KEY LEARNINGS AND TRENDS FOR FUTURE GROWTH

SURVIVING THE STORM

LATIN AMERICA
Recent financial and political instability has affected the majority of Latin American countries, with 2016 ending with the highest exchange rate against the U.S. dollar, record inflation, high levels of unemployment and multiple political scandals, which have set the stage for a weak and uncertain start to 2017. During the first semester we have observed some economic improvements which in turn has made Latinos increase marginally their consumer confidence index.

These factors have caused a fast-moving consumer goods (FMCG) slowdown in Latin America, where consumers are cautious and sensitive to price increases.

Over the past year

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume Change</th>
<th>Price Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>9.2</td>
<td>-2.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.5</td>
<td>-2.5</td>
</tr>
<tr>
<td>Colombia</td>
<td>5.7</td>
<td>-2.0</td>
</tr>
<tr>
<td>Chile</td>
<td>5.8</td>
<td>-2.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>32.3</td>
<td>-1.2</td>
</tr>
<tr>
<td>Peru</td>
<td>1.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Latin American consumers will continue to navigate the retail environment with a savings mindset, seeking deals and value where they can. Seventy-nine percent of Latin American consumers say they are changing their previous spending patterns in order to save money; they’re also less loyal to brands than ever before and are willing to switch to cheaper brands if a similar offer is available at a lower price, that’s why private labels (+5.6%) and discount brands (+5.4%) are increasing volume sales in the majority of markets.
Despite evolving consumer patterns, cheap is not always the best option. That’s because not all products are equally sensitive to price increases in each market and category. So it’s critical for FMCG manufacturers and retailers to understand price sensitivity at a minimum level.

The influence of large surface stores has diminished, thus creating opportunity for the development of new formats. In the last five years, we have seen an explosion of convenience, discounter, wholesaler and drug stores with sales floors that manage everything from medicine to personal care, beverages, snacks and even food. Online retail competition is also growing, with dramatically rising sales dramatically.

Latin America is facing a year with a lot of changing consumer behaviors. This presents challenges and opportunities that can be leveraged by manufacturers and retailers that are willing to understand how past trends have affected the consumer reality, and what shoppers are demanding. The way to succeed going forward is to think of strategies beyond price and to continue growing via niche markets, advanced analytical skills and excellence in execution.

**50%**

OF LATINOS ARE WILLING TO SWITCH TO CHEAPER GROCERY BRANDS

**EMERGING FORMATS**

- SIMPLICITY AND COST EFFICIENCY
- SMALLER ASSORTMENT AND LOWER PRICES
- HIGH CONCENTRATION OF PRIVATE LABELS

**HOW DO YOU EMERGE ON THE RIGHT SIDE OF THE OPPORTUNITY?**

- Invest in your Digital Ecosystem
- Understand the true needs of Premium Consumers
- Create a Health & Wellness 360° strategy
- Execute excellence via Loyalty & Segmentation

Surviving the Storm

Concerned Consumers

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KEY TRENDS 2017
FOR PROFITABLE GROWTH

DIGITAL ECOSYSTEM

Current technology and infrastructure is still at an expansion stage in Latin America, but countries have made significant progress in terms of telecommunication access and the use of social networks and applications. There are more than 378,000 internet users, and almost 80% are connected via mobile phones and have a social network account. Latinos are among the highest social network users in the world.

Building a digital strategy implies an holistic approach, which goes throughout the full digital journey of internet users. They are the consumers of your products and services. Your strategy should cover: 1. Pre-purchase activities (e.g., 41% of consumers check or compare prices before visiting a store); 2. Mobile device purchase habits and; 3. Post-purchase “the new word of mouth advertising” that can reach unexpected levels of people via social network comments and experiences. All of these have an impact on your total sales.

% Media ROI Index (LATAM TV ROI = 100)

It is true that online FMCG sales are dwarfed by brick-and-mortar sales (on average, 10% of Latinos purchase FMCG online), but online is growing in importance—even if purchasing happens at a physical store.

