AN EVALUATION OF TAX STRUCTURE AND PRACTICES OF ON BOARD SALES IN BRAZIL

by

Gregory Altom
Fabio Campos
Haroldo de Lima
Rita Medina
Andrezza Moraes

A Capstone Project Submitted to Embry-Riddle Aeronautical University in Partial Fulfillment of the Requirements for the Aviation Management Certificate Program

Embry-Riddle Aeronautical University
Sao Paulo, Brazil
November 2017

AN EVALUATION OF TAX STRUCTURE AND PRACTICES OF ON BOARD SALES IN BRAZIL

by

Gregory Altom
Fabio Campos
Haroldo de Lima
Rita Medina
Andrezza Moraes

This Capstone Project was prepared and approved under the direction of the Group's Capstone Project Chair, Dr. Peter E. O'Reilly. It was submitted to Embry-Riddle Aeronautical University in partial fulfillment of the requirements for the Aviation Management Certificate Program

Capstone Project Committee:

_____
Dr. Peter E. O'Reilly
Capstone Project Chair

_____
Fabio Barros Franco de Campos
Executive Director
Central & South America

_____
Date

Acknowledgements

We would like to thank, first of all, the Brazilian airlines, CNT and ABEAR for the opportunity of taking this program. In addition, we appreciate the support provided by Dr. Robin Roberts, Dr. Dixie Button, Dr. Patti Clark, Jeffrey J. Jorgensen, Dr. Marilyn Colpitts, Dr. Peter E. O'Reilly, Dr. Kristy Kiernan, Dr. Mark Scharf, Michael Essary and Dr. Beverly Wood.

We also want to thank Fabio Campos and Maria Manuella Ritter for supporting us during the course. Also, contributing to this research project was Gate Retail Brazil, who helped us with the data. And finally, a special thanks to our families for being with us throughout the Certificate Program.

Abstract

Group: Altom, G., Campos, F., Lima, H., Medina, R., Moraes, A.

Title: An Evaluation of Tax Structure and Practices of on Board Sales in Brazil

Institution: Embry-Riddle Aeronautical University

Year: 2017

This study compared the tax costs between on-board sales and airport cafeterias of a mix of twenty-five products composed of beverages, fresh food and snacks in the amount that would be boarded on domestic flights between São Paulo, SP, Rio de Janeiro, RJ and Brasília, DF. The study showed that airlines are paying three times more in taxes than the airport cafeterias. The study suggested that states stop charging taxes for the transfer of unsold products on board, reducing 67% of the fees paid by airlines that practice buy on board (BoB) and guarantee a revenue gain between USD $ 800,000 and USD $ 1,000,000 per year. This revenue gain could reach USD $ 2,000,000 with the use of improved sales techniques. This improvement not only extinguishes loss of revenue for airlines, but it also may increase on-board sales related revenues. BoB operations in Brazil are associated with complex and bureaucratic tax regulations, at the federal and state levels, causing airlines and the government a loss of revenue. Additionally, the airlines' customers are also hampered by a limited and expensive offer of services and products. This study, in partnership with the Brazilian Airlines Association (ABEAR), recommends modifications and/or changes to the Brazilian taxation laws that could make BoB a greater revenue generator, such as the recovery of ICMS and the application of sale techniques to increase sales.

Table of Contents

List of Figures

Page

Figure

Chapter I

Introduction

The project studied the necessary fiscal obligations, record keeping and accessory procedures for on-board sales operations, or Buy on Board (BoB), according to the relevant tax regulations, both at the federal and state levels in Brazil. Furthermore, the authors estimated the calculation of the costs of taxes involved in the on-board sale operations and measured the impact on the revenue of the business.

The goal was to evaluate possible opportunities to make adjustments to SINIEF/07 of 2011 that regulate tax burden airlines face with on-board sales. Next, the study indicated that the fiscal procedures should be modified and implemented in order to reduce operational costs. The project aimed to improve the bureaucratic flow and, consequently, to increase the revenue of the airlines and possibly the government. Finally, this project suggested new sales techniques procedures, to show shareholders that on-board sales are good business for ancillary revenues.

Project Definition

Brazilian airlines´ margin of contribution for on board sales are minimal on domestic flights. This is the result of the bureaucratic and expensive tax structure for this type of operation.

The objective of this project was to develop a more clear and profitable on-board sales service that would offer additional options to customers and more revenue to the airlines. The potential of this recommendation was to bring not only ancillary revenue to the airlines in Brazil through BoB and inflight sales, but also to enhance customer experience.

BoB is a common service in many countries. For example, in Europe, British Airways practices BoB through a partnership with Marks & Spencer in all of the short-haul flights. JetBlue, United, and Delta, among other airlines in the U.S., offer BoB services to their

customers. Meanwhile, Brazilian airlines and the Brazilian government lose revenue due to the Brazilian taxation system and laws that make such business difficult to operate.

