VENEZUELA:
A STEP BACKWARDS FOR FMCG CONSUMPTION

THOUGHTS ON...

KANTAR WORLDPANEL

VENEZUELA'S THIRST FOR CONSUMPTION

Venezuela is at a turning point. The country's ongoing economic and humanitarian crisis has led to a scarcity of FMCG products – making #EmptyShelvesInVenezuela the highest trending topic on Twitter in 2015 – while hyperinflation has caused prices to rocket. As a result, consumers are buying just half of the products they were in 2008, and new informal retail channels have emerged and flourished.

In short, while the rest of the world is moving forward FMCG consumption in Venezuela is regressing. These changes have been very rapid, and there is no guarantee that either consumption patterns or the retail landscape will return to normal when the situation improves.

It is society that is paying the price – with the most vulnerable people suffering most – and not only in financial terms. The lack of basic FMCG goods has changed people's eating habits in ways that may have a long-term impact on health.

The changes that have taken place tell a story of adaptability and resourcefulness. With eight years of data on the real consumption habits of Venezuelan households, and as one of the few research companies still present in the country, Kantar Worldpanel is best placed to tell this story. This report describes the tough reality for consumers living in Venezuela today – what they are buying, the channels through which they are sourcing it, and how this has shifted – exactly as they have described it to us.

Our intention is to make the voices of Venezuelan households heard, and to paint a vivid picture of their daily lives and family mealtimes. We will continue to monitor FMCG consumption week by week, and hope that in coming years as the country begins to turn a corner we can tell a more optimistic story.

Vinicius da Silva
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The state of the nation

Venezuela is the sixth biggest market in Latin America, with a population of 31 million. Historically, its economy was highly dependent on oil, while a lack of local manufacturing made the nation reliant on imported goods. The collapse in oil prices has hit the economy hard. At the same time the decision taken by many global companies to shut down their local operations, coupled with the rising cost of imported goods due to currency devaluation, has led to a dramatic drop in the number of FMCG products available.

After four consecutive years of recession Venezuela's GDP decline is the steepest in the world, dropping -10% in 2016 with a further -4.5% forecast for 2017. Inflation, meanwhile, is the highest in the world, rising by 476% in 2016 with a massive 1,600% increase predicted for 2017.

Seventy percent of Venezuelan households believe that the country is in worse shape than last year, with 61% stating that their own personal situation is also worse. 79% say the economic crisis is directly affecting them.

Venezuela 2016 in figures

87% Purchase whatever is available- Scarcity index

79% Feels the crisis affects their households

70% Believe that the country situation is worse than last year

-55% Consumption reduction in the past 5 years

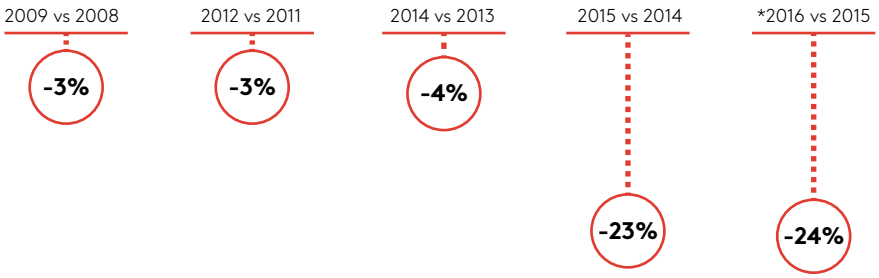
-10% GDP drop in 2016

Source: Kantar Worldpanel Venezuela, Consumer Watch 2016. FMI.

The shrinking FMCG basket

The impact can be clearly seen in people's kitchen cupboards. Consumption of FMCG goods has halved since 2008, due to low availability of products and a decrease in purchase power. People have been buying less for the last seven consecutive years, but the trend has accelerated in the last two, with a -23% decline in purchase volume between 2014-15 and a further -24% in 2015-16. Food products have suffered the most – people are buying 27% less, followed by dairy (-25%), homecare (-17%) and beverages (-14%).

7 years in a row purchasing less tan last year



Source: Kantar Worldpanel Venezuela, MAT Q3 2016. - Año movil a Q3 – Total FMCG

Buying less is not a decision that people have taken in order to balance their budgets; it is driven by a combination of scarcity of FMCG goods and prices that are impossible to afford.

It is basic items that are most conspicuously absent from the shelves. Of the products that were available eight years ago 35% are not available today. The categories that have been most affected are cooking oil, rice, pasta, coffee, powdered milk, sugar, corn, cornflour – which is needed to make arepas, the tortillas that are a staple in the Venezuelan diet – toilet paper, make-up and cream cheese. There is 90% less sugar in stores, for example, and the country-wide shortage of the raw material has affected the production of goods, leading to a proliferation of lighter or no-sugar variants.