40% 38% 33%

Checked or compared prices online between stores
Looked for product information online
Searched online for deals, coupons or promotions

So the reality is that if you don’t start to support and develop your e-commerce strategy, you might be too late.
KEY TRENDS 2017
FOR PROFITABLE GROWTH

DIGITAL ECOSYSTEM
KEY IMPLICATIONS FOR YOUR BUSINESS

- Need to invest in the best technology available.
- Invest in client service (refunds, returns and queries).
- Develop efficient delivery or pick-up methods.
- Forge partnerships with the .com leaders.

- Understand online behaviors of current and potential consumers.
- Understand online shopper motivators and preferences.
- User understanding: How to improve their experience on web pages and Apps? EASY EASY EASY!

- Offering an incentive to move to online (i.e., Better prices, no cost delivery).
- Spread the ad spending into profit pools and channels.
- Build your brand not only sales via storytelling (creating content marketing).

PREMIUM CONSUMERS

Latin America is home to millions of high-income consumers and an aspirational middle class population: 52% are willing to pay an extra price for products or services that offer something that they need or desire. Previous general marketing strategies that were aimed at the population as a whole are no longer applicable. Manufacturers need to have a better understanding of potential consumers, and that means offering smarter innovations, in order to identify the most relevant attributes.

Click on to our Pockets of Growth Report.

57%
ARE WILLING TO PAY FOR PRODUCTS WITH HIGH QUALITY AND SAFETY STANDARDS

50%
ARE WILLING TO PAY FOR PRODUCTS WITH SUPERIOR FUNCTION OR PERFORMANCE
KEY TRENDS 2017
FOR PROFITABLE GROWTH

Today, FMCG players should understand the needs and priorities of consumers at their different life stages; each one has a very specific profile and should therefore be segmented to better understand why they’re willing to pay more for premium products. For example, families often seek to save on their spending, but many will buy premium products when it comes to their children.

Premium Products
Volume sales variation vs. past year

Today, it’s not enough to create innovative products. Any premium innovation should be premium from product proposal and performance therefore at least meeting and exceeding expectations, taking into account marketing and retail channels which are aligned to a premium market. Our Innovation specialist team offers six guidelines for discovering, developing and deploying premium products:

1. Create a **highly differentiated** offering
2. Ensure the product lives **up to the promise**
3. Make the **packaging look like a million** bucks
4. **Price it right**
5. **Align the execution** with the proposition
6. Provide **long-term support**
KEY TRENDS 2017
FOR PROFITABLE GROWTH

PREMIUM CONSUMERS
KEY IMPLICATIONS FOR YOUR BUSINESS

• Focus on a 360-degree brand experience for premium offerings: the path to purchase, the media connections and the post-purchase customer service.
• Consider a balance between your portfolio through innovation, diversifying your core business with affordable premium and premium offerings based on customer and shopper understanding.

• Understand the strengths and limitations of your brand (existing equities, etc.) when deciding how to approach premium opportunities.
• Uniquely resolve a real consumer struggle.
• Delight with product experience and ensure that any downsides are acceptable at a premium price point.
• Optimize the package design to reflect “premium-ness” and other key equities relative to the competitive set.
• Optimize to find the ideal price point based on competition and what the market can bear.
• Activate in a way that amplifies the product’s unique proposition, and plan to provide strong media support for at least two years.

HEALTH & WELLNESS

Health, is a major concern of all Latin American consumers. Across the region, we found that consumers are actively seeking more opportunities in this space, and they are willing to pay for products and services that offer benefits in this field.

80% OF LATINOS ARE ACTIVELY MAKING DIETARY CHOICES TO PREVENT DISEASES

62% WILLING TO PAY MORE FOR FOODS THAT PROMOTE HEALTH BENEFITS
KEY TRENDS 2017
FOR PROFITABLE GROWTH

For the FMCG industry, good health resonates strongly, and more consumers are seeking food and beverage products that help them maintain good dietary habits and adhere to special diets (for example, 40% of consumers seek low fat products, 39% are aware of sugar quantities and 23% actively seek low sodium products). All of these behaviors are reflected in increasing sales of products for specific dietary considerations like flexitarian 10%, gluten free 9%, vegetarian 7% and Vegan 3%. Sales in these areas have doubled in recent years.