Selling items in flight should bring extra revenue to the airlines. However, in Brazil, the taxation system requires that the companies pay taxes on the items that were not sold each time an airplane lands at a different state. It makes BoB an impracticable operation, because of the high costs of taxes and the confusing tax structure.

As an example, each flight can cost up to USD $100 in taxes, if the company decides to sell food on board. This cost in taxes does not exist if the airline provides the meal on board for free. Therefore, airlines need to decide what option is more cost effective: trying to sell an amount of food that covers the tax costs or assume the cost of giving the less expensive items to the passengers for free. Currently, only Gol Airlines operates BoB in Brazil on all their flights. In addition, Azul Airlines operates BoB on one flight a day on a specific route. For both companies the operational cost overcomes the revenues.

The development of a project to help the Brazilian Airlines Association (ABEAR) suggests modifications and/or changes to the Brazilian taxation laws could make BoB a larger revenue generator and a simpler operation.

Project Goals and Scope

The goal of this project was to propose adjustments to existing Brazilian legislation (SINIEF 07/2011) regarding the tax substitution system (ICMS-ST). The project proposed an exception system for the sale of products on board aircraft (food, beverages and Duty-Free products). The sale of products on board mostly revolves around the food and beverage industry, which is also directly impacted by the current tax system.

ICMS-ST involves a series of requirements such as:

- Opening state registration ST in each federal unit (or state), where there is company activity;

- Issuance of the electronic declaration form (GIA-ST) that contains the company´s entrances/exits, so that the Treasury Secretary (SEFAZ) is aware of the ICMS´s credits and debits;
- Complete the State Collection Form (GARE);
- Filling out a digital bookkeeping system developed by the Brazilian Government with the objective of reducing bureaucratic procedures and facilitating the processes of tax payments (SPED).

SINIEF 07/2011, regarding ancillary duties, determines that its application will focus on "immediate" origin and destination for trips and not for the flight's "final" origin and destination. This results for the need to issue invoices for entry to each state of origin and each connection and not exclusively for arrival at the final destination. The result is causing an excessive increase of ancillary duties. A relevant fact is that up to 47% of the operational cost of BoB represents the tax burden the airlines must bear.

Definition of Terms

Azul Brazilian Airlines: An Airline based in Sao Paulo – Brasil, with its main base at Viracopos Campinas International Airport.

British Airways: An airline based in London Heathrow Airport - United Kingdom.

Buy on Board: In commercial flight, buy on board (BoB) is a system where inflight food, beverages and other services are not included in the ticket price, but are either purchased on board, or ordered in advance as an optional extra during or after booking process.

COFINS: A federal contribution calculated on the gross revenue of companies. Its collection is earmarked for social security and social welfare funds.

DARE: Collection document through which the taxpayer will collect taxes and other state revenues. DARE is progressively replacing revenues currently collected from GARE.

DARF: A document used in the collection of taxes from taxpayers, both individuals and corporations.

Delta Air Lines: An airline based in Atlanta, Georgia. – United States, with its main base at Hartsfield–Jackson Atlanta International Airport.

Duty-Free: A common feature of most tax systems that taxes are not raised on goods to be exported. Goods sold to passengers on board ships or aircraft are tax free. The passenger can either consume them on board, or import them tax-free into the country they are traveling to, so long as they are within the traveler's duty-free allowance.

GARE: Document of collection through which the taxpayer collects taxes and other revenues.

GIA-ST: The GIA-ST is the declaration that the taxpayer of another UF, enrolled in a determined UF must deliver for each reference month (calendar month) and for each state registration.

Gol Airlines: An Airline based in Sao Paulo – Brasil, with its main bases at Congonhas Airport and Confins International Airport.

ICMS: A Brazilian tax where each state has a table of values. All the stages of circulation of goods and in all service rendering are subject to ICMS and there must be issuance of invoices.

ICMS-ST: Tax substitution is the collection of the sales tax of a product at the time it leaves the industry, that is, instead of collecting when the sale occurs (taxable event), it is charged in advance.

IE: A number released by the Treasury Department in each state in the register of the ICMS (Tax on Circulation of Goods and provision of services) for a company, and the formal registration of the business at the State Revenue Service.

JetBlue: An airline based in Long Island, New York – United States, with its main base at JFK International Airport.

Marks & Spencer: A major British multinational retailer headquartered in the City of Westminster, London - United Kingdom. It specializes in clothing sales, home products and luxury food products.

NCM: An eight-digit code established by the Brazilian Government to identify the nature of goods and promote the development of international trade, in addition to facilitating the collection and analysis of foreign trade statistics.

PIS: A tax contribution of a social nature, whose purpose is to finance the payment of unemployment insurance, payment and participation in the revenue of organs and entities, both for employees of public and private enterprises.