A smaller footprint

Being beautiful and well-groomed is highly valued in Venezuela, yet high prices have forced people to go against their nature. In terms of penetration – the number of households that buy a product – it is the beauty category that has been damaged the most. In 2012 66% of households bought make up, whereas today it is only a quarter (25%). Just 18% of households buy fragrance, compared with 49% of households in 2012.

When this is compared with the neighbouring country of Colombia, where beauty purchase patterns have historically been similar, the impact is clear.

The hardest hit categories in homecare have been fabric conditioners (-27%) and insecticides (-22%). In food and beverage the penetration of both powdered milk and beer has halved, while herbs, spices and seasoning are now bought by 36% of households, down from 50%. People are enjoying fewer treats, and diets have become more basic, plainer in taste and heavy on carbohydrates.

There are five products that 100% of households still buy – cornflour, bread, pasta, rice and tomato sauce – but people have had to become more creative in how they get hold of them.

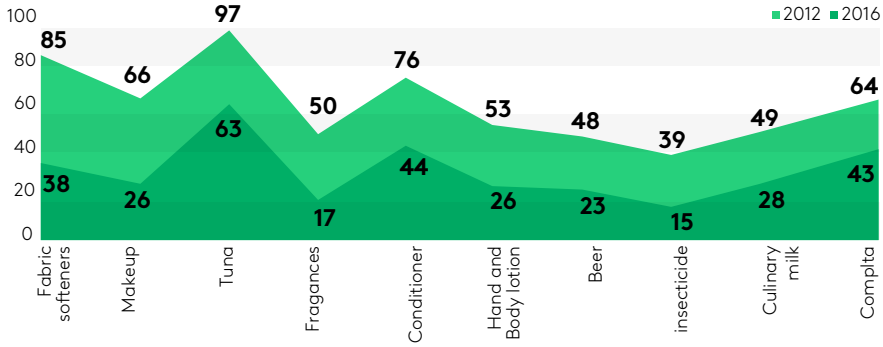
The brand landscape at a glance

Venezuela remains a consumer-branded market, with private labels holding only 1% of the FMCG volume share.

Global brands dominate, with 54% of the market.

5 brands are still found in almost every household: Pan, Mavesa, Coca-Cola, Maggi and Colgate.

Top 10 most negatively affected categories



Source: Kantar Worldpanel Venezuela, Household Pen%, MAT Q3 2016

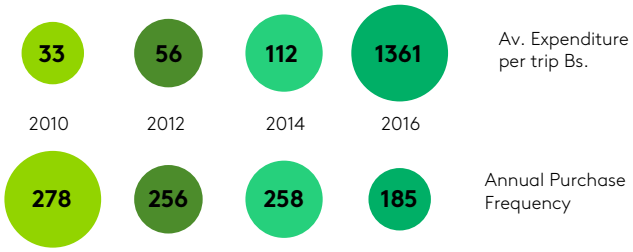
100 fewer shopping trips for families

High inflation would normally motivate people to shop more often, buying when they can and hunting for deals and offers. The opposite is true in Venezuela; people are not buying more often because the products are simply not available. The frequency of shopping trips has reduced significantly in a very short time. In 2008 Venezuelan consumers shopped 280 times per year (five times a week); today it is just 185 times per year (three and a half times a week).
As basket volumes have shrunk, consumers' purchase patterns have shifted. They are substituting one category for another if an item is not available, or is too expensive – eating a bowl of breakfast cereal at dinner time, for example. This suggests that when the economic situation improves consumption will not simply return to the way it was before the crisis hit.

Venezuela's retail landscape, too, has been subject to major structural changes which may mean that it never looks the same again.

Expenditure per trip has had an aggressive growth because of high inflation

The number of trips to the POS fall drastically: 100 less occasions



Kantar Worldpanel Venezuela, MAT Q3 2016

The rapid rise of 'informal' trade

The recession in Venezuela has had a major impact on modern trade, with supermarkets and hypermarkets losing 20% of market share in only five years, while new informal channels have prospered. Several alternatives to buying in stores have emerged, including bachaqueros, the exchange of goods, and selling on to friends and neighbours, as people adapt to their situation and find resourceful solutions to getting what they need. In short, we see that while the world is moving forward – with consumers embracing online shopping, becoming more empowered and benefiting from increased price promotions – Venezuela is swimming against the tide.

Modern trade at a glance

Modern trade accounts for only 35% of FMCG value, down from 53% in 2011.

90% of modern trade is supermarkets; hypermarkets and discounters are not prevalent.

100% of retailers are local chains; no international players are present in the market.

The market is very atomised, with the top three retailers holding just a 7.8% share.

