

CASH & CARRY BOOMING AND BLOOMING

THE GROWING POPULARITY OF CASH & CARRY IN LATAM

APRIL 2018

WHO IS BUYING
FROM C&Cs –
AND HOW?

WHY IS THE
FORMAT SO
APPEALING?

WHERE ARE THE
GROWTH
OPPORTUNITIES?

THE GROWING POPULARITY OF CASH & CARRY WITH LATAM CONSUMERS

Once a channel purely for trade customers, Cash & Carry (C&C) stores are now selling directly to 46 million households across Latin America. End consumers are increasingly choosing to shop there, with 44% of the population buying something from a wholesaler at least once over the last year.

C&C value sales grew 20% in 2017, driven mainly by Brazil and Argentina which between them represent 80% of total C&C spend. The channel is also growing its footprint, adding 1.6m new households across Latam in the last year, attracting more buyers in every country except Peru and Colombia.

As a result, in 2017 C&C represented 8.2% of consumers' total FMCG spend in the region.

This is a format that will become of increasing significance to brands.

The channel is growing by successfully adapting itself to better serve the end customer – improving its communications, assortment, store formats and product offering, and also the shopper experience.

In this report, we help you to understand how the C&C channel is performing in Latam. We explore the trends, describe how wholesalers are adapting to reach more shoppers, and identify the opportunities for the format to continue to develop.

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Source: Kantar Worldpanel Latam | FMCG | 2017 vs YA
(excludes Venezuela)

LATAM

2017 Val%
8%

2017 Vol%
1.7%



Looking back at the FMCG sales figures for Latam over the last year, the picture is one of slow growth, with a 1.7% volume increase between 2016 and 2017.

However, the reality is that declining FMCG volumes is the dominant trend across the region. Colombia, Chile, Mexico, Argentina and Peru – which between them account for 35% of regional GDP – experienced volume changes ranging between +0.3% and -6.0%. Brazil contributed more than two thirds of Latam's total FMCG growth, with a +4.5% recovery in volumes compared with the previous year. Only Bolivia and CAM also delivered growth.

Even though inflation was lower in 2017 than the previous year, average FMCG prices rose and households spent 8% more on their shopping as a result. If services are pushing over products, we shouldn't expect a lot of growth this year.

The sector does have some areas of growth.

Packaged food and home cleaning are faring best, with volume sales rising 3.3% and 5.5% respectively. Dairy and beverages face the biggest challenge, with volumes in both sectors dropping by 0.5%. Local and regional brands played as if local managed to win share (+0.3 pp to 62.3 value share of spend).

People across the globe are seeking a stress free shopping experience, value, and convenience in a digital environment. These three factors combined – along with the pressures on household budgets – are influencing how companies in Latam need to operate in order to succeed. This includes the retail channels they select to reach shoppers with their products.

The Cash and Carry (C&C) channel in Latam is in a very strong position. Its share of FMCG spend increased from 7.4% to 8.2% in 2017 – a performance that surpasses even that of the discounters – with food and home cleaning the fastest growing categories. More than half of Latin American families visited a C&C at least once per month last year.

In this report, we deep dive into the specific characteristics that are shaping the C&C retail environment, with a focus on Brazil and Argentina.

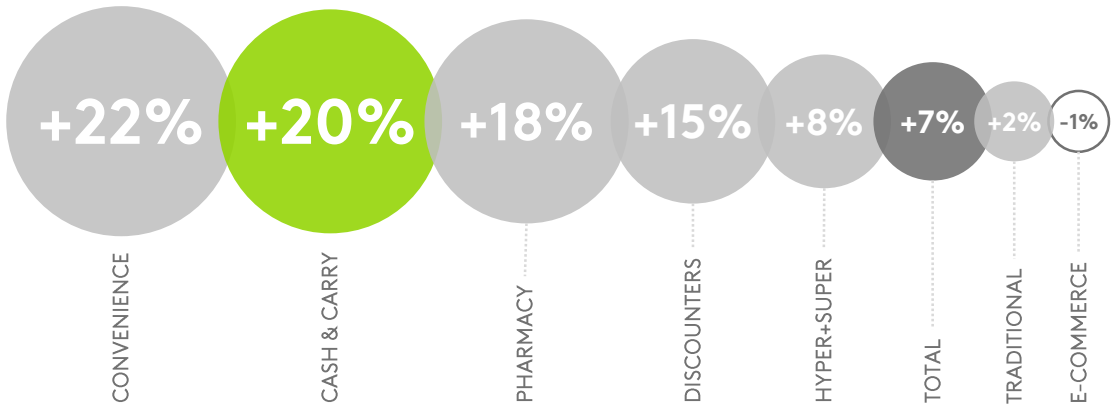
WHO IS BUYING FROM C&CS – AND HOW?