SEFAZ: Organ manager of all the taxes that are paid by citizens. Each UF has its SEFAZ.

SINIEF: Once a Tax Agreement has been signed between two or more States, this agreement should be published through a SINIEF**.**

SINIEF 07/2011: Provides for the granting of special arrangements for the sale of goods carried on aircraft in domestic flights.

SPED: A technological solution that makes the digital archives of tax and accounting deeds of corporate systems in a specific and standard format official.

UF: Unit of the Federation refers to the Brazilian states, because each one represents a Federation Unit.

United Airlines: It is an airline based in Chicago, Illinois – United States, with its main base at Chicago-O'Hare International Airport.

Webjet Airlines: It was a low-cost Brazilian airline based in Rio de Janeiro – Brasil, which operated from 2005 to 2012, acquired in July 2011 by Gol Airlines, which decided to stop its operation.

List of Acronyms

ABEAR: Brazilian Association of Airlines

COFINS: Contribution to Social Security Financing

DARE: State Revenue Collection Form

DARF: Federal Revenue Collection Form

DF: Brazilian State of Distrito Federal

GARE: State Collection Form

GIA-ST: National Form to Information and Calculation of ICMS by tax substitution

ICMS: Tax on Sales and Services.

ICMS-ST: Tax on Sales and Services.-Tax Replacement

IE: State Registration

JFK: John Fitzgerald Kennedy

NCM: Mercosur Common Nomenclature

PIS: Social Integration Program

RJ: Brazilian State of Rio de Janeiro

SEFAZ: State Treasury Department

SINIEF: National System of Economic and Fiscal Information

SP: Brazilian State of São Paulo

SPED: Public System of Digital bookkeeping

ST: Tax Replacement

UF: Federation unity

Chapter II

Review of Relevant Literature

The project was based on the laws that regulate the on-board sales sector, such as SINIEF 07/2011 and literature about the operation of the services on-board. In addition, customer experience literature that helps improve the services the airlines offer to their passengers was reviewed.

Buy on Board History

As Marcelo Duarte (2012) commented in his blog "The Curious Blog", the airlines emerged shortly after World War I, created by former Army pilots. The initial purpose was to carry mail and not passengers. In that time, human transportation was occasional. Concerns about the passengers' hunger and well-being were not common. Back then, the flight crew shared their own snacks or coffee with whoever was on the flight.

In his column of online news, Marcelo Duarte continues to tell a little about the history and evolution of on-board service and how it began in civil aviation. In 1934, with the growth of passenger transportation, United Airlines recognized that providing meals during flights was a good marketing strategy to attract customers. The initiative had two purposes: to deceive possible hunger and to pass the time for the passengers.

In his Blog about the aviation world, Lima (2011) explains that the evolution of air transportation brought cheaper fares to follow the world trends, and the sale of food on board became a good option for companies to attract customers and to make money while maintaining inflight service. So the Webjet introduced the By On Board in Brazil.

In the IATA Economics Briefing No 5: Airline Cost Performance, Mark Smyth and Brian Pearce (2006) claim that inflight sales in American and European airlines are aimed at reducing operating costs and increasing revenue.

Doug Gollan (2017) explained on Forbes how the need to cut costs is essential for airlines' survival when he stated that, "legendary American Airlines CEO Robert Crandall saved $100,000 by removing olives from salads back in the 1980s. However, he was smart enough to keep them for martinis for passengers in first class". Every cent matters in the airline industry.

Airlines have been studying ways to reduce operational costs for many years. Companies across Europe and the U.S. have all begun on board sales projects to reduce costs and increase revenues. However, not always has it worked out to benefit the airlines. An example of this was with British Airways, which started BoB service on its flights early 2017. Business travelers were upset that they were paying for coffee and water, besides paying for last minute fares (Gollan, 2017).

As Jerome Cadier (2017), vice president of marketing for LATAM Airlines, explains**,** BoB brings more food, beverage and service options to the customer than the traditional service included in the ticket price. This transformation helps reduce the cost of tickets and allows for airlines to create fares for different types of travelers. In this way, the airlines are creating new customer experiences and innovating the industry.

Pedro M. Gardete, Professor of the Stanford Graduate School of Business, studied the behavior of passengers on the BoB issue and found that, despite different opinions, passengers recognize that charging for meals or services on board by airlines provides a greater variety and quality of products offered.

Eilene Zimmerman, in an article in Insights of Stanford University, explained that "when someone next to us makes a purchase on a flight, we are 30% more likely to buy something too, new research shows" (2015).

