



Mass consumption: habits and points of sale

Market forces of supply and demand

Mass consumption

July 2017

kpmg.com.ar

New challenges in the mass consumption industry

A hyperconnected customer and less loyal to traditional brands demands both quality and price

Introduction

The purpose of this paper is to provide a brief summary of the trends in consumption habits in the region and the general situation of the supply (points of sale) of mass consumption products in Argentina, taking supermarkets and shopping centers as reference. This analysis is important when considering that, within an uncertain global economic situation, the market forces of demand are determinants upon designing the policies aimed at promoting supply.

Within a world where connectivity and prompt responses are increasingly more valuable by the current society, focusing on changes in consumption patterns is the main action that both Government and private companies should consider to efficiently assign resources (by the former) and avoid the loss of competitiveness (by the latter). Currently, the mass consumption industry is undergoing a total transformation, with increasingly informed purchasers and a growing share of e-commerce, which invites us to reflect about the necessary strategies to survive these conditions and, even, exploit them to increase sales.

In this regard, a report issued by Euromonitor International¹, in which the trends in consumption habits for the last year (2016) are outlined, shows the rising of disloyal purchasers (i.e. those customers who are not loyal to one brand but move freely among big box retailers, local entrepreneurs and handcrafted products). This sort of purchasers are the best image of the consumer looking for innovation and quality at discounted prices. They challenge the age and gender parameters defined by the marketing specialists as initial targets for their products. Accordingly, the economic and political uncertainties at a global level, added to the so-called *greenwashing* phenomenon (i.e. presenting an environmentally responsible public image that is not all in all true), led consumers, once more, to assume the role of agents of change, by taking over the responsibility for improving the given conditions. Thus, due to the excess of information, as a result of the social media and the unlimited capabilities of mobile devices, it is the citizens who are demanding clear messages from corporations, while they assume the task of rewarding or punishing the companies according to their adoption of this new business model that appears as more human, ecological and inclusive. Actually, a global study conducted by Ford², which analyzes the new trends in consumption as well as the impact of social changes based on the processing of surveys, shows that 67% of consumers believe that the boycott against a given brand may trigger a change in corporate values, while 86% agree that focus shall be placed on the production chain. Additionally, among other conclusions, the report indicates that most of the respondents are more concerned about the rational use of water and environmental impact (for instance, there is increased awareness about the

¹ Kasriel-Alexander, Daphne. "Top 10 global Consumer Trends for 2016", Euromonitor International, 2015.

² "Looking further with Ford 2017". Ford Motor Company, 2017.

problems brought about by droughts and floods), they believe that happiness is closely related to prosperity (but not to material possessions), or that consumers have the necessary power to make positive changes (even more than companies or governments).

These trends become particularly relevant when the mass consumption industry is analyzed. With customers willing to invest in their physical and mental wellbeing, while they become increasingly aware of animal cruelty and sustainable agribusiness, the food and beverages segment had to be fully reinvented; to such an extent that even fast food chains had to add a range of food options to meet the needs of the more demanding public. On the other hand, points of sales were tailored to this new hyperconnected and disloyal customer, who researches the advantages and disadvantages of a product, as well as the offer and prices of the competition within a matter of seconds. However, the main change in consumers' habits is affected by the professional circumstances. The possibility of continuing working even after the regular working hours converted time in the main consumer good. Most of current purchasers are willing to trust the sector in resolving the growing number of needs, and support alternatives combining efficient and prompt responses, while keeping a grip on competitive prices and quality, thus, raising the companies' standards. Accordingly, the shopping trips were reduced to small purchases in nearby stores and the e-commerce had a compelling drive.

Changes in consumer habits have been evolving according to the supply, but not only as to what to produce but also as to how and where to sell it. In addition, the change of government in Argentina, the economic expectations, and the reorganization of the taxation structure and the fiscal accounts can be considered as factors prevailing in the short term and operating as a drive for both these new patterns of demand and the fall in supply. It is worth noting that certain trends in consumption have and will have a substantially higher impact; for instance, nearness to the points of sale, search for better prices and the level of expenditure within a time period. While the first option decreases the relevance and profit margin of the shopping centers (e.g. hypermarkets) that are usually located far from the urban centers, and the second option favors the performance of wholesalers (where the price-volume ratio is more advantageous), the third of these options may lead to the design of strategies that consider a sales schedule with gaps or given seasonal variations. All these factors are strongly affecting the supply selling strategies, mainly, those designed by supermarkets and shopping centers that are aimed at improving offers, attracting the consumer and maximizing earnings.

