 (-8.1%)
5. Chile	1,934.9	3,257 (+68.3%)	713.2	640.6 (-10.2%)

Top Merchandise Export Destinations*

	2005	**2006**	**1Q 2006**	**1Q 2007**
1. **Brazil**	6,671.0	7,718.2 (+15.7%)	1,788.1	2,062.6 (+15.4%)
2. Venezuela	3,419.6	4,410.2 (+29.0%)	944.1	1,068.5 (+13.2%)
3. Germany	1,618.9	3,467.7 (+114.2%)	771.7	821 (+6.4%)
4. Colombia	2,343.7	2,804.0 (+19.6%)	627.4	785 (+25.1%)
5. Costa Rica	2,290.5	2,643.9 (+15.4%)	658.3	653.6 (-0.7%)

* In millions of dollars

SOURCE: U.S. Department of Commerce; Census Bureau, Foreign Trade Division