Customer Experience

The convenience of inflight services, which are items purchased on board, can be seen as a beneficial experience by many customers. An article in Correio Brasiliense by Gilson Guedes (2016) tells about the experience that Marianne Paim, a resident of Águas Claras, Brazil had on a flight. Marianne used the inflight Wi-Fi service for the first time at the end of October 2016, on a flight between São Paulo and Brasilia. Mrs. Paim said that she was surprised at how easy it was to use the service: "It was very good to be able to use the internet during the flight. (…). I spent the whole flight writing on the plane, (…). When I finally noticed, I was already landing and with the work finished."

Gustavo Paulillo (2016) explains that the sales and service activity, although still very focused on intuition, should be guided by a series of techniques and good practices that work. In addition to sales and service techniques, knowing how to develop relationships with customers is important. Airlines need to understand what customers buy and focus on the benefit of the products or services offered, as well as offering products to different groups of customers.

Sanderson Bonassoli (2016) wrote in his article that in order to keep customers loyal, it is important to adopt customer service techniques to make customers happy, not just satisfied. To enchant, it is necessary to study the clients, serve with pleasure, and be cordial.

Catering Industry

According to P. Jones, "the flight catering industry is a very large, global activity. The total market size is estimated to be around $13 billion dollars. More than 1 billion passengers are served each year" (2004).

Research at the University of Surrey suggested that while food and drink in flight may not affect pre-purchase decisions, it emerged as a highly significant post-purchase factor. The on-board service and meals are the most remembered aspect of a traveler's experience. The

food service offered to passengers is still an important part of the overall service experience. However, as the factors listed above begin to suggest, providing a product that will satisfy the customer is much more than simply providing a pre-prepared meal. According to P. Jones (2004), the inflight catering industry consists of four major players:

- the airlines, or their various representatives;
- the providers, in this case specialized flight caterers;
- the suppliers, either to the providers or direct to the airlines;
- Those using the airline's services, such as the fare-paying passengers.

SINIEF 07/2011

According to Reginaldo Ramos (2012), SINIEF 07/2001 is a special entity that regulates the sale of goods carried on aircraft in domestic flights. It determines that the application of its rules, especially about tax obligations, will not be charged by initial origin and final destination of one aircraft in a given operation, but by origin and "immediate" destinations, that is, by each flight – or take-off and landing.

This regulation implies issuing tax invoices to the state where such aircraft landed, flight by flight, after the final destination is reached, for all the products that were not sold during the flight, including fresh foods.

As Antonio Sergio from Gate Retail Brazil explains**,** consequently, there is an excessive number of tax invoices issued, as well as a relevant number of procedures per state regarding the payment of ICMS, since each state has a different ICMS rate for each product (2017).

As a way of collecting taxes, flight by flight, SINIEF 07/2011 also determined that the companies must maintain an IE number and a physical establishment in the cities of origin and destination of all flights.

Another SNIEF 07/2011 rule that complicates BoB operations is a requirement to issue the tax invoices within 48 hours after the flight where the on-board sales were operated. It also implies in the technological development of a system that allows the accomplishment of all fiscal movement to be done online.

Chapter III

Methodology

Today, Brazilian airlines have two alternatives to serve meals for passengers. The first, and legacy method is to offer free products to customers. Despite being operationally simpler, this process becomes very costly for airlines. As a result, companies end up offering extremely cheap meals, which ultimately do not please hungry passengers.

The second alternative is the sale on board that brings more product alternatives to customers. This method has the opportunity to generate extra revenue for the airlines. However, the Brazilian tax regulations make the business very bureaucratic and unviable. This study demonstrated how the tax legislation puts the airlines at a disadvantage when attempting to offer their passengers more buying options.

Experimental Design

Airport cafeterias are the main competitors for sales on board, because the passengers may prefer to eat at the origin airport or at the destiny airport. This decision is often based on if the prices of the products offered on board are more expensive than those offered by these establishments.

This occurs because the airlines, beyond the same taxes that the cafeterias pay, still need to pay taxes to destination states for all products that were shipped and were not sold inflight. The airlines must pay taxes on the leftover products to all states where they land during that flight. Therefore, this taxation of transferring the materials that were not sold on board, makes the products much more expensive for airlines.

This project developed a study comparing the tax costs between on board sales and airport cafeterias of a mix of 25 products composed of beverages, fresh food, snacks and sweets, in an amount that would be boarded in a domestic flight.

As the tax costs also differ between Brazilian states, three principal state capitals were chosen for this research because of their high traffic density. The capital cities selected were: São Paulo, SP, Rio de Janeiro, RJ, and Brasília, DF.

The goal was to compare the cost of on board sales, presenting the tax costs of the products offered and transferring the materials between those cities, with the cost of taxes of the same products in the cafeterias at the destination airports of the same cities.

Premises

For the development of this study, the following premises were considered:

- A total of 25 products were analyzed, representing 17 NCM's. These products were selected by Gate Retail Brazil, a company specializing in BoB in Brazil and that currently services LATAM Airlines flights, considering the relevance of these items in the total sales value on board;
- Analysis of three flights, flown by the same aircraft, on the same day;
- For the purpose of calculating taxes on the purchase of goods, the study considered each segment as a new flight, which represented a new acquisition of all the goods that were part of the product offering;
- The costs of goods, as well as, the sales value used in the calculations were provided by Gate Retail Brazil.