The first section of this document is focused on the Latin American region. With a brief analysis, the aggregate situation of the region is evidenced in terms of consumption and behavior of consumers within the economic context of each country. Based on information available, the cases of Brazil, Chile, Mexico, Colombia, Costa Rica and Peru are briefly considered. The second section of this report describes the Argentine case. Particularly, focus is placed on the evolution of supply over the last years (represented by the supermarket chains and shopping centers), its recent change regarding sales of mass consumption products and its relationship with the strategies adopted by consumers, who try to maintain and improve their consumption level within an adverse economic scenario.

I. The Latin American overview

Within a Latin American context, in which the economy shrank in year 2015, mainly, as a result of the reduction in exports to China, the devaluation of the local currencies, the fall in the oil price, inflation and high-level corruption in the political environment, consumption levels changed significantly driven by the trend, particularly in Argentina and Colombia, of replacing leading brand by

more economic products. Additionally, the consumers' confidence (measured by Nielsen's³ Consumer Confidence Index) was widely variable, taking into account that, as shown in Table No.1 and Figure No. 2, in Mexico, Brazil, Chile and Argentina, it decreased by average 2.3 from the first to the second quarter of 2016, whereas in Colombia, Costa Rica and Peru, such index increased, on average, almost 5 points in the same period.

Table No. 1

Changes in the Consumer Confidence Index (CCI) by country. Year 2016

Country	Confidence index (baseline= 100)		Growth rate of GDP (annual percentage variation)	Inflation rate (annual percentage variation)
	2Q 2016	2Q 2016 vs 1Q 2016		
Brazil	74	0	-3.3	9.0
Mexico	83	-3	2.1	2.8
Chile	78	-2	1.7	4.0
Argentina	71	-4	-1.8	36
Colombia	85	2	2.2	7.6
Costa Rica	38.6	1.4	4.3	0.7
Peru	102	11	3.8	3.6

Source: prepared based on The Nielsen Company (*Quarter by numbers*, 2016), INDEC and International Monetary Fund.

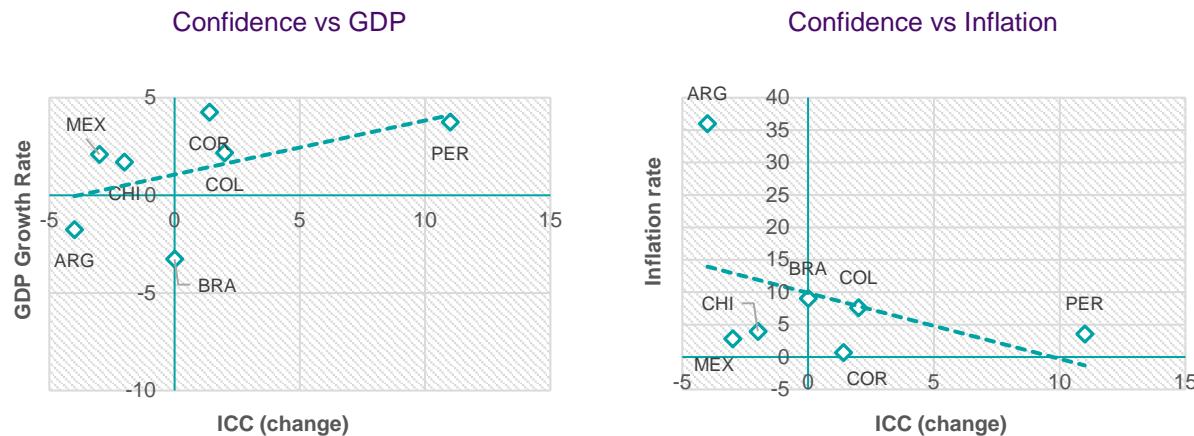
Thus, based on data reflected in Table No. 1 and Figure No. 1 (dispersion diagram, see footnote), it can be noted that a certain correlation exists between the inflation levels, the GDP growth and the consumer confidence index. It can be concluded that in those countries where the inflation rate is low or have experienced a GDP growth, consumers increase their confidence levels, that is, they have positive perceptions about local job prospects, personal finances and immediate-spending intentions.

³ "The Nielsen Consumer Confidence Index". This index is the result of processing a survey of more than 30,000 online respondents in 61 countries and measures perceptions about local job prospects, personal finances and immediate spending intentions. Consumer confidence levels above and below a baseline of 100 indicate degrees of optimism and pessimism, respectively.

Figure No. 1

Relation between changes in CCI, GDP and inflation (by country) in Latin America.
Year 2016

(In percentage or confidence index points)



Note: The dispersion diagrams appearing in this section are intended to show the relation existing between two variables (in these cases, the relation between the confidence index and the GDP growth and the relation between the same index and the inflation rate). Each point represents the intersection of two values for any observation whatsoever and the dotted line represents the trend or better adjustment to behavior evidenced by the scatter plot (that is, the correlation between the two variables analyzed). If the trend line is positive, the correlation between both variables is positive (both increase or decrease); if it is negative, the behavior is inverse (when one increases, the other one decreases).

