SPECIAL CHEESE MARKET IN BRAZIL AND IMPLICATIONS TO THE STRATEGIC BEHAVIOR OF AGRO-INDUSTRIES

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ABSTRACT - Competition in the special cheese market has recently increased as a consequence of the globalization process and lower profitability in the traditional cheese market. This has led to changes in the market's structure. In order to better understand these changes, this paper presents an analyses of the strategies used in this agroindustrial segment. The cheese industry is characterized by a few companies controlling most production. These companies' market power is now threatened by imported products and other, domestic, dairy product producers. Porter's model (1996) was chosen to evaluate the Brazilian special cheese market's competitive environment and identify successful market trends. The analysis shows that milk suppliers and retail customers are separate distinct forces acting on the segment; and retailers, specially large supermarket chains, exert great influence on producer market decisions. To improve product competitiveness, the domestic cheese industry should adopt strategic promotion and standardization programs, such as a program to certify product origin and quality. This type of program would increase product differentiation and create standards, both important promotional tools.

Key words: Strategy, oligopoly, special cheeses, competitiveness.

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INTRODUCTION

Brazil has traditionally low cheese consumption, with *per capita* consumption about three times lower than that found in other MERCOSUL countries, such as Argentina and Uruguay. Brazilian cheeses are consumed either new (fresh) or after a very brief ripening time, consumptive behavior contra the world pattern that favors aged cheeses.

Nevertheless, there are products in Brazil that are similar to the cheeses produced in Europe. These products are commercially know as "special cheeses." This name, implying better quality and more elaborate production techniques, is designed to appeal a specific consumer market: the upper social classes. Special cheeses represent a small share of Brazilian cheese production, less than 5% (Criscione, 1996), but since the "Real" economic plan's introduction in late 1994 special cheese sales have boomed. On average, special cheese sales have been increasing at a three times greater rate than conventional cheeses sales, attesting to the high income-elasticity related to this type of product.

The boom in special cheese sales, allied with the increasing competitiveness and low profitability in the conventional cheese market, has lead to an increase in the number of domestic dairies producing special cheeses. At the same time, the decrease in Brazilian import taxes has made European and MERCOSUL imported products more competitive and lead to an invasion of imports at the retail counter.

This research was carried out to better understand the changes in the special cheese market. The Brazilian Cheese Industry Association's (ABIQ) special cheese classifications were used to delimit the market and focus on oligopolistic Brazilian companies in the cheese business. Data was obtained from the literature and through non-structured interviews with industry salespeople and managers. The data were then analyzed through use of Porter's model (1996).

CHARACTERISTICS OF CHEESE MARKET IN BRAZIL

1) Brazilian industry and cheeses: In Brazil, cheese production began in the 18th century in the state of Minas Gerais. The traditional *Queijo-de-Minas* is extremely easy to manufacture and is consumed fresh. Further development of the early Brazilian cheese industry came with the arrival of Portuguese immigrants who started producing Reino's cheese, a cheese similar to Dutch Edam (Leandro, 1987).

A revolution took place in the Brazilian cheese industry at the beginning of the 20th century when Danish immigrants chose the Alto do Rio Grande region in southern of Minas Gerais to produce European cheese varieties. The companies the Danish founded now are traditional names in Brazil's dairy industry: "Campo Lindo," "Skandia." and "Luna." These dairies started producing several European type cheeses that, despite having specific individual characteristics, were given the same names as the European original, such as Gorgonzola, Gruyere, Gouda, Itálico, Port-Salut, and Camembert. As the production of these cheeses demanded time consuming manufacturing and ripening techniques, their distribution was much slower and less widespread than that of conventional cheeses and output was limited to the original companies founded by the Danes. These cheeses commanded high retail prices, so they began to be called "special cheese."

Leandro (1987, p.69) gives the following definition of special cheeses: *Trata-se da categoria nobre dos queijos nacionais. Compreende queijos que necessitam de cuidados especiais durante todas as fases dos processos de fabricação, cura e distribuição, além de exigirem condições ambientais adequadas* [Domestic cheeses that receive special care in all phases of production and distribution].

The most produced cheeses in Brazil are Mussarela (29%), Prato (23%), Minas Frescal (13%) and Parmesão (5%). They account for 70% of Brazilian cheese production (Santos, 1998), and are not considered special cheeses. These cheeses are produced by both big companies, to supply big cities, and by small dairies, to supply local markets (Bortoleto, 1996). Most of the small cheese producers are not regulated or inspected and produce low quality low price products.