Data Sources, Collection, and Analysis

The study was made together with Gate Retail Brazil, a specialized company of sales inflight, using their experience to calculate the taxes. The first data collected were the tax costs of airports cafeterias. The study calculated the ICMS, ICMS-ST, PIS and Cofins taxes on all products that composed a product offering of a domestic flight and analyzed the impact of the sum of this tax burden on the sales value of the products. The result can be seen in Figure 1.

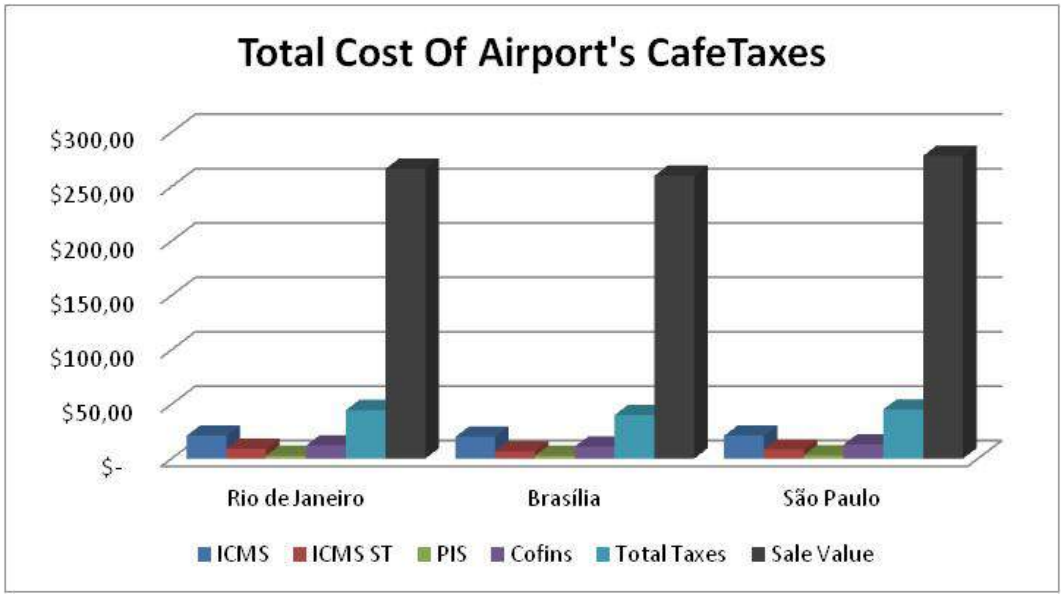

Figure 1. Total Cost of Cafeterias (Restaurants) Taxes in Major's Brazilian Airports.

The average taxes paid by cafeterias from the airports of the cities of São Paulo, Rio de Janeiro, and Brasilia was approximately US $43.23 on an average of the total sales value of US $268.28. That equaled to the airports' cafeterias paying 16.11% of the sales value in taxes.

This tax charge was a reflection of what the ICMS and ICMS-ST paid on the acquisition of the products and the PIS and Cofins collected on the sale.

The second step of the study was to collect the tax costs with the same products being sold on board. The study also calculated ICMS, ICMS-ST, PIS and Cofins taxes on all products that composed a product offering of a domestic flight. In addition, the study analyzed the impact of the sum of this tax burden on the sales value of the products. The results can be seen in Figure 2.

