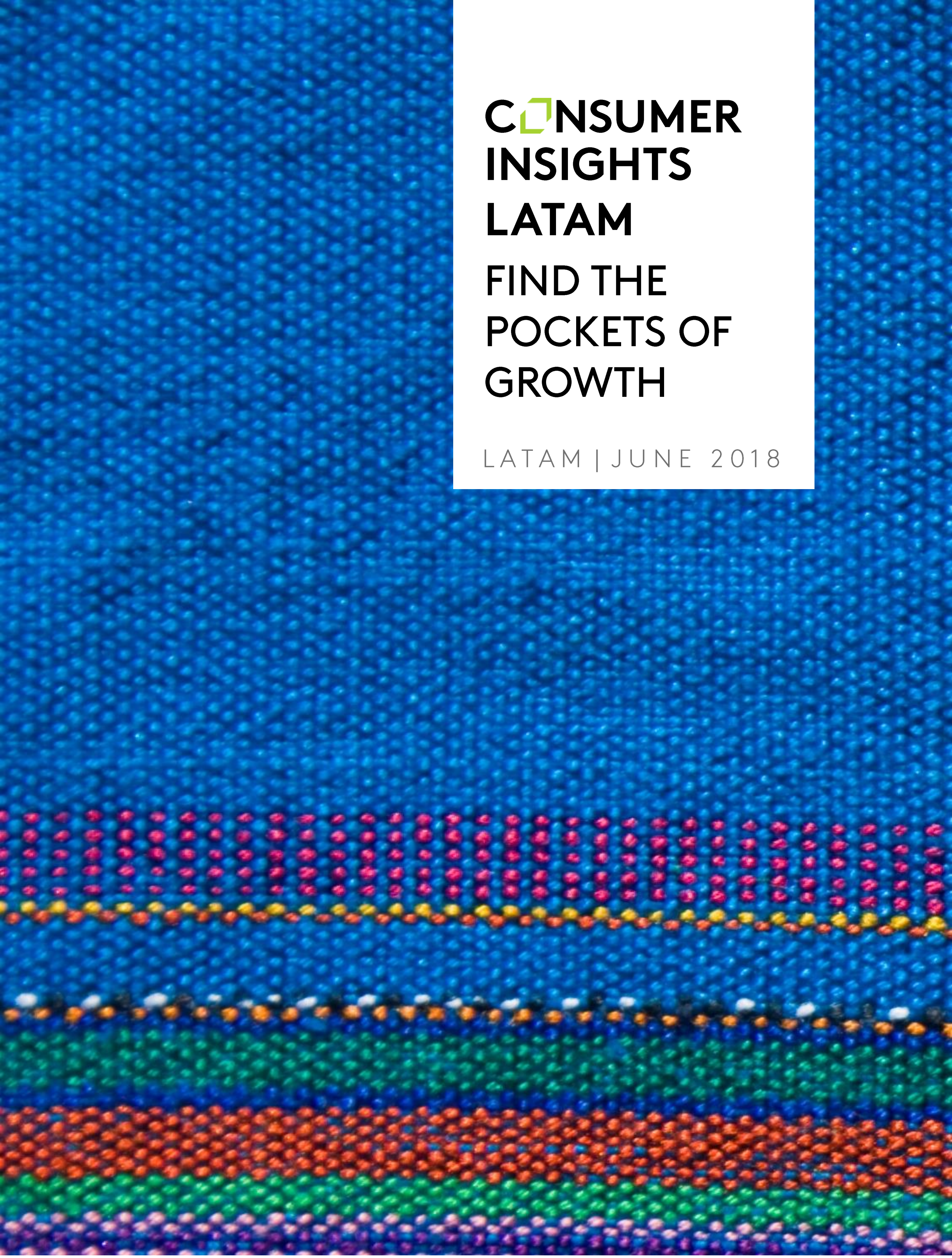
CONSUMER INSIGHTS LATAM

FIND THE POCKETS OF GROWTH

LATAM | JUNE 2018



KANTAR WORLDPANEL

Find the pockets of growth:
FMCG in Latam is at a record low, but there are still opportunities

The FMCG market in Latin America has seen a number of major changes in the past 18 months. The brand landscape, channel landscape and economic climate have all shifted, and this has had an impact on FMCG volumes.

The pace of volume growth in the region continues to slow: during the year ending March 2018 consumption grew 0.8%, compared with 1.7% across 2017 as a whole.

Take Q1 2018 on its own, however, and the picture is startling – volume has grown just 0.5%, the slowest rate for the region in the last 10 years.