With the introduction of Brazil's new economic stabilization plan, the "Real Plan", followed by a consequent rise in middle class incomes and fall in market prices, there was a spectacular rise in special cheese production levels and number of production units (Tables 1 & 2). On average, the production increment of special cheeses between 1995 and 1997 was 30% higher than the increment in total cheese production, showing an industry shift in production from conventional to special cheeses.

The ABIQ special cheese class used in this study includes Brie, Batavo, Boursin, Caccio Cavalo/Provola, Camembert, Cheddar, Cottage, Emental, Gorgonzola, Gouda, Gruyere, Itálico, La Cabaña, Limburgo, Pecorino, Port-Salut, Quark, Quartirolo, Queijo Cremoso, Raclete, St. Claire, St. Paulin, Sansoe, and Tilsit.

Table 1 –Federally inspected, Brazilian special cheese production (tons), and production change

	1995	1996	1997
Total special cheese production	8266	9144	10309
% growth in relation to previous year	**12.6**	**10.6**	**12.7**
Total cheese production	348000	380000	408000
% growth in relation to previous year	**20.0**	**9.2**	**7.3**

Source : SIPA/ABIQ/DATAMARK/Desk Research.

2) Imported products: Until 1995, the Brazilian cheese market had remained relatively unaffected by imported dairy products. In April 1995, the Brazilian government promoted the reduction of the TEC (Common External Tariff, a tariff on products imported from countries outside the MERCOSUL trade alliance) from 20% to 2% in support of international trade liberalization. The consequences to this tariff reduction were almost instantaneous: the domestic market was filled with tons of imported products; the country's commercial distribution and marketing structure was severely disrupted; and Brazilian industry vehemently protested this intrusion by foreign competition.

Under pressure from domestic industries and worker groups, Brazil's Government pressured its MERCOSUL partners to put cheese in the TEC exception list. Between September 1995 and December 1997, cheese import tariffs were raised several times, reaching 33% by 1998, causing a slight increase in the retail price of imported cheese. Cheese imports were further impeded in February 1998 when the Government reduced import buyers' term for payment from the normal 189 days to 30 days and required prior Agriculture Ministry approval for dairy product importation (Góes, 1998).

It should be emphasized that the competitive advantage of imported products is not solely based on price and reputation. Periodic observation of retail products has allowed us to conclude that imported cheeses (from Europe or Argentina) meet higher standards than Brazilian cheeses; imported cheeses are marketed only after a fixed ripening time and product quality and uniformity are assured. Due to a great number of production changes and efforts to avoid the opportunity and financial costs connected with maintaining large inventories, Brazilian industry usually markets dairy products before they reach ideal maturity.

3) Characteristics of the Brazilian cheese consumer: Brazilian *per capita* cheese consumption is low when compared with consumption in the other MERCOSUL countries and developed nations: Brazilian cheese consumption is 3 kg/person/year; Argentinean consumption is 8 kg/person/year; and French cheese consumption is 18 kg/person/year (the world's highest). Ninety percent of total Brazilian cheese consumption occurs in the country's South and Southeast regions (ABIQ).

Encouraging improvements have been seen in the Brazilian cheese market. Gomes (1997) identifies two important dairy product trends since the Real Plan's inception: a) a significant increase in the consumption of dairy product, a consequence of their great income elasticity; b) changes in the higher income classes' consumption habits. ABIQ´s 1996 research revealed that special cheese consumption, except for gorgonzola's use in culinary applications, is limited to the A and B social classes (Teixeira Júnior, 1996); and most potential special cheese buyers are members of the middle class (Sundfeld, mentioned by Viglio, 1996, "Competitive Strategy").

COMPETITIVE STRATEGY

Porter (1986) believes that there are 5 factors that determine a company's need to use competitive strategies to insure profitability within an market segment. These factors all relate to the degree of competition within an industry:

1. Entrance of new firms: the power of established firms is often diminished when new firms enter the market. This leads the established firms to impose market entrance barriers.
2. Intensity of rivalry among firms: in the fight to keep or increase market-shares, firms usually adopt different competitive strategies: price deals, publicity, new products, etc.
3. Threat of alternative products or services: the market introduction of alternative products and services implies that the profit margin of other, established companies is instantaneously reduced.
4. Buyers bargaining power: the bargaining power of buyers acts to reduce their costs, especially through volume purchases.
5. Suppliers bargaining power: the suppliers also have bargaining power, especially when suppliers form a market oligopoly or monopoly.