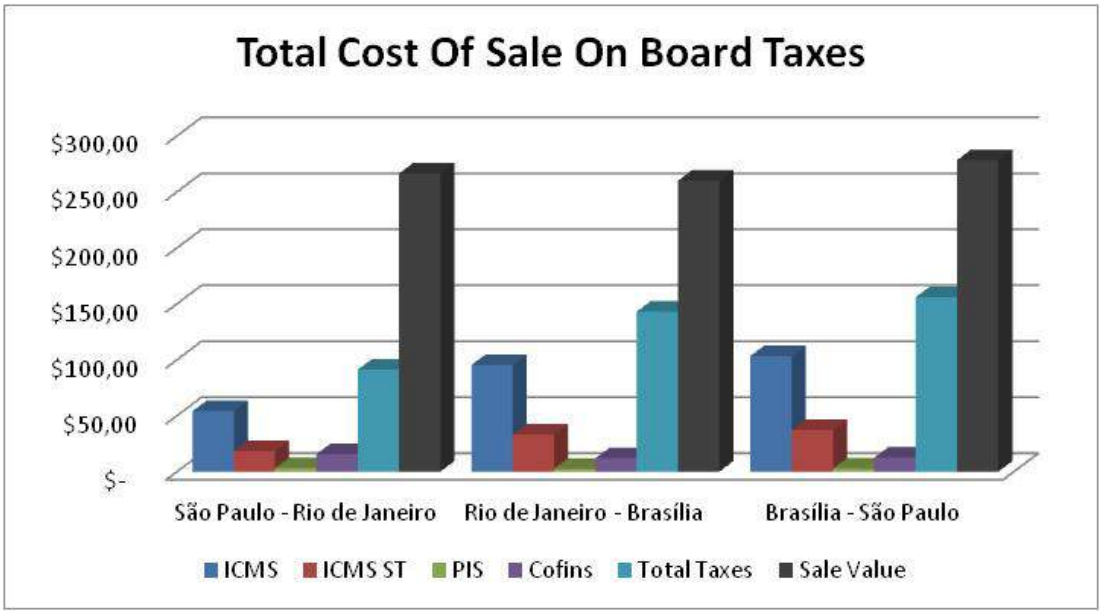

Figure 2. Total Cost of on Board Sales Tax on the Major Brazilian Flight Segments.

The average tax load paid by airlines on flights from São Paulo to Rio de Janeiro, from Rio de Janeiro to Brasilia, and from Brasília to São Paulo is around US $ 130 from an average of the total sales value of US $ 268.28. Airlines paid 48.46% of the value of sales in taxes.

This tax rate is a reflection on what ICMS and the ICMS-ST paid for the acquisition of the products, in addition to the value of what ICMS and ICMS-ST paid again on the transfer of the materials left over on each flight and for what PIS and Cofins charged for the sale.

As the study shows, the airline paid three times more taxes than airport cafeterias for the same products. This puts the airlines at a disadvantage. In order for the airline to make a profit on the product sales, it is imperative to charge more for the products when compared to airport cafeterias. This makes the passengers prefer to eat at the airports, rather than ordering meals during their flights.

In addition to the tax cost, there is the bureaucratic problem of the on board sales operation, which is also more complex than airport cafeterias. While cafeterias only need to issue the sales invoices, the airlines need to issue four invoices for each flight performed:

- Issue interstate shipping invoices for all products that are shipped on the aircraft;
- Issue the sales invoice for the products that were sold during and after the flight;
- Issue the return invoice of the products which were not sold;
- Lastly, issue the interstate transfer invoice from the city of origin to the destination city, listing all of the products that were not sold.

Chapter IV

Outcomes

Based on the data provided, the airlines need to pay three times more taxes than airport cafeterias. The first step of this project was to propose improvements in legislation, so that airlines may compete more fairly with airport food services. On the other hand, the airlines need to improve their sales techniques with the purpose to bring more revenue and reduce the waste.

Adjustments to SINIEF nº 07/2011

The ICMS is the tax that most affects the on-board sales operations tax cost (48.46% on the sale value). It is essential that the payment of taxes is made only on products purchased, just as with the airport cafeterias. If states stop charging taxes on the transfer of unsold products on board, the destination state will not be affected, since the products sold on board will be repurchased at the local catering. Consequently, products will be purchased in all states where airlines operate their flights.

This adjustment will bring a 67% reduction in tax costs paid by airlines. This will help reduce product costs and enable airlines to work at more attractive prices and, therefore, increase sales volume. If this adjustment is not accepted by the states, another alternative is to implement airline initiatives to recover ICMS paid in each state. The recovery of the ICMS could occur through an invoice of compensation presented against the supplier in the cases of acquisition for resale. However, this is not the best option, since the ICMS recovery usually takes about 180 days to be approved by the state treasury. In addition, this term can be extended in view of the financial difficulty that the Brazilian states are currently in, such as RJ and RS, for example.

According to Gate Retail Brazil, a Brazilian airline pays between USD $ 1,300,000 and $ 1,600,000 per year in ICMS taxes related to BoB. If the Airlines did not have to pay

taxes for the transfer of unsold products on board, it could bring a net revenue gain from USD $ 800,000 to USD $ 1,000,000 per year to airlines.

Sales Techniques

Sales activity, as well as the services, focused on the genuine relationship between sellers and costumers, should be guided by a series of techniques and good practices that work to improve revenue results. To be more effective in sales, companies need to know how to focus on the benefits of products or services that meet customer needs. Showing the value of solutions offered in solving specific problems is the best way to build value for the customer. Therefore, when defining the mix of products that will be offered in flights, the airlines need to consider some principles such as:

- Understand what the customer is most likely to buy on each flight.

  Flights have different sales characteristics, based on the duration and time of each flight. In this way, the company must study the penetration of sale of each product for each flight. In addition, there is a need to stock more of the products most likely to be purchased and reduce the number of items that probably will have little sales demand. Fresh food for meals are a big problem, since the airline needs to decide how much of the products that will be offered in each flight. These meals are perishable and the items that are not sold during the flight need to be discarded after landing. Therefore, if the fresh food stock of flights is higher than the sales, it will result in waste and increased operational costs.