Source: prepared based on The Nielsen Company (*Quarter by numbers*, 2016), INDEC and International Monetary Fund.

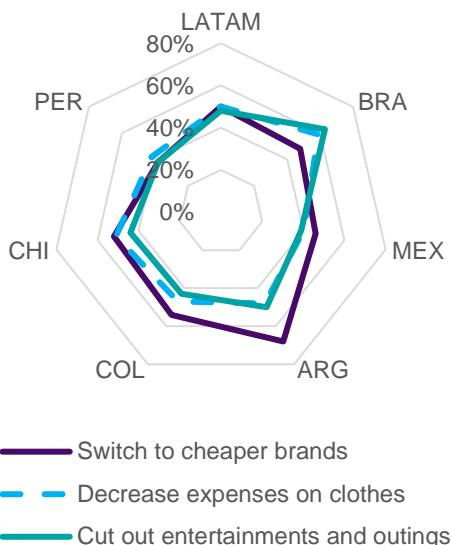
Among the most significant aspects about the changes in the mass consumption industry in Latin America, the specialized consultants, such as Kantar WorldPanel⁴, highlight the existence of a selective growth of the sector, that is not consistent in each country and in which the final value of the ticket contrasts with a steady purchase volume, evidencing a strong distortion of indicators attributable to the high inflation levels of the region. Additionally, it is noted that the number of trips to points of sale in all countries has decreased by 60%, particularly in Brazil, Venezuela and Bolivia, while there has been an increase in the preference of consumers to purchase at stores near their homes, making the traditional sales channel most productive. Furthermore, Latin American purchasers evidence an objective perspective upon choosing discount chains that offer cost-benefit products, a limited range and their own brands as well as traditional chains that do promotions based on price discounts.

⁴ "Evolución de la dinámica de compra en LatAm: 6 tendencias". Kantar WorldPanel, 2015.

Figure No. 2

Strategies to save money in Latin America

(Percentage of total answers)



Source: prepared based on The Nielsen Company, *Quarter by numbers*, 2016.

As noted in Figure No. 2, which shows the main strategies adopted by the Latin American consumers to save money and control budgets, the replacement of leading brands by more economic options is the usual alternative, especially, in the cases of Argentina (68%) and Colombia (54%); two countries that have recently evidenced high inflation rates and a low economic growth. On the contrary, other countries usually opt for reducing entertainment expenses (Brazil) or decreasing dressing expenses (Peru). Knowing the consumer's behavior in this regard (i.e. how do they react and allocate their budgets upon changing economic circumstances) helps understand why the traditional producers are increasingly launching products to the market with a manufacturing process similar to those of higher quality but identified with a second brand, which allows them to reduce the manufacturing cost and increase sales without reducing either the profit margin or the premium perception associated with the traditional labels. Additionally, the spread of retailers and supermarket chains selling their own brands has significantly increased over the last years. A trend with a moderate growth in Latin America but that proved to be quite effective in Europe. While in Argentina the store's own brands account for 5% of total invoicing of the sector, in Spain this figure accounts for 38% and in the United Kingdom for 48%⁵.

Below, we include a brief description of the current and most recent situation in the mass consumption markets of some of the most symbolic countries of the region. The statistics about consumption, behavior of purchaser and prices, unless other source is specified, arise from the report: "Latin America: Quarter by numbers", The Nielsen Company (2016). Whereas the figures related to the economic growth, international prices of commodities and other macroeconomic statistics were obtained from the International Monetary Fund and the World Bank. As it can be noted in each case,

⁵ Punto de Venta Magazine, "Tendencias de Consumo para el 2016", issue No. 244.

and as mentioned, the consumption levels and expenses are closely related to inflation and to the economic growth figures, both current and expected.

In the case of Brazil, according to the statistics of the Central Bank of such country, despite the increase in prices that accounted for 7.7% on a year-on-year basis from June 2015 to June 2016, consumers adopted measures to deal with their basic needs adjusting their budgets, by either reducing entertainment expenses considerably or utilities, such as gas and electricity. Furthermore, and as a result of the increase in prices, there was a 3.4% decrease in volumes of sales in the consumption market for the same period. Among the most affected products, beverages have dropped by 7.1% (especially, the alcoholic drinks), homecare products by 3% and perishables by 2.3%. Regarding demand, and as mentioned, consumers sought to control their budgets allocation by adopting two strategies that allow them to meet their basic needs within an adverse scenario. While about 60% of consumers saved in the entertainment category, a similar percentage saved by consuming less gas and electricity at home. Moreover, 47% of consumers reported that they have reduced their spending in everyday purchases, which, in turn, forced producers to design new strategies to revalue the profit margin-volume of sales ratio. The creation of second brands, new points of sale with discounts and family packaging, holding a larger quantity of products at the same price, are some of the strategies mostly used to overcome the drop in consumption. Despite this scenario, the situation is expected to improve in the medium term, as the country may resume its growth, which will result in an increase in consumption. The International Monetary Fund (IMF) estimates that, by the end of 2017, the economic growth of Brazil will change the negative figures of the last years (average -2.3% from 2014 to 2016) to positive figures, while minimizing inflation levels.