To meet the competitive challenge, a business employs three generic strategies: cost leadership, product differentiation, and focus (that may be in costs or differentiation).

MARKETING MIX

In order to succeed in the marketplace, companies must have the right "marketing mix." They must produce the appropriate product, charge the appropriate price, conduct transactions in the appropriate place, and use the appropriate promotion techniques: the 4 P's:

- Product: something that satisfies one's need in terms of quantity, quality, size, etc. (Reis et all, 1991). Cobra, mentioned by Pasin (1993), states that the product element is anything that can be offered to a specific market to incite acquisition or consumption.
- Price: a function of production costs, demand, or other externals.

- Place: the location where the product or service exchange occurs.
- Promotion: methodological techniques used to introduce the product to the consumer. The most often introduction techniques are advertising and publicity.

OLIGOPOLIES

The usual definition of oligopoly is the control of a particular market by a small number of companies. Silva and Luiz (1984) present the following definition of an oligopoly: "a market in which exist a small enough number of businesses so that the actions of one business affect all the market" *(Silva e Luiz,1984, p.199)*. Mochon and Troster (1994) consider that an oligopoly exists when there is mutual interdependency among the firms generating uncertainty about competitor behavior, with prices being determined as a demand function.

SPECIAL CHEESE MARKET: HOW THE OLIGOPOLY IS CHARACTERIZED

The dairy sector presents the structure of an oligopoly, verified by the observed interdependency among different companies in the market and some of their non price-based strategic decision making. The main competitive strategies outlined by Ferreira, Lara and Brandão (1997) are based on expenditures for sales promotion and product introduction. Furthermore, in the worldwide context, and similarly in Brazilian context, the competitive position is improved through economies of scale and scope which can be used in an attempt to overwhelm the competition.

The Brazilian cheese market is highly fragmented, but this myriad of producers is decreasing as economies of scale and the need for specialization gradually eliminate small and medium-size producers (Gomes, 1997). Relative to other dairy industries, business concentration in the cheese market is minimal. The three biggest yogurt producers control 64% of the market, while the three biggest cheese producers, CCGL, Sudcoop, and Parmalat, control only 11% of the market.

The special cheese market presents important differences from the general cheese market, especially in the character of its oligopoly. These differences are evident in the special cheese industry's high concentration rate, the great importance of special cheese brand names, the striking product differentiation, and mutual interdependency among firms. This interdependency is due to the small number of special cheese retail outlets, the market's concentration in Brazil's Southeast, and recent acquisitions by international companies. Industrial concentration in the special cheese market increased with the sale of Gessy Lever's "Luna" brand cheese to France's Brongrain group, the single international company in the sector.

ANALYSIS OF THE SPECIAL CHEESE MARKET USING PORTER'S MODEL

This paper will examine the special cheese market using Porter's model, which focuses on the main factors affecting competitiveness:

1) The threat of new companies: According to Wilkinson (1996), among all segments of Brazil's cheese market, the special cheese segment presents the greatest number of obstacles to the entrance of new competitors. Porter's six main obstacles to market entrance and a seventh, "geographic local," will be surveyed:

- Economics of scale: This is a very important factor in the special cheese market, especially as it affects distribution costs. The firm that has a great variety of products in the mix and a large market-share is able to decrease its unitary costs by distributing its own products to supermarkets, controlling branch management, and offering sales promotions. All costs are extremely important in the special cheese market because the number of sales is much smaller than the those of conventional cheese. According to the marketing directors of *Laticínios Serrabella*, a company which specializes in special cheese production, special cheese delivery costs per kg are almost twice as high as those of traditional cheeses. Therefore, large diversified companies should lower special cheese distribution costs than those of smaller companies which produce only special cheese.