It is vitally important that manufacturers and retailers develop a full 360-degree strategy. Designing products is not enough; they should invest in long-term partnerships with services and associations related to health and wellness. They also need to invest in technology and communication, which demonstrates to consumers that they are truly concerned about their wellbeing. They can do this by showing their commitments through advertising, web sites, social media networks and visible partnerships with private and public health associations.

BE AHEAD OF LEGAL OBLIGATIONS AND SHOWCASE YOUR SOCIAL COMMITMENTS

See our full report about new drivers of Food Revolution, which explores the initiatives and priorities that some corporations are considering to win in this space:

1. RESIZE & RESTRICT
2. REFORMULATE
3. DIVERSIFY
4. RE-FOCUS

HEALTH & WELLNESS
KEY IMPLICATIONS FOR YOUR BUSINESS

- Partner with consumers and shoppers in their quest for healthier lives; they expect manufacturers and retailers to support them in this endeavor.
- Aging consumers, patients under medical care, health conscious population and special diet consumers are huge potential markets.
- Consumers want transparency and choice to make better food decisions.
KEY TRENDS 2017
FOR PROFITABLE GROWTH

• Educate and engage consumers with this theme via associations, government partnerships and technology developments. Be truly invested and transparent.
• Medical, financial, beauty and health, nutrition and entertainment services will be the way to reach current and potential consumers.
• Manufacturers have opportunities to create specialized food which could be enriched in fiber, with low sodium, fat or sugar, etc.
• Retailers must make their facilities more user friendly in terms of access and provide more service options in one location.

LOYALTY & SEGMENTATION

To take advantage of these trends, it’s crucial to implement strategies in the right stores and at the right time to reach the right consumers. That will accelerate the profitability of innovations and initiatives. That’s why manufacturers and retailers should review their implementation via segment at base level.

Moving from Global or Country Strategy to REGIONAL AND STORE STRATEGY
Move from Basic Demographic Segments to SHOPPER SEGMENTATION
Creating or Maximizing the ROI of your LOYALTY PROGRAMS

Throughout the region, the outstanding sales performance of local and regional products is demonstrated in retail sales and sales are gaining momentum. These improvements are due to their strong emotional connection to the customs and behavior of local consumers, and of course, inexpensive prices when compared to those of multinationals.
KEY TRENDS 2017
FOR PROFITABLE GROWTH

LOYALTY & SEGMENTATION
KEY IMPLICATIONS FOR YOUR BUSINESS

- In this new landscape, success will come from a mixture of consumer and shopper understanding, dynamic micro-segmentation and in-store execution.
- Local behaviors and preferences will continue to drive market consumption; therefore, manufacturers and retailers have to be proactive and flexible in order to build loyal consumers and gain new regional consumers.
- Move to regional or store strategy, in order to reach key potential consumers. No more global strategies!

- Focusing on the stores with the highest potential. Smart Segmentation.
- Use forward-looking criteria (e.g., relationship quality, share, growth potential) to segment fragmented trade stores focusing on growth potential and portfolio needs.
- Select key accounts strategically focusing on growth and profit margins, actively managing growth and profitability tradeoffs.
- Create smart loyalty plans in order to boost the revenue sales and obtain the best information from clients for strategic consumer segmentation and maximize the ROI.
- Big data analytics will be key to success.
KEY TAKEAWAYS

1
KEY TAKEAWAY

In spite of a positive outlook and a marginal recovery of consumer confidence in the second quarter of 2017, Latin American consumers will stay in saving mode. In order to face the FMCG slowdown challenge, manufacturers and retailers should have smart offerings for these cautious consumers.

2
KEY TAKEAWAY

There are several pockets of growth and horizontal opportunities. Manufacturers can emerge on the right side of opportunity with short-term actions (e.g., understanding and developing specific portfolios for emerging channels, reducing promotion wastes and running price elasticity analysis) and revisiting their medium to long-term strategic thrusts in the key trends of growth (e.g., readiness to take on a digitized FMCG path to purchase, reviewing their 360-degree strategies to attract premium and health conscious or higher levels of execution standards via store and consumer segmentation).
ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen’s Watch segment provides media and advertising clients with Nielsen Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry’s only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world’s population. For more information, visit www.nielsen.com.