On the other hand, Chile shows a more optimistic consumer. Although most of the consumers believe that the country is undergoing an economic recession caused mainly by the fall in the prices of copper (commodity that changed from USD 6800 per ton in 2014, on average, to less than USD 5000 in 2016, but showing some recovery signs over the last months), other consumers believe that this situation will be reversed in the short term. Actually, the IMF statistics acknowledge both positions. While this organization recorded a 1.7% growth in 2016, it estimates that by 2017 the economy will start a sustained recovery with annual rates near 2% (together with the increase in the international price of copper). Perhaps, as Chilean consumers are focused on the local economic scenario, they are mostly concerned about their personal finances. Accordingly, 70% of consumers sustain that this is not a good moment to make purchases, while other 53% report that they switched to more economic brands and 46% affirms that they are not confident about an improvement to their personal finances during 2017. In this context, the growth in the mass consumption industry was characterized and led during 2016 by the food categories and the premium offers of homecare products, particularly, taking into account that 43% of Chilean consumers are willing to pay a higher price if a better product is obtained, while 49% is willing to pay more if the product has natural or organic ingredients.

In Mexico, on the contrary, the expectations noted by the end of 2016 were less encouraging. Although the mass consumption sector recorded a sustained increase until the first half of last year (with an 8.6% increase in retail sales in June 2016) favored by controlled inflation, rising in employment and a significant growth of remittances; the growing slowdown noted in the purchase of certain products (such as personal and homecare), which are usually the first to be affected when the economic environment becomes difficult, open the door of a more complex scenario that led to the impairment of some of the main indicators. Actually, the recent increase in the dollar exchange rate forced producers to increase their prices, which may lead to the shrinking of consumption and of current growth in the short term. In general, the Mexican consumers have lately replaced leading brands by other more economic, which increased the sale of generic brands by 10.4%. However, the

specialists estimate that the country will suffer a larger slowdown during 2017, which will affect consumption levels one way or the other.

In Peru, meanwhile, the scenario looks more favorable. The country has one of the highest growth prospects in the region (the IMF statistics estimate a sustained growth in the future, with rates that would range from 3% to 4% in 2017 and would be maintained during period 2018-2021), added to the optimism generated by the change in the administration that reduced the uncertainty levels in view of the long-term growth. Furthermore, the low inflation rate (about 3% a year) and an improvement to the perception and certainty of prices enable a sustained growth in the volumes of sales of the consumption sector. According to the statistics prepared by Nielsen (*Quarter by numbers*, 2016), the sales of this sector grew more than 6% in 2016; beverages, perishables and homecare products were the most required products by consumers from June 2015 to June 2016.

Costa Rica has a scenario very similar to Peru, with low levels of inflation, reasonable growth of GDP (which, according to estimates of the IMF, may account for 4% by the end of 2017) and healthy domestic consumer levels. The country has also maintained an exchange rate favorable to exports and stability in domestic prices, which has increased the confidence level among consumers over the last years. The products that have driven the growth of the consumption sector were prepared food (mainly beverages and perishables) and homecare, ranging from 6% to 4%, respectively, from June 2015 to June 2016.

II. The Argentine case

In Argentina, consumers' increasingly higher expectations are disappointed by the domestic price hike and by a sensitive decline in employment (which in the first nine months of 2016, according to data of the National Institute of Statistics and Censuses -INDEC-, meant a loss of 127,000 job positions). This is in addition to the stagnation in the economic growth observed over the last years, the decrease in the purchasing power of wages (which between November 2015 and the same month of 2016 showed a decrease of 7% in real terms⁶), and the increase in the cost of public services and other goods (such as prepaid medical insurance, fuel, registration fees, etc.). All this brought about a significant change in the budget allocation strategy of a large number of Argentine consumers, who have sought to save on gas and energy consumption, and cut unnecessary expenses (mainly in the *leisure* category) in order to maintain a rational level of consumption in more important and basic product categories, such as *food, beverages, cleaning, and personal care*. In general terms, the strategy followed by the average Argentine consumer is not surprising at all, since it constitutes the optimal plan to follow in a scenario such as the current one (recession and/or in the process of recovery), which finally translates in the *level and composition of consumption*⁷.