The rising importance of C&C is part of a wider global trend. Wholesalers increased their value sales by 4.1% worldwide in 2016. In Latam, C&C is the second fastest growing channel in 2017 (+20%), just after convenient stores (+22%).

Shoppers mainly visit C&Cs to buy fresh food and FMCG products. In most Latam countries, most trips are stock-up missions – similar to hypermarkets and supermarkets, which has resulted in fierce competition – but fill-in missions are also common.

C&C shoppers are extremely loyal, with 68% of

Source: Kantar Worldpanel Latam | FMCG | 2017 vs 2016 | Value growth %



In Latam, wholesalers are popular with shoppers from all demographics. In most countries, the channel's share of total FMCG expenditure is higher in non-metropolitan areas, and is underdeveloped in the main cities. This is the reverse in Brazil and Colombia, where C&C is more developed in metropolitan areas than the surrounding districts.

The number of trips made by consumers to wholesalers is increasing in most countries, with C&Cs receiving on average one visit per month per household. Only shoppers in Colombia and Peru did not visit the channel more often in the last year, which aligns with the overall decrease in the frequency of FMCG shopping trips in those countries.

the channel's value growth coming from buyers who have purchased more than once. The biggest driver of this growth is households that increase their expenditure in the channel from one year to the next. Shoppers are becoming more loyal to the format in every country except Colombia, where the number of repeat shoppers has remained stable over the last year.

Exclusivity to wholesalers is rising in all Latam countries, with more shoppers choosing only to purchase from C&Cs, and to no longer visit hypermarkets and supermarkets.

CASH & CARRY IN A NUTSHELL



Source: Kantar Worldpanel Latam 2017 | FMCG

WHY IS THE FORMAT SO APPEALING?

Wholesalers in Latam offer an extremely attractive proposition: a strong price advantage, combined with the opportunity to buy a broad range of leading brands.

Prices at C&Cs are lower than those at both hypermarkets and supermarkets, with a price index that is on average 7-15% cheaper. Only in Colombia are prices per unit above average, due to sales being focused on larger packs and more premium brands. Prices also tend to be higher at C&Cs in Brazil and Argentina than in other Latam countries, because more tier 1 brands are purchased there.

Despite having a lower average price, wholesalers in Latam commit more than 80% of their portfolio to premium and mainstream brands, which differentiates them from other emerging formats such as hard discounters.

C&Cs also meet a broad range of different mission needs. They continue to focus on large shopping missions – for stocking up and bulk purchases – by ensuring that they always have plenty of stock in store and providing large pack sizes. However, they also offer smaller pack sizes suitable for fill-in missions.



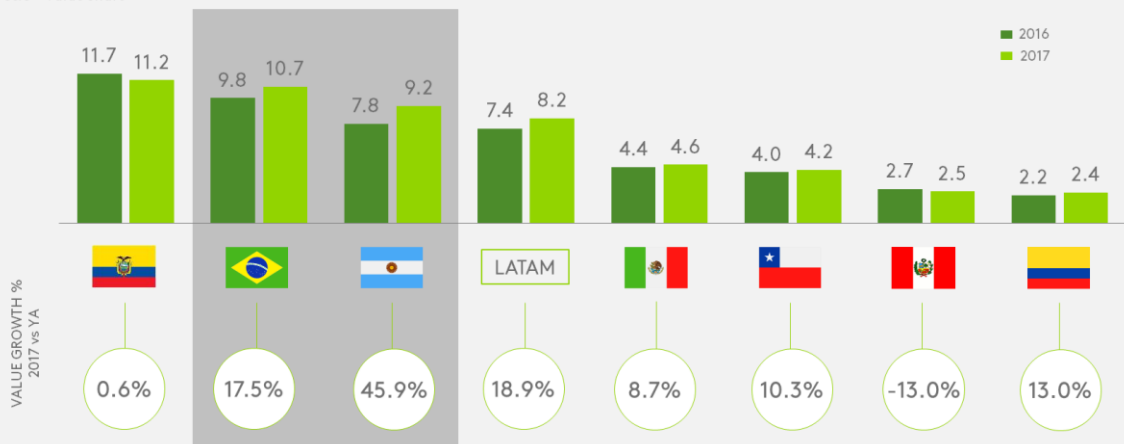
REGIONAL DIFFERENCES

Peru is the only country where the C&C channel is shrinking rather than growing. This reflects the overall decrease in FMCG consumption across Peru in 2017, when basket volumes fell by around 6% across all channels.