This decline is a long-term trend. FMCG volume sales are rising at a fifth of the rate they were in 2016 (2.6%), and stand in stark contrast to the 8% increase we witnessed in 2009.

Most shoppers in Latin America are buying fewer items than they were this time last year. Consumption is growing in only three countries, Brazil (4%), Bolivia (2.3%) and Central America (0.7%), and shrinking in all the rest. FMCG volume sales in Venezuela are at their lowest level ever, dropping 24% in Q1 of 2018 alone.

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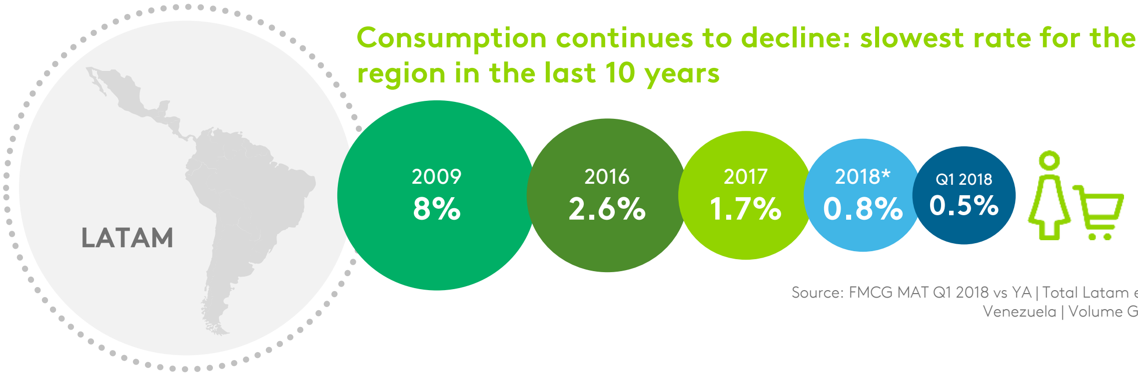
Consumption continues to decline: slowest rate for the region in the last 10 years



Source: FMCG MAT Q1 2018 vs YA | Total Latam excludes Venezuela | Volume Growth%

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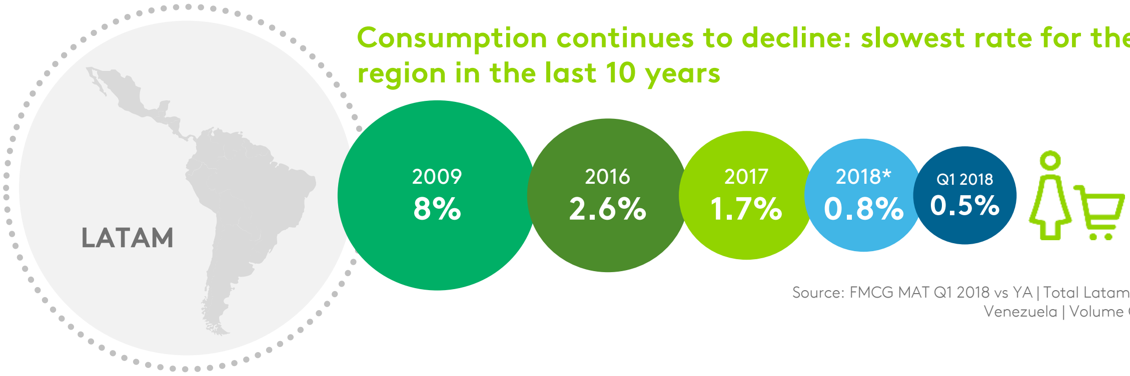

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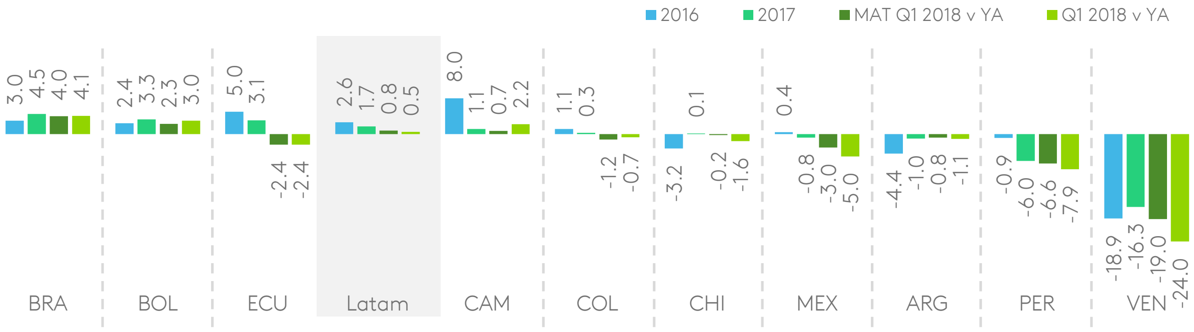
Consumption is growing in only three countries