In this context, the leading brands are losing ground to more economic ones, and this is confirmed by the results of the surveys conducted by consultants specialized in the field. Between 2015 and 2016, the percentage of consumers who opted to replace leading brands with cheaper

⁶ Estimate made considering the database of the Argentine Ministry of Labor, Employment, and Social Security (monthly evolution of nominal wages of registered employees of the private sector) and the General Institute of Statistics and Censuses of the City of Buenos Aires (IPCBA).

⁷ Indeed, the composition of consumption is closely associated with the economic level and situation. While in times of recession and drop in consumption levels, the basic product categories (such as *food, beverages, personal care and clothing*) account for most of the average consumer's budget and sector sales, in times of prosperity, other categories grow; although on average, basic products keep a strong presence.

options went from 27% to 36%⁸ as a result of greater caution and rationality, and of the constant search for the best relation between price and quality. Consequently, this behavior has triggered the sales of the so called *own brands* (or *store brands*) over the last years. In a study carried out by *Kantar WorldPanel*⁹, which analyzed 300 mass consumption brands in the Argentine market, it was possible to determine that the five brands that grew the most in the last period -all of them economic and of national origin- did so by adding customers. In fact, four of them were included in the *Precios Cuidados* price-watch program¹⁰, which enables to build up a profile of a local consumer that is very vigilant about prices (that is, one that could be identified with the *agnostic consumer*), and who opts for brands that keep pace with the situation in the country, offering a larger quantity of product at the same price, or brands that simply freeze the prices of basic products, which are the products to which most of the household budget is allocated in an adverse economic context. As a consequence, although statistics show that 2016 closed with a 4% fall in the level of consumption¹¹, and that, contrary to expectations, consumption did not go up during the first half of 2017, the current performance of wholesale chains contrasts with this reality. During 2016, for example, these businesses increased their sales volume by 9% compared to 2015¹², mainly due to the fact that, in times of recession, more people reduce their shopping trips, and opt to search more economic prices, with differences compared to traditional hypermarkets that can reach up to 35% depending on the item. In fact, the market share of wholesalers, which reached 4.4% of sales in the mass consumer market in 2013, climbed to 8% in 2016, showing that the higher the inflation rate, the greater the sales of this type of businesses. It is to be expected that as long as this scenario (i.e. drop of the purchasing value of wages) persists, consumers will continue to migrate to wholesalers, causing them to increase their sales as a result of a consumption strategy that focuses on price and quantity rather than on the brand of the product or the proximity to the point of sale. As a strategy to deal with this situation, many chains opted to offer new formats along with the traditional hypermarket, launching small versions of their stores ("markets" or "express"), with the aim of approaching to the consumer who prefers closeness and does not make large monthly purchases to stock up.

The trend described in the previous paragraph is reflected in the available data on supermarket and shopping center sales¹³, where the former are more representative of the sales/consumption dynamics of basic products (more than 80% of the total sales of these businesses correspond to the *food and beverages*, *cleaning and clothing* categories), while the latter reflect, to a greater extent, the dynamics and behavior of other products more related to leisure or luxury consumption (around 45% of shopping center sales correspond to the *clothing*, *footwear* and *leather goods* categories, while 15% is attributed to the sale of *electronics*, *appliances* and *computers*). The logic behind these statistics and the availability of data for these businesses, which in the present analysis refer to the last four years (2013-2016), are crucial in determining what happens to consumption from the supply standpoint. In recent years (see Figure 3), sales of these businesses increased from an estimated \$ 156.2 billion in 2013 to an estimated \$ 343.6 billion in 2016,

⁸ "En 2016, la inflación del 40% impulsó el consumo de las marcas más baratas". Clarín Newspaper, January 15, 2017 (http://www.clarin.com/eco/2016-inflacion-40-impulso-consumo-marcas-baratas_0_SJ8xWbNLg.amp.html).

⁹ "A global Ranking of the most chosen consumer brands". Kantar WorldPanel, 2015.

¹⁰ *Precios Cuidados* is a price-watch program focused on the basic food basket, intended to ensure competitive economic conditions, while providing reference prices that encourage consumers' control in light of market abuses. It became effective in January 2014, and included a listing of 302 products marketed in all the Argentine territory. In 2016, the listing included 530 products. Currently, the program includes 545 products (2017).