- Focus on the benefits of the products.

  Identify a specific problem that the advantages and characteristics of the product can solve for the passengers. For example, the provision of meals so that the passenger can gain time during the flight and will not need to have a

meal while on the ground. In Brazil, it is customary to have lunch at 12:00 pm. If the Airlines offer lunch meals during the flight at this time, business passengers should prefer to have lunch while flying. This could save time for work while on the ground.

- Provide a portfolio that attends different consumer groups.

  When defining the mix of products that will be available for sale on board, it is necessary to understand the characteristics of the passengers. With this knowledge, airlines can offer items that satisfy, for example, children and adults, dietary restrictions, as well as different social classes. In order to offer beverages, it is important to have a variety for all passengers.

- Serve with pleasure and be cordial.

  Attending to the needs of passengers is a way of serving them. When talking to passengers, the goal should always be to exceed expectations and anticipate needs. Eventually, a passenger may become frustrated. For example, when one wants to buy a product that is not available on board. However, the passenger must always be treated with courtesy. When there are difficulties with passengers, it is necessary to remember some phrases to neutralize the consumer's anger and frustration. Some examples are: (a) "This product is not available, but we can offer you these other options;" no one likes to choose a menu option and later find out that it is not available. In this case, the crew must demonstrate empathy and offer similar products. (b) "Sorry for the wait;" no one likes to wait, so it is important to always apologize when there are delays in service. Whenever possible, give the customer an idea of the wait time and explain the reason for the delay. (c) "I understand that you are unhappy with the situation;" when it is not possible

> to respond to a client's request, empathizing and acknowledging their frustration is critical. Offering help is important. It demonstrates that the crewmember is not intimidated by the situation.

The cost of the services on board for companies in Brazil, such as LATAM Airlines, which offered free products until the middle of 2017, was around USD $34,000,000 per year, as the manager of LATAM's service on board explained.

The current idea of BoB for airlines in Brazil is to reduce these costs to next to zero. This project identified ways to not only reduce the cost of BoB services to zero, but to allow airlines to achieve from USD $1,500,000 to USD $2,000,000 in additional revenue per year.

Chapter V

Conclusions

The on-board services for airlines came as an option to differentiate service between competitors. At the beginning, all the companies used to offer free meals. With the evolution of the airline industry, the reduction in airfare prices brought the need for a reduction in operational costs, and the airlines have identified that the service on board can be marketed to bring extra revenue to the company.

However, the heavy tax regulations placed on Brazilian airlines for their on-board sales operations makes it very difficult to not only turn a profit, but also offer a more diverse and robust service to their customers. The in-depth analysis of the federal and state tax laws, the adjustment to SINIEF/07 from 2011 that regulate tax burden, and the modification and implementation of such changes may allow for reductions in operating costs and ancillary revenue opportunities to airlines in Brazil.

Recommendations

The opportunity for improvement on the laws for on-board sales in Brazil will greatly improve the financial opportunities the airlines face. Combined with the implementation of sales techniques, it is possible to achieve from USD $1,500,000 to USD $2,000,000 in additional revenue or cost reduction per year.

The project aimed to improve the business of BoB in Brazil in order to make it more competitive. Based on the research findings, three recommendations were made:

- Improve the fiscal bureaucracy for BoB services in Brazil:

  The ICMS tax affects the operational sales costs on board to about 48.46% of the sale value. The suggestion is for states to stop charging ICMS taxes on the transfer of unsold products on board. This adjustment may bring a 67%

reduction in the cost of taxes paid by the airlines. It represents a cost reduction of USD $ 800,000 to USD $ 1,000,000 per year.

If the suggestion for states to stop charging ICMS taxes on the transfer of unsold products on board is not accepted, another alternative is to implement airline initiatives to recover ICMS paid in each state. Although the initiative usually takes about 180 days to be approved by the state treasury, it is possible to recover part of the ICMS paid.

By reducing operational sales costs, the airlines can reduce onboard service costs and increase ancillary revenues. This will allow the reduction of the price of the airfares and, consequently, will bring development to the Brazilian airline sector. In addition, it may increase the access of the population, bring a greater range of destinations and create more jobs.

- To make a partnership with ABEAR:

  In partnership with ABEAR to develop a project, involving all Brazilian airlines, to carry out an open dialogue with the tax authorities in order to review and adjust federal and state tax regulations (SINIEF 07/2011 in relation to ICMS Tax Replacement -ST).

- Use of sales techniques:

  In general, Brazilian airlines do not have experience with food service sales and to help make this more effective, the recommendation is to build a genuine relationship between the company and customers using practices that really work to improve revenue results.