The *Bachaqueros*

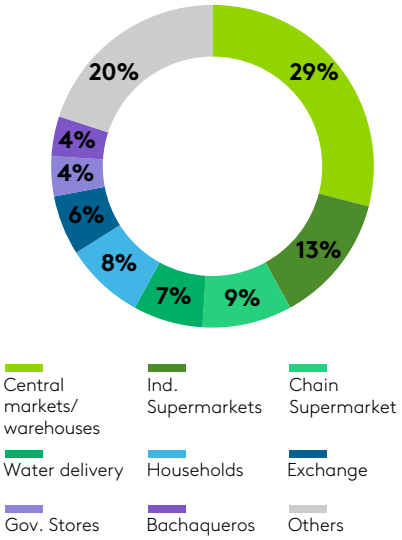
Independent vendors who purchase goods that are scarce and then sell them on to people in their offices and homes, bachaqueros already hold 4% of the market after only emerging in the middle of 2015. Their penetration is growing every month. Seventy-nine percent of households have purchased from bachaqueros, who guarantee to provide whatever people want but at a highly inflated price: mothers are paying on average eight times what they used to for babies' diapers, for instance.

It is mainly lower income families that are buying through this channel, but 69% of all consumers in the country buy from bachaqueros at least once per month, purchasing on average two items. The most-bought categories are rice, sugar, cornflour, detergent, pasta and feminine protection; all essential basic items.

The exchange of goods between individuals is another channel that has emerged, and now accounts for 4% of the market. Whatever people have more of than they require, they exchange with neighbours and colleagues for something that they need. Casa de familia – buying from friends and neighbours – also holds 4% of the market, as do camiones, which have delivered bottled water to homes across the country since the quality of tap water has deteriorated.

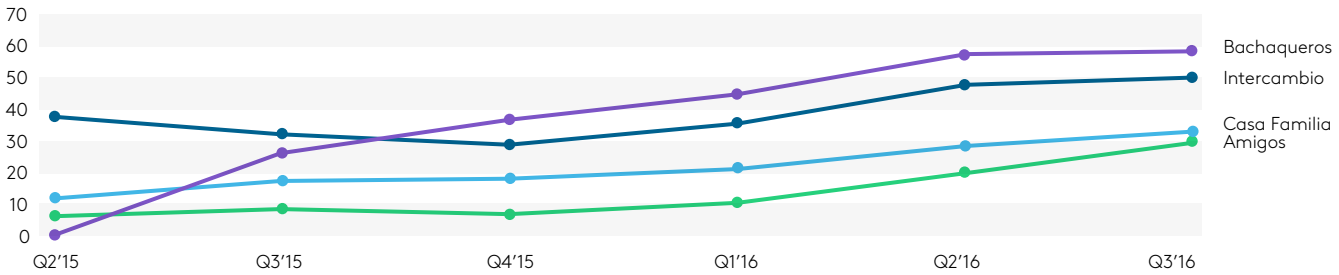
Together, this 'informal' trade makes up 12% of the market, and the volume of goods sold through these four channels has increased 100% in the past year alone.

Informal channels emerge Bachaqueros, households and exchange



Source: Kantar Worldpanel Venezuela, MAT Q3 2016

The new players on informal distribution



Source: Kantar Worldpanel Venezuela, Household Penetration%

A step backwards

This shift represents a regression in Venezuela's channel landscape. Already immature compared with other markets, modern FMCG trade in the country has dwindled significantly, while the rest of the world moves to online shopping and benefits from discounters competing to offer the cheapest prices. Consumers are returning to bartering and buying from independent sellers, and paying higher prices for the goods they buy. The country's poorest people are suffering the most.

Despite the situation in which they find themselves, people in Venezuela feel optimistic: 69% of them expect the country to be in a better position next year, and since the opposition party took over power there have been some early signs of recovery.

We believe that the availability of products in stores will not return to normal until the economic situation stabilises, and it will take a long time for consumption to recover to previous levels. We also expect that the major changes we have seen in people's consumption patterns will be long-standing.

The story is similarly uncertain for the retail landscape. It is not clear how retail channels will reaccommodate products as they return, and whether consumers will slip back into their old habits when it comes to where they buy FMCG items. Will modern trade regain its share, taking back volume from the new informal channels? Will consumers leapfrog straight to online shopping?

Brands, meanwhile, have almost become irrelevant in Venezuela – people are simply desperate to get hold of products, whatever the name on the packaging. This is the era of 'no marketing', with brands no longer investing in promotion or advertising. How will companies rebuild their brands? Will consumers' loyalties have shifted? Will brands even matter any more?

One thing is certain – the major shifts we have seen in the last few years have been extraordinarily rapid, and the next developments are likely to happen equally as fast.

69%

of Venezuela people expect the country to be in a better position next year

METHODOLOGY

This report emerges from data gathered across our panel of 2,300 households in Venezuela's four main cities: Caracas, Valencia, Maracaibo and Puerto La Cruz. We continuously track around 60 FMCG categories. The analysis covers the period from 2010 to the third quarter of 2016, allowing us to show how market dynamics have evolved and how Venezuelan households are adapting to the continuous changes in the market.

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