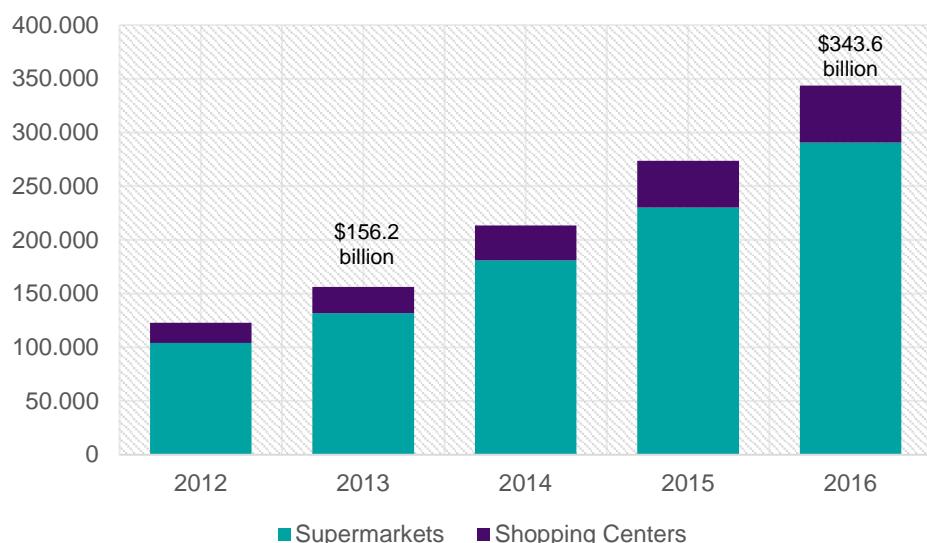
¹¹ "Consumer Insights, Q4 2016". Kantar WorldPanel, 2016

¹² ---"Los mayoristas, los únicos beneficiados durante 2016". TELAM, February 24, 2017.

¹³ Sales statistics of these businesses are prepared by the Ministry of Treasury and Finance, based on data published by INDEC. Until 2014 (latest data available) the Shopping Centers group included more than 2700 facilities/stores, whereby the Supermarkets group was made up of approximately 70 chains.

representing a cumulative nominal growth rate of approximately 120%. However, since the level of inflation has played a central role in the reference period, with an estimated cumulative rate of around 150% between those years (2013 and 2016), real sales growth has actually been negative (-11%). This is explained by the poor sales performance in recent years (where, for example, real growth rates in 2014 and 2015 were offset against each other), and by the sharp drop recorded in 2016, when the volume of sales at constant values fell by 11% compared to 2015. Although both contributed significantly to this drop in sales, shopping centers showed the highest drop in 2015 and 2016 (-14%). However, since the supermarket chain accounts for about 85% of the sales of this consumer subsector (formed by supermarkets and shopping centers), the fall in its sales, which was close to 11% in the same period, ends up being more representative of the aggregate situation.

Figure No. 3
Supermarket and Shopping Center Sales 2012-2016 Period
(In million current pesos)



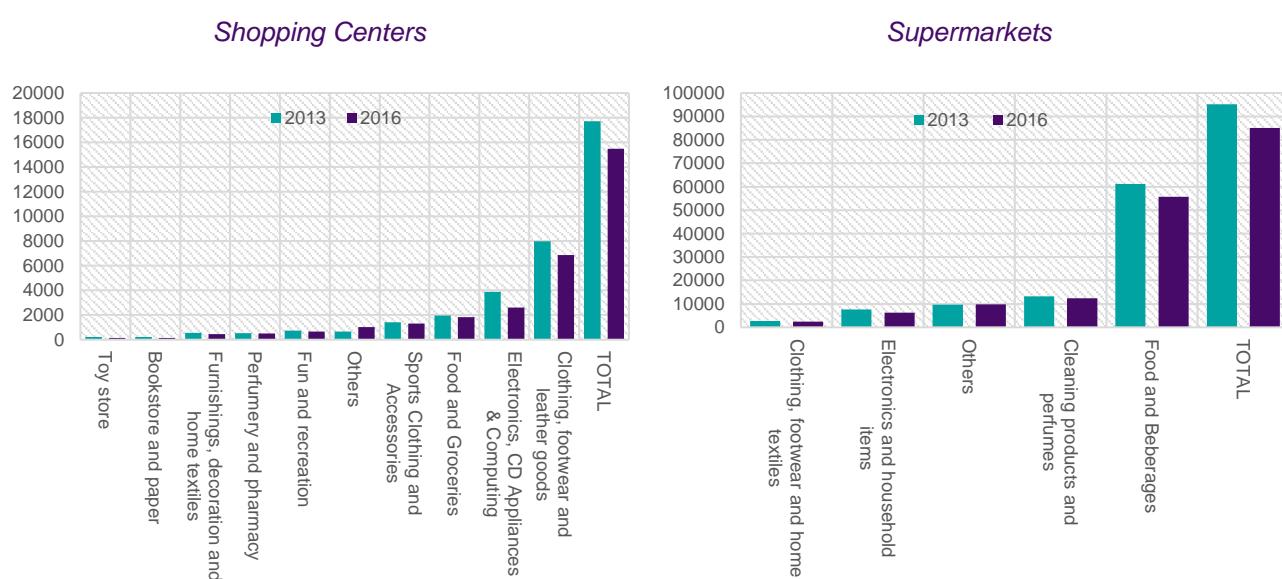
Source: prepared by KPMG based on data published by the Argentine Ministry of Treasury and Finance (Office of Economic Policy and Development Planning) and INDEC.