Source: FMCG volume growth% YoY | Latam excludes Venezuela

Spending is also slowing down, with value sales following the same downward curve. While year-on-year growth from March 2017 to March 2018 was 5.3%, FMCG spend in Q1 of 2018 dropped to 3.1% – lower than the estimated rate of inflation for the year (3.6%).

Latam shoppers are prioritizing purchases from other sectors.
In order to manage their household budgets, they are cutting into their grocery expenditure to afford other items. This is affecting the beverages and dairy categories in particular, which are declining in most countries. Peruvians are focusing on technology, smartphones, tourism and eating out, and Argentinians are spending more on essential services such as gas and electricity, due to an increase in tariffs.

LATAM KEY INDICATORS 2018

GDP	2.0%
Inflation	3.6%
Unemployment	8.5%
Shopping Trips	162 times
Average spend per household (USD)	$1,534
FMCG Growth %	1-2%
Average household size	4
Average spend per person per day	1 USD

The global picture

Global FMCG volumes increased marginally by 0.1% in Q1 2018, with the healthiest growth in Germany, Spain, the UK, Poland, Brazil and India. The fact that Easter fell in Q2 this year is likely to have had an influence on this figure, making the market appear more static than it is in reality.

Value continued to grow ahead of volume, at 1.7%. Although this is largely driven by inflation, there are some countries where higher value products are being bought – including France, Germany, the Netherlands, Spain and China.

Price inflation remains relatively contained, while consumer confidence has got stronger and unemployment lower. Private label's share of the market increased again due to significant growth in the US and UK, and a recovery in Germany. Discounters continued to make headway in Poland and Russia.

Richard Herbert, Global Business Insight Director
Europanel, Global Barometer report Q1 2018

The type and mix of brands they choose are changing. People across the region are moving away from premium brands to lower cost and economy options, as well as buying more private labels in Central America, Mexico and Colombia. These types of brand are all gaining share as a result, while premium brands have lost 0.6 sharepoints in three years, mainly in Argentina, Colombia and Ecuador. This trend has led to a decline in the average price of most FMCG categories.

The slowdown is most marked in capital and Tier 1 cities. Tier 2 cities, however – including the Cochabamba region in Bolivia, Occidente in Mexico and the south, north and north-east regions of Brazil – are not following the trend, instead demonstrating healthier growth in volume and value.

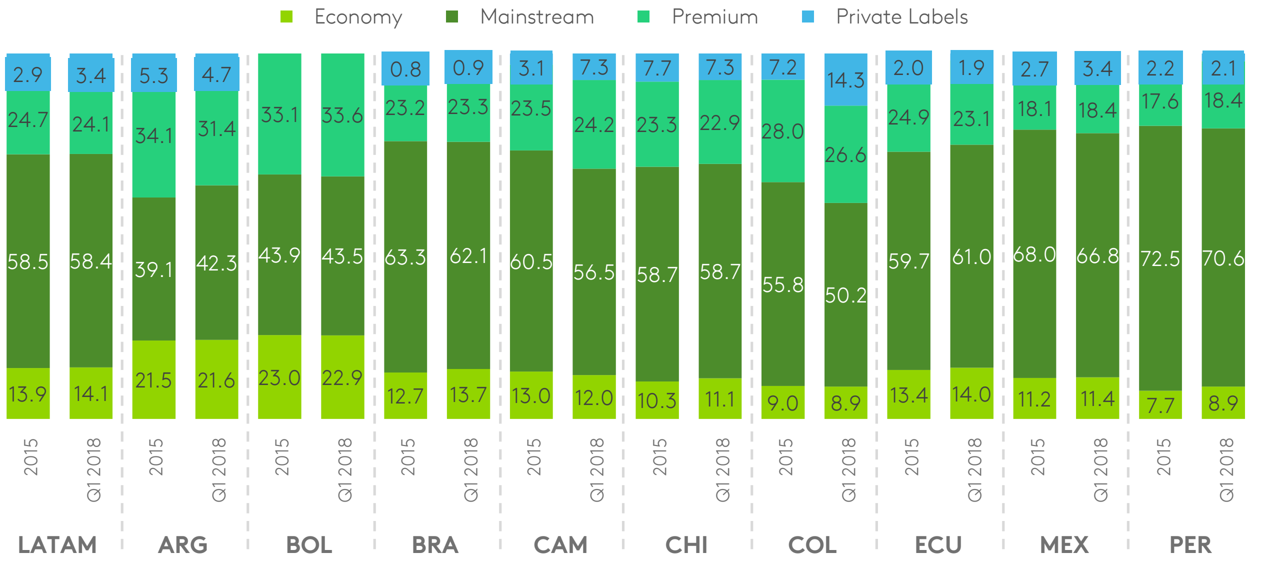
The new wave of retail formats is performing strongly, with cash & carry, discounters and pharmacies and drugstores all continuing to emerge. There are also some specific country trends worth noting. In Chile, shoppers are buying from fairs and directly from distributors. Due to the scarcity of products in Venezuela, the exchange of FMCG goods between families, friends and neighbors now has an 8% share of the total market. Lower income families in Mexico, meanwhile, are shopping for fresh food at *tianguis*, traditional market stalls.