- Product differentiation: New company entry into the special cheese market is difficult because loyalty to existing brands tends to be high. In order to reach the consumer, companies need to make a significant investment, especially in marketing activities.
- Capital requirements: According to the *Diagnóstico das Indústrias de Laticínios de Minas Gerais* - DILMG (1997), 30% of the Federally inspected (SIF) dairy industries surveyed in Minas Gerais cited financial limitation as the main obstacle to entry in the cheese market. The greatest investments that a new company faces in its entrance to the special cheese market are in creating the physical plant, finding experienced managers that can guarantee a product quality, forming inventory, introducing the product (mainly into supermarkets), and differentiating the product (promotion).
- Change costs: The costs to substitute suppliers is irrelevant in the cheese industry and does not constitute an important entrance obstacle. The fidelity of the special cheese consumer may cause some brand substitution problems, and the consumer may just move on to another store.
- Access to distribution channels: This is one of the main obstacles to entrance into the special cheese market. Some large retailer groups require that new products are marketed at the regional or national level, which can involve considerable time and expense. In addition, the introduction of new products at any level has its own costs, such as introductory price discounting and promotion. For those companies that are recognized names in the traditional cheese market and already have products in retail stores, entrance into the special cheese market would probably be easier.
- Government policy: The government, to assure some benefits to the national industry, protect the environment, and insure production may impose restrictions which hinder market entry. In the special cheese industry, the most relevant restrictions are related to hygiene and environmental protection.
- Geographic local: Special cheeses have some specific characteristics that require special manufacturing conditions: extended ripening time in a controlled environment and the use of raw materials with special

bacteriological and fat content features. The obstacles these factors present to entrance into the special cheese market are related to the production facilities local. More than 85% of Minas Gerais' special cheese production units are located in the Zona da Mata and Região Sul (Table 2). These densely populated regions contain more than 50% of the state's dairy industries (DILMG) and the state's biggest dairy herd. This area has such a great share of cheese production facilities because of its ideal cheese ripening climate and the micro-biological features found in local milk.

Table 2 – Spatial distribution of special cheese production units in the State of Minas Gerais-1997

State Region	Number of production units	% total
Sul	28	66.7
Zona da Mata	8	19.0
Alto Paranaíba	3	7.1
Jequitinhonha	2	4.8
Central	1	2.4
Centro-oeste	0	0.0
Rio doce	0	0.0
Triângulo	0	0.0
Norte	0	0.0
Noroeste	0	0.0
Total	42	100.0

Source: SIPA – elaborated by the authors.

2) Rivalry in the industry: Recent changes in Brazil's dairy sector have increased competition between dairy companies. Meireles (1996) points out the changes: external competition increased due to intra-MERCOSUL trading, revealing Brazilian industry's pricing and quality weaknesses; relative currency stability; relative family income stability; increased industry concentration through mergers and acquisitions; the end of government pasteurized milk price and production controls; and development of new milk production areas, especially in the state of Goiás. These changes altered dairy industry survival strategies and have led several companies to move into new, more profitable markets, such as the special cheese market.

This study of competitiveness in the special cheese industry is based on data drawn only from the state of Minas Gerais simply because of difficulties encountered obtaining production data from other states. This study's main information source was files from the statistical section of the Minas Gerais Ministry of Agriculture (SIPA/MG). The absence of data from other states does not adversely affect this study because Brazilian, special cheese production is concentrated in Minas Gerais. In 1994, Minas' special cheese industry was responsible for 77.2 % of Brazil's Gouda production, 85.8% of the Gruyere production, 67.7% of the Itálico production and 97.1% of Brazil's Camembert production.

Data from DILMG (1997) shows that 2.7% of the Federally inspected, dairy industry production in the state of Minas Gerais is devoted to special cheeses. Yet, according to the DILMG, among the state's ten biggest dairy companies only two (*Boa Nata* and *Barbosa e Marques*) have special cheese in their product mix.

In the data from SIPA/MG, one observes great concentration of the state's special cheese producers. Gouda cheese has the lowest concentration level (the 3 biggest industries are responsible for 66% of the production) while Port-Salut has the highest concentration level (one industry is responsible for 100% of the production). Esteves Júnior (1989) states that the special cheese market is open to few companies and cannot be found in most of Brazilian cities. These data show that the market has some oligopolistic characteristics.

The most common strategy used to obtain competitive advantage are promotional activities connected with pricing, packaging, and free sampling while quality control and product distribution are only slightly less important. Through the observation of several point-of-purchase displays in the major Brazilian retail stores, data from SIPA/MG files, and articles from the *Anuário Milkbizz* (Milk Business Annual) of 1998, the most important companies in the special cheese market were found to be Bongrain (uses a differentiation strategy, and controls three of the most important Brazilian brands), Barbosa e Marques (the "Cave" brand, mounts no aggressive promotions), Boa Nata (uses a focus strategy, markets only in Rio de Janeiro's market), Serrabella (uses a differentiation strategy), and Tirolez (uses a minimum cost strategy).