Future Research

The development of this research only used the national business environment. It evaluates how airlines lose competitiveness to airport cafeterias and restaurants. In order to

further enhance the path of this research, it would be interesting to evaluate how the tax process of other countries interacts and, thus, to seek more information to propose improvements in Brazilian legislation.

Lessons Learned

Among the factors that undermine the competitiveness of companies in Brazil, bureaucracy is always pointed out as an important cost villain the country. This research verifies how much tax complexity is a factor that harms the competitiveness of Brazilian Airlines, increasing the operational costs of the business. In addition to the weight of the taxes themselves, this requires companies to be much more expense-driven than in other countries. In Brazil, it is necessary to intermix a varied, great amount of federal and state taxes in most business operations.

The federal government has proposals to open the Brazilian airspace for foreign airlines to operate within the country. It would be great for consumers, since more competition would support for a faster development of the industry. However, before this happens, the government needs to reduce the current level of bureaucracy, so that Brazilian companies are not harmed and foreign companies can become more interested in working in Brazil.

References

Ballou, Ronald H. Prentice Hall (2003). *Business Logistics: Supply Chain Management***.**

Bonassoli, Sanderson (2016). *Perfect Customer Service Techniques: Blog Contaazul.* Retrieved from https://blog.contaazul.com/tecnicas-de-atendimento-perfeitas-para-encantar-clientes

Cadier, Jerome (2017). *Charging for food on Latam flights is expected to begin in 2017: Blog Todos A Bordo.* Retrieved from https://todosabordo.blogosfera.uol.com.br/ 2017/03/22 /cobranca-por-comida-em-voos-da-latam-deve-comecar-ainda-neste-semestre

Duarte, Marcelo (2012). *When airlines began serving meals.* Retrieved from http://guiados curiosos.uol.com.br/blog/2012/03/21/a-comida-na-historia-da-aviacao

Gollan, Doug. Forbes (2017, January 13) *British Airways Struggles To Launch Buy-On-Board Food And Drinks.* Retrieved from https://www.forbes.com/sites/douggollan/ 2017/01/13/british-airways-struggles-to-launch-buy-on-board-food-and-drinks/#795cdb625b0e

Guedes, Geison. Correio Braziliense (2016, December 11). *Comum em Voos internacionais, wi-fi a bordo chega aos trajetos domésticos.* Retrieved from http://www. correiobraziliense.com.br/app/noticia/turismo/2016/12/11/interna_turismo,560404/comum-em-voos-internacionais-wi-fi-a-bordo-chega-aos-trajetos-domesti.shtml

Lima, CMRO. Blog Aqui em cima (2011, April 11). *Serviços a Bordo.* Retrieved from http://aquiemcima.blogspot.com.br/2011/04/servicos-de-bordo.html

Jones, P. (2004) *Flight Catering*, Butterworth Heinemann: Oxford

National Counsel of Finance Policy. Department of Treasury, Brazilian Government (2011, August 5). Law SINIEF 07/2011. Retrieved from https://www.confaz. fazenda.gov.br/legislacao/ajustes/2011/aj_007_11

Paulillo, Gustavo (2016). *6 sales and service techniques that bring results: Blog Agendor.* Retrieved from http://www.agendor.com.br/blog/tecnicas-de-vendas-e-atendimento

Presidency of the Republic, Civil House. Brazilian Government (1990, September 11). *Law 8078/90, Code of Consumer Protection*. Retrieved from http://www.planalto.gov.br/ ccivil_03/leis/L8078compilado.htm

Ramos, Reginaldo (2012, April 07). *OPERAÇÕES DE VENDA DE MERCADORIAS REALIZADAS DENTRO DE AERONAVES EM VÔOS DOMÉSTICOS.* Retrieved from http://www.econeteditora.com.br/boletim_icms/bo-icms-pa/pa-12/boletim-07/icms_pa_operacoes_venda.php

Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (2017). *SEBRAE and what it can do for your business*. Retrieved from http://antigo.sp.sebrae.com.br/topo/produtos/

consultoria/gest%C3%A3o%20empresarial/palestras/arquivos_slides_pdf/palestra_codigo_defesa_consumidor.pdf

Smyth,M and Pearce,B (2006). *IATA Economics Briefing No 5: Airline Cost Performance.* Retrieved from https://www.iata.org/whatwedo/Documents/economics/airline_cost_performance.pdf

Teixeira Paiva, C. (2014). *What characterizes a relation of consumption?* Retrieved from https://jus.com.br/artigos/34128/o-que-caracteriza-uma-relacao-de-consumo

Zimmerman, Eilene. Stanford Graduate School of Business. (2015, February 6). *Pedro M. Gardete: Fellow Airline Passengers Influence What You Buy*. Retrieved from https://www.gsb.stanford.edu/insights/pedro-m-gardete-fellow-airline-passengers-influence-what-you-buy