



THE IMPACT OF
DEMONETIZATION
ON THE FMCG BUSINESS -
A KANTAR WORLDPANEL PERSPECTIVE



THE CONTEXT

The recent action by the Government of India to demonetize the Rs.500 and Rs.1000 notes has garnered the maximum attention given its impact on the lives of the people. Though the country is experiencing an adverse situation now, it is widely believed that, this action coupled with other reform initiatives, is beneficial to the economy and people in the long run.

As the leading source of measuring consumer behaviour in the FMCG sector, Kantar Worldpanel has been keenly observing the business environment. And we intend to proactively provide inputs to our FMCG business partners. How will this initiative impact the FMCG sector and

therefore what are the implications for the business?

We have prepared this white paper to delineate the likely consumer behaviour on the basis of our historical understanding of the FMCG business and current happenings. While this analysis serves as a starting point, Kantar Worldpanel is initiating an exercise to measure the impact systematically and come out with a detailed analysis.

This note is intended to share Kantar Worldpanel's preliminary perspective and also highlight the salient aspects of the systematic assessment being carried out.

CONSUMER BEHAVIOR IN THE CONTEXT OF DEMONETIZATION

Traditionally, the last calendar quarter is not the best for FMCG. With children getting busy with school work and adults fresh from spending big bucks on Consumer Durables and fashion during the festive deals, FMCG generally takes a back seat. This year we have another reason to see it shrink further – demonetization. Here are the key challenges that we see with the economy this quarter.



LIQUIDITY

The demonetized denominations account for 86.4% of India's monetary base. This is worth Rs. 14 Lakh Crore. According to a RBI press report, Banks have received Rs. 5.44 Lakh Crores worth of demonetized currency while 1.36 Lakh Crores worth currency was either exchanged or withdrawn between the 10th and 18th of November. That means on average if a consumer had Rs. 100 to liquidate on the 9th, he has only about Rs. 25 to liquidate now.



SHRINKING DISPOSABLE INCOME

The majority of road-side vendors, Cab drivers, auto-rickshaw walas, manual labourers, Kirana store owners, etc., have stopped or slowed down the use of the demonetized currency. This is a big part of the Indian work force. Given that these consumers depend on daily earnings, this will hit their disposable income.



SAVING MINDSET

Middle-income consumers waiting in queues at ATMs have told us that they are willing to hold on to the Rs. 2000 or Rs. 4000 they get from the banks and spend judiciously so that they don't have to stand in those long queues again. The average trader is also a consumer and therefore displays the same attitude. For example, a trader said to us, if you spend Rs. 500 and give him a Rs. 2000 note, he has to flush out 15 of his Rs. 100 notes; and with a cap on withdrawals, limited availability of the legal Rs. 500 notes, for the time being, he is not ready to part with them. Consumers are finding it hard therefore to transact with the higher denominations for now.

Since the Government conveyed that things are only going to improve slowly until December 31st, we can see this trend for the remainder of the year.

So, what will be the impact on consumer purchases as a result?

THE IMPACT[↑] ON FMCG PURCHASES (Short term, Nov-Dec)

- I. We do not expect the purchase of Staples or Essentials to stop. Penetration of items like Atta, Sugar, Edible oils etc. will not be affected. However, we expect the consumer to shift to low value packs either by way of downgrading to less costly packs or by shifting to smaller packs. Therefore, we expect to see a drop in consumption and spend on staples.
- II. Shifting from premium to value brands is likely to happen in certain categories like home care and some segments of personal care like premium soaps and deodorants. This could potentially put the 'premiumisation' process on the back burner. At the same time, the gains made by digital payments and online purchases among a section of the society could come to the rescue of the premium products/brands.
- III. Discretionary/impulse products like packaged snacks, chocolates, soft drinks, etc. could be impacted. Temporarily these products are likely to be dropped from the consumer's purchase basket – so for such products we expect to see a drop in penetration. Of course, this could again lead to a drop in consumption and spends too.
- IV. Given the uncertainty, consumers are likely to reduce the value of their main/primary purchase as we step into the next month. Besides, in some cases (like the purchase of shampoo sachets), consumers might plan their purchases better since there is a shortage of low denomination notes. How this will impact the number of trips/purchase occasions/top-ups needs to be observed.
- V. With a conservative mindset, consumers could postpone trying new brands. Whether this will lead to a significant drop in new trial rates remains to be seen.
- VI. With less cash flow, General Trade might find it challenging to adequately re-stock their sold goods, especially as consumers resort to retail credit in such stores. This is bound to affect the entire eco-system, especially the wholesalers. On the one hand, they will have a challenge on funds thus delaying payment to manufacturers; which in turn affects their ability to stock products adequately. Owing to this, one can expect the business to be impacted first in the urban areas which host the wholesale trade.
- VII. For many marketers Oct-Dec is the last quarter in their financial year and typically, this is the time they persuade the stockists to stock up more. However, given the current scenario, marketers might not be in a position to do so this time.
- VIII. Consumers who are issued Debit / Credit Cards but seldom use them will now be encouraged to swipe their cards and therefore purchases at Modern Trade are expected to increase. There is also a spurt in online purchases and digital payments; but all these are likely to affect only a limited section of the society; so it is unlikely to offset the volume/value dip expected. Early indications are that the impact is somewhat lesser in the South, wherein both modern trade and digital transactions have a higher prevalence.

- IX. Rural which is cash-based economy and also which has a low presence of financial services will take longer to recover. Farmers are finding it difficult to travel to Banks, which are often miles away from their villages and stand in long queues to withdraw money for the Rabi season. This might hit agricultural growth as well as the rural farmer's income, which has long-term consequences. Usually, rural growth recovers during Oct-Dec quarter. However, this trend is likely to be affected this year. While there are several odds, we are also seeing a slew of measures from the Government by way of special sanctions to facilitate the Rabi sowing and other activities. These measures are expected to soften the impact on the rural economy.
- X. On the Household Panel we can expect to see a pick up for Consumption parameters in the Apr-June 2017 quarter as the dust of demonetization settles. This is assuming, the Government manages to streamline the system by Dec 2016 or Jan 2017.

Thus the demonetization process is expected to impact consumer behaviour significantly. However, the situation is quite dynamic with the Government stepping in with a series of initiatives as things evolve. Therefore, it is critical to do a systematic assessment to facilitate effective marketing interventions. Hence Kantar Worldpanel is initiating an exercise to collect purchase data on a weekly basis.

WEEKLY COLLECTION OF PURCHASE DATA TO ASSESS THE IMPACT OF DEMONETIZATION

Kantar Worldpanel has initiated weekly collection of the purchase habits of some members across four key cities. This initiative will help understand the impact of demonetization and how consumers are reacting.



WHAT IS BEING TRACKED?

- How FMCG purchases are impacted
- Change in penetration
- Change in pack preference
- Change in frequency of purchase
- Trade off across categories
- How brands are playing out in their categories



APPROACH

- Collect diaries every week from these consumers (separate visits to be made to collect the data)
- Weekly collection to be continued for 8 weeks to understand the purchase pattern
- Past data for these consumers to be extracted at weekly level so that we can benchmark



SAMPLE PLAN

- 4 Metros
- 300 per metro i.e., total sample of 1200 across 4 metros
- Stratified by SEC within each metro



THE PURCHASE PATTERN

- Reporting of data at weekly level



TIMELINES

- 1st week diary collection to be commenced on 17th November
- Data reporting for 1st week by 28th of November
- Subsequent collection will follow the weekly cycle

We hope that this analysis basis, factual data will give an accurate picture of consumer behaviour and hence facilitate an effective marketing planning.