Our analysis will be developed using the 4 different marketing mix tools:

2.1) Product: Brazilian supermarkets carry special cheeses in the self-service and the slicing departments. In the self-service department, products are pre-weighted and sold in small, vacuum sealed packages. Over recent years, these packages have been decreasing in weight, which allows the customer to control his spending. In the slicing sector, products are displayed in big loaves, sliced for the individual customer, and covered with plastic film. This department is responsible for most special cheese sales because the cheese brand label remains on visible the big blocks, the larger cheese blocks appear to minimize environmental damages, and the consumer can directly examine the cheese to discern features, like color, texture and odor.

The slicing department causes the problems for the cheese industry. After initial slicing, the product's shelf life is reduced which causes high product waste. Furthermore, some stores transfer slicing responsibilities to the supplier, who is then forced to hire professionals to work in the stores.

In 1998, Bongrain, the sector's sales leader, began to slice and vacuum package their products at the production site in order to minimize the costs of off site slicing and extend the product's shelf life to between 90 and 120 days (products sliced at the point-of-purchase are good for 15 days at most). Each package is market with the company brand name.

2.2) Price: Frequent special cheese price fluctuations are problematic. Changing prices make it difficult for people to consume special cheese regularly because they cannot make reliable budgetary decisions. The increase of Brazilian product prices during the period of the raw material shortages also makes imported products, which have constant prices, more attractive. This causes store owners to give imports more shelf space.

There are two main reasons for the inconstant, special cheese price behavior: seasonal milk production variations and seasonal demand variations. Wilkinson (1996) considers that milk production seasonality constitutes an obstacle to modernization in the cheese industry, as it leads to both cheese oversupply and shortage. This makes it difficult to set prices and increases inventory and operational costs during periods of scarcity.

On the demand side, there was a winter increase in special cheese sales of between 30% and 40%, according to ABIQ's marketing directory. Colder weather stimulates "wine and cheese" parties and *"fondue"* consumption, both of which cause an increase in special cheese sales. The demystification of special cheeses as typical winter consumer products will reduce this great demand variation, which production planning and inventory control.

According to Abreu (1994), price is used as a surrogate indicator in the consumer decision process, especially when the consumer is not aware of product quality. Price is used in this way because most potential special cheese consumers do not know the product's characteristics. Tellis and Gaeth, mentioned by Abreu (1994), identify three consumer strategies related to prices: the best value strategy, the price search strategy, and the price aversion strategy. The latter two strategies are intended to minimize risks. Using the price search strategy, a consumer chooses the higher priced product, as it's supposed to be of higher quality. Using the price aversion strategy, the consumer chooses the lower priced product, as the consumer does not want to spend a large sum to buy an unknown product.

2.3) Promotion: Brazilian industries have been investing in substantial price reductions and product tasting at the point-of-purchase to increase special cheese consumption. Promotions based only on price cuts have a limited effect; the lower price is only noticed by current consumers that already have a price-to-quality ratio in mind. Success is greatly increased by product displays, tasting activities, and the distribution of free samples. If performed concurrently, these marketing activities increase the probability of attracting new special cheese consumers, as most of the population is unaware of its existence let alone the cheese's characteristics.

2.4) Place: The fact that most special cheese production units are located in Southeast region, close to large consumer markets, implies that the number of brands found in this region's supermarkets is much higher than in other regions. Besides this, the big retail stores want to deal with a large number of suppliers, increasing the retailer's bargaining power.

The small, special cheese, sales volume increases transportation costs for product shipped to Brazil's South, Northeast, and North regions. Transportation costs sometimes reach 20% of product value. This makes prices in these regions extremely high and constrains consumption. Furthermore, since supply is limited in these regions, firms are able to increase their mark-up and their profit.

3) The menace of product substitutes: There are two main groups of possible substitute products: imported products and products that compete as protein sources. Imported products that possess characteristics similar to the domestic special cheeses should be considered a great menace to the local industry. Dutch Maasdamer cheeses compete directly with the domestic Gruyere and Emmental, and French and Argentinean Roquefort divide the market with domestic Gorgonzola.

Another group of special cheese substitutes includes products that compete with the cheese as a source of nutrition, such as meat and eggs. In defense of cheese consumption, ABIQ pointed out that the cheese has a comparative advantage relative to these other products, chiefly in fat texture, protein, digestibility, and calories. Unfortunately, there is the recent consumer tendency to search out products with less fat and calories and the Brazilian cultural bias that favors barbecues over fondue.