The fastest growth is seen in Argentina and Brazil, where value sales rose +45.9% and +17.5% respectively in 2017 versus the previous year. In Brazil, hypermarket formats are even transforming into *atacarejos*, with Extra Hyper becoming Assai, for example.

The structure of the C&C channel varies from one country to another. In Argentina, Brazil, Chile, Mexico and Colombia the format is much more modern than in Ecuador and Peru, where it is traditional wholesalers that dominate.

C&C - Value Share



HOW ARE WHOLESALERS ADAPTING TO ATTRACT MORE HOUSEHOLDS?

1 Communicating directly to the end consumer.
Wholesalers are striving to build direct relationships with their consumers, showcasing individual products in their marketing, and introducing new ways of buying.

2 Innovating in store formats to provide greater convenience and proximity.
For example, in addition to their large out-of-town stores Diarco Barrio in Argentina has now penetrated cities with a smaller format. In addition, online sales offer shoppers easy access to goods regardless of the geographic location of the wholesaler.

3 Evolving their membership card schemes.
These offer loyal customers better discounts and the ability to access different payment methods to finance their purchases.

4 Improving the shopping experience.
Stores are typically well-lit, with well-organised aisles and optimally placed products, and a layout that allows shoppers to move around easily. Unlike discounters' stores, which can feel more chaotic, they offer a relaxed shopping environment with no queues.

AND WHERE ARE THE GROWTH OPPORTUNITIES?

Wholesalers are performing well, but there is always room to grow. One opportunity for C&Cs is to expand their presence and penetration in metropolitan areas, where in most Latam countries the channel is less developed.

In terms of categories, shoppers buy primarily foods and homecare from the C&C channel, with volume sales higher than the average for these categories across all channels. Beverages, beauty and personal care are less mature, so there is an opportunity for brands in these sectors to increase their share within the C&C channel by working with retailers to improve the offer and availability. Fresh produce is another area with great potential for development: currently C&Cs only sell packaged food, but introducing a dedicated section that provides shoppers with quality and freshness at the best price is likely to generate appeal.

The C&C format provides manufacturers across

Latam with an opportunity to increase their value share in the current slow growth environment.

The channel is equipped with many components that help to drive retail success: shelves of branded products at the best price, direct advertising to end consumers, engagement built through loyalty cards, and proximity to shoppers combined with a great digital experience.

There are opportunities for C&Cs to modernize their offer in some markets such as Ecuador, in order to stay relevant, as well as improving how they play in the fresh, dairy and personal care sectors to rise conversion in growing markets like Argentina.

This means that companies will have a dual role to perform in their relationship with C&Cs: supporting them so they can both grow together, while engaging in hard price negotiations to deliver what they have promised to shoppers. Achieving the right portfolio in terms of brands and pack sizes will continue to be key drivers of joint growth in the coming years.

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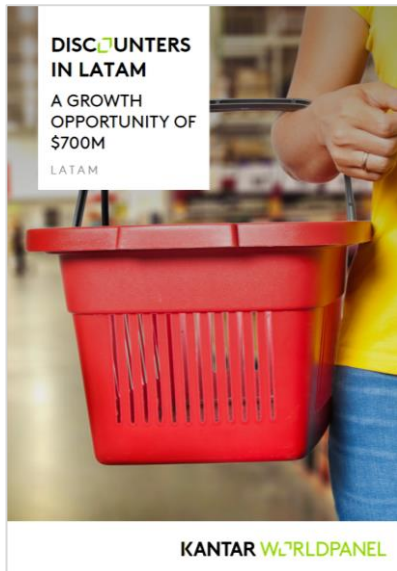
FOOD FOR THOUGHT



E-commerce Global Report



Winning Omnichannel Report



Discounters in Latam Report



Retail In Motion Report