

European Food & Business Services

Feedback from expert call with former Pluxee CEO of Brazil

Industry Overview

Brazilian Employee Benefits market dominated by Top-4

Last week, we hosted Geraldo Franca, Pluxee's former CEO of Brazil, to gain further insights into the country's Employee Benefits market. We learnt that: **1)** The penetration rate of meal & food solutions is c.50% among large enterprises (vs 20% for SMEs). **2)** The Top 4 players (Alelo, Pluxee, Edenred and VR Beneficios) dominate >85% of the market, whereas c.10% is tapped by start-ups and 5% by regional operators. **3)** Incumbents typically employ exclusive strategic partnerships with large, private Brazilian banks that allow them to gain further market share. **4)** By contrast, digital players (i.e., Caju and Swile) leverage the full banner network of credit card operators. **5)** The portability and interoperability of meal credits requires extensive monitoring, complex IT systems and further investments that mean implementation is unlikely any time soon.

Structural tailwinds from macro and legislation

Latin America is c.40% of Pluxee's revenue vs 30% of Edenred's, where Brazil accounts for their largest operations. In Brazil the Employee Benefits market is supported by macro tailwinds (eg still elevated inflation and steadily increasing employment levels), as well as mandatory transportation/mobility solutions, which are required by law. The health/ insurance offering is instead not well penetrated yet, with only large and private companies able to provide such services. In Brazil Pluxee is ramping up its sales strategy by targeting largely SMEs and is the top player across the public administration market with a share of ~50%.

Can the market be disrupted by digital start-ups?

Pluxee and Edenred currently benefit from elevated merchant fees, up to c.6-7% charged to restaurants and c3% to supermarkets, as they act both as an issuer and acceptor, free to negotiate merchant fees. In comparison, start-ups can use the Visa/MasterCard banner, "the open loop/4C model" enabled by the Labour Reform in 2017, but receive only the same level of interchange fees as those credit card companies (1.5-2%). One key point highlighted by Mr Franca is the potential risk that start-ups might introduce a larger variety of SKUs beyond a meal/food offering (if permitted by the law). This could disrupt the market, allowing consumers to purchase other items with greater flexibility.

Latest debate on portability and interoperability

The implementation of portability (allowing employees to move/transfer their meal credit between providers) and interoperability creates further complexities in monitoring the merchant network, quality of food/SKUs, while requiring significant investments, notably advanced IT infrastructure to monitor each transaction. The Brazilian Finance Ministry and Central Bank are locked in debate over how to regulate the system. The central bank has resisted taking responsibility due to a lack of staff and fears that transferring voucher credits could create new barriers to entry by requiring substantial investment in operations.

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SME: Small medium size enterprise

SKU: store keeping units

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