4) Buyer's bargaining power: The special cheese market possesses particularities that differentiate it from the milk market in general: special cheese retailers are generally hypermarkets, supermarkets, and specialized stores; there are more possibilities for industry product differentiation, not so much in the creation of new products, but in packaging changes; brand name substitution is more difficult, due to the consumer loyalty; there is great demand for promotional activities, such as free sampling and price reductions; other than the use of Gorgonzola cheese in sauces and pizza, special cheese is ill-adapted for use as an input in other products. Milk and special cheese are have one similar economic characteristic in that any increase in milk consumption is limited by high dairy plant margins, from 60% to 80%, and special cheese margins are even higher, varying from 70% to 150%.

The expansion of supermarket chains and individual store size is a worldwide tendency toward increasing sector concentration. As big retail chains eliminate their smaller competitors, the great retail chains' power to demand product price reductions, just-in-time delivery, and extended periods for bill payment increases. This puts the special cheese suppliers under great pricing pressure at the regional and national level. One is example of this can be found in the Carrefour hypermarket chain. Carrefour began a general restructuring of its supplier contracts in 1999. In its special cheese section, Carrefour opted to buy more from Serrabella, a company with a nation-wide distribution network, and set limits on the number of regional suppliers it would deal with.

5) Power of negotiation by suppliers: In agreement with DILMG (1997), the special cheese industry's suppliers can be divided into four groups: milk suppliers, equipment suppliers, inputs suppliers, and labor suppliers.

- Milk suppliers: Milk suppliers are rural producers and, as a group, possesses little negotiating power over industry buyers. The lack of milk producer organization and the increase in milk importation over recent years has allowed milk buyers to manipulate prices without considering supplier costs, thereby reducing dairy margins.

There is little industry loyalty to particular suppliers, especially in regions that have a great number of dairies. In an effort to reduce variations in milk production quantities, milk buyers financially award producers that maintain stable production levels and product quality (Pinazza and Alimandro, 1998).

- Equipment and input suppliers: These suppliers possess a great negotiating power over special cheese manufactures, mainly in relation to exclusive products. The special cheese industries use many specialized inputs in the production process, such as molds, bacteria, coloring cultures, etc. The industry does not use much special equipment to manufacture special cheeses because production is fundamentally accomplished by manual labor.
- Labor: Special cheese producers demand very experienced cheese makers. The shortage of capable special cheese makers gives experienced employees great bargaining power; yet these employees receive very low wages. This unfavorable employee position is probably due to their lack of union representation and their low educational level.

CONCLUSION

This analysis of the Brazilian special cheese market allows one to verify that this market segment has many oligopolistic characteristics, mainly in the importance of established brand names and producer interdependence in pricing and promotion.

We found that the special cheese market has great growth potential. This potential should be stimulated through marketing. In that sense, efforts of the Brazilian Cheese Industry Association (ABIQ) are praiseworthy as they stimulate an increase in the consumption of special cheese. The "cheese campaign," a public relations and marketing effort to increase per capita cheese consumption to 5 kg/inhabitant/year over a four period is scheduled to begin in 1999. However, this effort has run into the problem of sector disunity that has made agreement on a common strategy difficult; there are about 80 independent producers working in the sector.

In order to gain new, special cheese customers, it would be very helpful if the product mark-up was reduced, both by suppliers and distributors (chiefly, retail outlets). Marketing efforts should strive to change the perception that special cheeses are only appropriate at festive gatherings and during cold weather. Promotions should be directed mainly toward the middle class, as this population segment has the greatest consumption potential. Point-of-purchase marketing is also a very efficient promotional method. To avoid the indiscriminate entrance of competition, origin labels would be very useful, chiefly for products originating in Minas Gerais' South.

Domestic industries should modernize to improve product standardization and to stabilize prices (to reduce the effects milk production fluctuations). This is vital in any effort to reduce the competitive advantages enjoyed by imported products. In that context, the government has a crucial role in protecting the domestic market against subsidized imported products.

Brazil's currency devaluation in January 1999 should give domestic production managers impetus to adapt their strategies to the population's recently reduced spending power. Producer cost control, chiefly through gains from economies of scale, will now be an even more decisive competitive factor. The only positive effect of the currency's devaluation was to decrease the price competitiveness of imported products in relation to factor price. This should open space for the domestic special cheese industry to grow, especially in the Gorgonzola, Gruyere, and Camembert markets. Now is a good time for domestic investment in the special cheese industry to take advantage of this improved competitive position relative to foreign imports.

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