The breakdown of the evolution of current and real sales (i.e. at constant prices) of both groups in the reference period shows the categories most affected by prices, the aggregate economic situation and consumption levels (see Figure No. 4). In the case of supermarkets, for example, all categories experienced an increase in nominal turnover of more than 100% between 2013 and 2016, and *clothing, footwear and textiles* was amongst the categories recording the highest increase. *Food and beverages* and *toiletries*, which account for a considerable portion of total household expenditure, were the categories recording the highest sales volumes in 2015 and 2016, which highlights the bias of consumer spending towards basic products, explained by a context of high prices and some uncertainty. However, when the evolution of prices comes into play, it may be seen that real changes have not been such. Taking as a reference the retail inflation of the Consumer Price Index (CPI) prepared by the Institute of Statistics and Censuses of the Government of the City of Buenos Aires,

which has a longer series than that currently published by INDEC, it is concluded that *food and beverages*, *electronics* and *household goods* have been the most affected categories, with drops of 9% and 18%, respectively, and price increases that averaged 140% between 2013 and 2016. Similarly, in shopping centers, *toys*, *stationery*, *household appliances and electronics*, and *furnishings and decoration* were the most affected categories in terms of actual sales, with real decrease rates that, in all cases, were around 20% and 30% between 2013 and 2016.

Figure No. 4

Supermarket and Shopping Center Sales by Category (2013 and 2016)
(*In million constant pesos*)



Note: The figures expressed in constant values were obtained using the different chapters that make up the Consumer Price Index (IPC) taken as a reference (based on the months of the period July 2011 to June 2012). For example, to deflate the series of supermarket nominal sales of *food and beverages*, the *food and beverages* chapter of the IPC was taken, whereas for *clothing, footwear and textiles*, the IPC chapter used was *clothing and footwear*, etc.

Source: prepared by KPMG based on data published by the Argentine Ministry of Treasury and Finance (Office of Economic Policy and Development Planning), INDEC, and the General Institute of Statistics and Censuses of the City of Buenos Aires.

However, it is worth noting that in 2013, shopping centers showed an annual real increase higher than that showed by supermarkets. This year, for example, shopping center sales in constant prices grew by 9%, whereas supermarket sales in constant prices grew by 7%. In addition, sales of the *electronics, home appliances and computers* accounted for 22% of shopping center total sales, which had reached the highest levels of the last five years in a relatively moderate inflationary context. These figures have changed drastically over the last two years, and the situation reverted. In 2016, for example, while supermarket sales drop by 11%, shopping center sales did so by 14%. As expected, in both types of businesses, sales composition experienced some changes, with shopping center sales being the most affected due to important falls in the purchase of luxury categories or items (mainly *electronics, home appliances and computers*, which fell 5 points compared to 2013).

This situation may be explained by the economic crisis that began to arise in the middle of the past decade. This is due to the fact that, in periods of economic adjustment, the average consumer

is inclined towards products intended to meet basic needs, which means limiting expenditure on other types of goods and services, which may be more associated with those placed by shopping centers. Needless to say, the period under analysis was marked by a sustained increase in local prices and mass consumption goods were among the most affected, not only from the demand standpoint (final prices), but also from the supply standpoint (intermediate prices). This has led to significant changes in the consumption habits of the population, and in their level of expenditure, which ultimately explains the observed sales behavior, and the gap between the real and nominal growth of these businesses. It is further worth highlighting that, besides inflation and its impact on consumption habits, the macroeconomic context has also significantly influenced demand and supply performance. Accordingly, consumers' decision to buy specifically to *consume* rather than to *keep supplied* is another factor that explains the recent behavior of the turnover and sales volume of the sector, since, although there is an increase in the frequency of purchase, this is offset by a reduction of the final amount of the ticket, which, on average, is usually greater than the aforementioned increase. This type of behavior, which is typical of a period of economic adjustment, is becoming a global constant due to the sustained reduction in the number of members per family, and the increase in the number of single-person households; and ultimately, there is less and less time for or interest in monthly purchases.