In most countries, consumers are shopping less frequently. This has had a negative impact on impulse purchasing, as well as sales of dairy and other perishable goods. With Latin Americans making fewer shopping trips, and spending more per trip than before, it has become crucial for retailers to 'win' each shopping mission, and for brands to ensure they are chosen in that mission.

FMCG growth remains slow across Latin America, and we maintain our view that it will not exceed 2% this year. However, retailers and brands are still finding opportunities. There are pockets of growth in private label, secondary cities, and certain retail formats, and the situation will not be bad news for those that can find and take advantage of them.

Economy brands and private labels gain ground in Latam

Premium brands lose 0.6 share points in the past 3 years, mainly in Argentina, Colombia and Ecuador.



Source: Kantar Worldpanel | Value Share% | FMCG

Country FMCG Overview Q1 2018

Argentina

Argentina is at a turning point: after two quarters of growth, volume in Q1 2018 has shrunk. Inflation is rising, but household incomes are not keeping up, meaning that shoppers have less purchase power.

Half of all FMCG categories have lost shoppers. Only economy brands are winning; they are growing everywhere except in households with children, where premium brands still have the advantage.

Brazil

The 4.1% increase in volume sales reflects a recovery after a tough couple of years, rather than real growth. This is being driven by the south, north/north-east and east regions of the country. Consumers are buying smaller pack sizes, with the aim of spending less per trip, and this is keeping volumes down.

Cash & carry stores and pharmacies are performing best, along with local supermarket chains. As in many other markets, economy and value brands are being increasingly chosen over premium brands, while promotions are more aggressive than they have been in the past. This is driving low value sales growth of 1.8%.

'Luxury' and non-essential categories are also losing out, as consumers prioritize the FMCG basics. Many categories have lost penetration – 40 of the 108 studied – as shoppers abandon them to focus on buying what they need the most.

Colombia

The decline in Colombia's FMCG market is stabilizing, with -0.7% volume shrinkage in Q1 2018, compared with -1.2% over 2017, and value increasing by 0.3%. The downturn is most apparent in the city of Medellin. The decline is chiefly due to shoppers changing the way they purchase milk and their dairy basket, shifting from fresh to UHT.

Traditional trade has the lowest share of the FMCG market ever, while locally-owned discounters, drugstores and hypermarkets are continuing to grow.

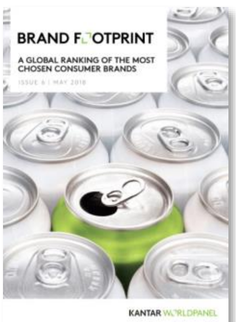
Mexico

Due to price increases driven by a 5% rate of inflation, volume sales in Mexico have declined by -5% and value by -1.7%. Prices in 77% of FMCG categories have risen above inflation. The FMCG market in the Occidente region is still growing, however.

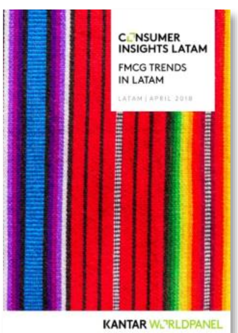
Low income households are suffering the most, and as a result *tianguis* have emerged as a popular format, while private labels and economy brands are growing their share.

FOOD FOR THOUGHT

Omnichannel report: Finding growth in reinvented retail



Brand Footprint report: A global ranking of the most chosen consumer brands



Consumer Insights Latam: Just a dollar a day: Latam families' FMCG spend

Cash & Carry booming and blooming

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