Although 2016 closed with significant drops in supermarket and shopping center sales, as well as in consumption levels, over the last months of that year there has been a change in the pattern previously analyzed, with a slight recovery as from September, which, however, was not enough to reverse the downward trend of the first 9/10 months. Both the public and the private sector encouraged the allocation of large sums of money derived from the thirteenth month salary (income tax exempt), special compensations (compensatory bonuses for retirees) and salary increases (general increases and additional amounts granted by the private sector) to consumption so as to improve consumption levels by the end of the year. In addition, the different financing mechanisms in place, such as *Ahora 12* and *Ahora 18*, along with the increase experienced over the last years in the number of outstanding credit cards are part of a strategy that, ultimately, helped stimulate demand in late 2016. Indeed, the statistics produced by the Argentine Central Bank (BCRA) show that the number of credit cards (plastics) has been increasing significantly since 2013, from 30.9 million in December 2013 to approximately 37.3 million in December 2016. Moreover, the Purchase and Credit Card Chamber (ATACYC) estimated that during 2016, purchases by credit cards increased by 41 % compared to 2015, while purchases by debit card increased by 48%, and December recorded the highest year-on-year increase¹⁴. According to this Chamber, the categories that showed the greater increase in 2016 (or where more purchases were paid by credit card) were *fuels, drug stores, restaurants, and public services*.

The change of trend showed in late 2016 renewed expectations for an increase in consumption levels in 2017. However, the results obtained during the first half of the year are not encouraging. Although the loss of the purchasing power has been reduced compared to the period ended November 2016 (due to the slowdown in the inflation rate), the issues raised by economic growth, employment levels and depressed salaries prevent demand from definitively growing. In fact, specialized consultants estimate that the first half of 2017 closed with a further drop in consumption levels, which could lead, if the trend does not change in the second half, to a decrease towards the end of 2017 comparable to that experienced in 2016.

¹⁴ "El consumo con tarjetas de crédito creció en un 41% en 2016". Clarín Newspaper, January 16, 2017 (http://www.clarin.com/eco/consumo-tarjetas-credito-crecio-41-2016_0_rJHK5_qle.html).

Final Considerations

Given the changes in consumption, Argentine people are changing their buying habits, in many cases, radically. They visit a greater number of points of sale before they decide to make a purchase in order to compare prices and mitigate the impact of inflation on their budgets. Likewise, they are more rational in the choice of products, to the point of resigning the first brands to migrate towards cheaper ones, and constantly seek a balance between price and quality. Thus, as previously noted, supermarkets' and distributors' own brands have grown significantly in recent years (at rates close to 20% per year), and this trend is expected to continue into the future. Accordingly, specialized studies¹⁵ estimate that the percentage of rational consumers, i.e. those who carry out a comparative analysis of prices and options before making a purchase, increased from 40% to 50% in the last two years, whereas the percentage of brand-oriented consumers, i.e. those who prefer to continue buying first brands regardless of price, fell by around 4 points in the same period.

As detailed in the previous paragraphs, changes in consumption habits are mainly due to inflation, which in recent years has significantly reduced the purchasing power of wages, which have not been adjusted in line with prices. Accordingly, the statistics of the IPC taken as reference for the purposes of this work (published by the General Institute of Statistics and Censuses of the City of Buenos Aires) show that the prices of most products of the basket according to such index increased by 150 % on average between 2013 and 2016, consumer products being among the most affected. As a result of this increase in prices, which does not include the rise in public service tariffs, most consumers started to buy more regularly at the wholesale channel, where they note a price difference that could reach 30 %-35 %. All the foregoing is accompanied by the impact of prices on the poverty line. Due to the sustained increases in prices, the reduction in employment levels, and the failure to adjust salary levels, recently, the percentage of families that cannot afford the Total Basic Basket (CBT), estimated at around \$14,000 (March 2017), has grown, which also affects aggregate consumption levels.

The economy has been showing some signs of recovery, with improvements in growth prospects, and a certain moderation in the levels of inflation that could have a favorable impact on consumption levels. In late 2016, there was a change in consumption trends, explained by an improvement in year-end sales, and the injection of large sums of money to the market (thirteenth month salary, salary differentials, and other special compensation). However, and despite better prospects, so far, 2017 has shown a new retraction as a result of the drop in salaries and an economic growth that has not yet taken place. Although the second half of the year is expected to be more promising, analysts have set their expectations for 2018.

It is worth noting that during most of the last decade, demand was seen as the main driver of growth of a model in which the lack of regulations, rules, and policies did nothing but discourage investment and stagnate supply, leading to the price spike shown in recent years, which today exhibits signs of moderation. It is for this reason that, regardless of the foundations that macroeconomic stability and legal certainty (which together allow for or lead to predictability) can lay for investment, the public policies adopted to improve the consumption quality and level should be part of an overall strategy aimed at promoting economic growth based not only on demand but also on supply. To that

¹⁵ "Caen las ventas y los consumidores cambian los hábitos". Clarín Newspaper, May 4, 2016 (http://www.clarin.com/eco/Caen-ventas-consumidores-cambian-habitos_0_EJeqXK7Z-.html).

end, an eye must be kept on consumers and their habits constantly, so as to obtain a roadmap that enables to envision how to promote investment and the productive sectors to which it should be allocated, optimizing the structure of the different sales channels as well.

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