



# COVID-19, the road back to consumption in Latam

2021

## COVID-19 ...

...has become a unique event in modern history with as yet unknown ramifications. For the first time, we are trying to restrain a pandemic through the broad restriction of economic and social activities around the world. This is done to prevent unnecessary loss of lives and to protect our most vulnerable fellow human beings.

All of us and our businesses are currently struggling to keep things moving while protecting our past achievements. Next steps are crucial, but not necessarily evident. Luckily, there are a hug number of “hot takes” on this crisis, with mostly helpful advice and more importantly a lot of creativity and solidarity on how to help in dire times.



At EY-Parthenon we are also guided by the adage:  
We tend to overestimate changes possible in the short term,  
and underestimate the scale of the change in the longer term.

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Accordingly, we have tried to set out some key questions and impacts we anticipate over the long-term, recognizing that this is not just an economic but social and political crisis as well.

We plan to use this conversation with our clients, advisors and colleagues to refine our understanding as we go. We would be delighted if you joined us in this conversation.

# HOW MEXICAN, COLOMBIAN AND PERUVIAN CONSUMERS ARE REACTING AND ADAPTING TO THE COVID-19 CRISIS

We at EY-Parthenon decided to navigate the market uncertainty brought by Covid-19 with data and conducted a deep dive research on Mexican, Colombian and Peruvian consumers through surveys of more than 4,000 respondents in each country (where all Socioeconomic levels (SELs), ages and genders are well represented). These surveys help us and our clients understand the situations and decisions that consumers are facing and gauge their sentiment towards consumption now, and in the foreseeable future. Our research has helped guide companies through the consumption fluctuations to better assess future demand and leverage the emerging trends in consumer habits. The following insights were generated from consumer surveys launched by EY-Parthenon in Mexico, Peru and Colombia between April and October 2020.

## 01 | Now

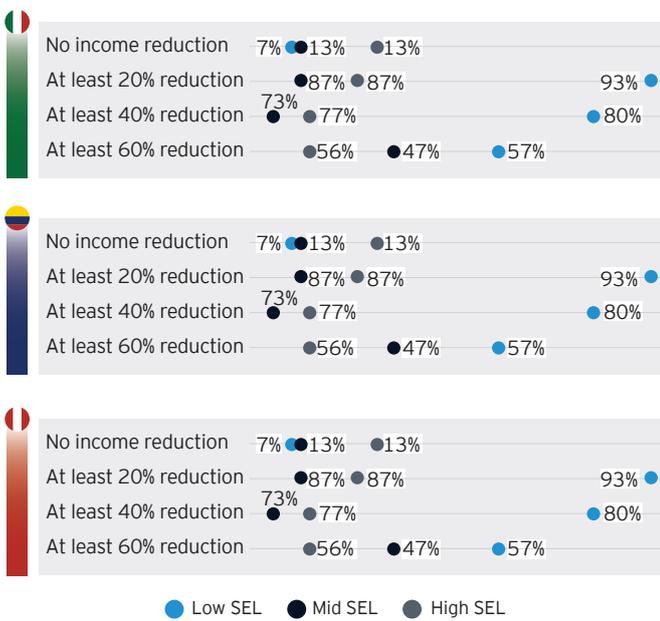
Our research reveals two macro factors that are impacting consumption in Mexico, Peru and Colombia: **reduced mobility and an unprecedented impact on people's incomes**. Both factors have affected consumers in different ways and their impact is evolving as the pandemic unfolds and a "new normal" in people's lives is found. In the early pandemic (April-May), we saw an initial stock-up and panic shopping but that has long ended. The consumers behaviors that emerged after that, have been the most telling about consumer sentiment and future spending behavior. We have identified the following behaviors in consumers during the pandemic: decreased incomes, downsizing in essential goods, downtrading to cheaper brands, non-essentials purchases are saved for later and a shift in channel mix.



**Today, decreased incomes are having a substantial impact on consumption behaviors:** Whereas in April and May, 60% people had seen their income reduced at least by 60%, this has stabilized and decreased by 10 ppts in October, so that now 50% of consumers report over 60% income decrease. Even though income is less affected in October, people are still restricting their consumption across Mexico, Colombia and Peru.

**How has the COVID-19 crisis impacted your income?**

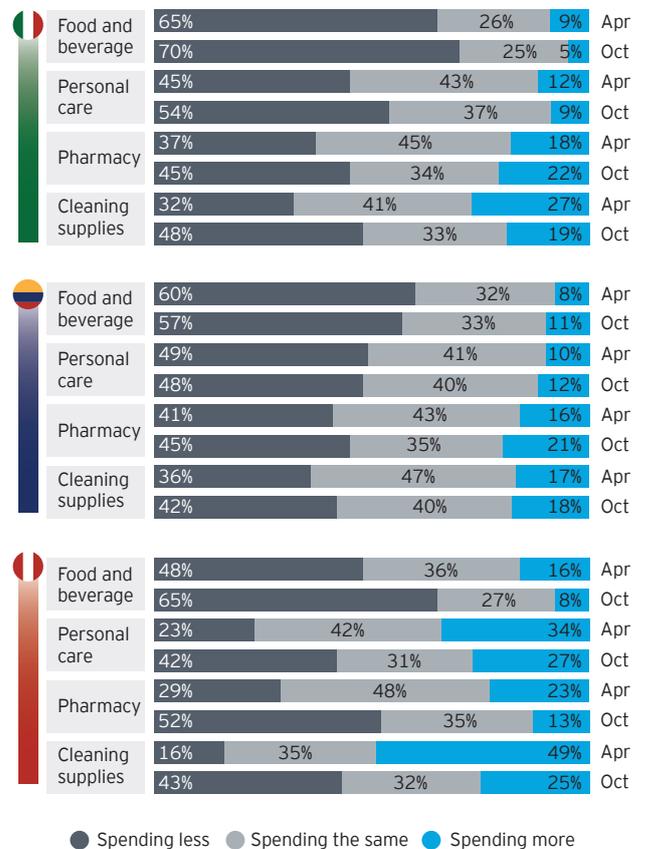
(N= 1,080 MEX, N=774 COL, N=1,530 PER)



**Downsizing:** Differently from what we have observed in wealthier countries like France, United States and United Kingdom, people are spending less even in essential consumer goods in Mexico, Colombia and Peru. Food and beverages are the essential categories where consumers are spending less: ~70% of consumers in Mexico, 57% in Colombia and 65% in Peru are spending less now than compared to pre Covid-19 levels. In categories such as cleaning supplies and pharmacy, the downsizing has been more dramatic in October than it initially was on April. Furthermore, around 50% to 60% of consumers in Mexico, Colombia and Peru are not offsetting their income reductions with loans or government support, but rather through savings and reduced expenditure.

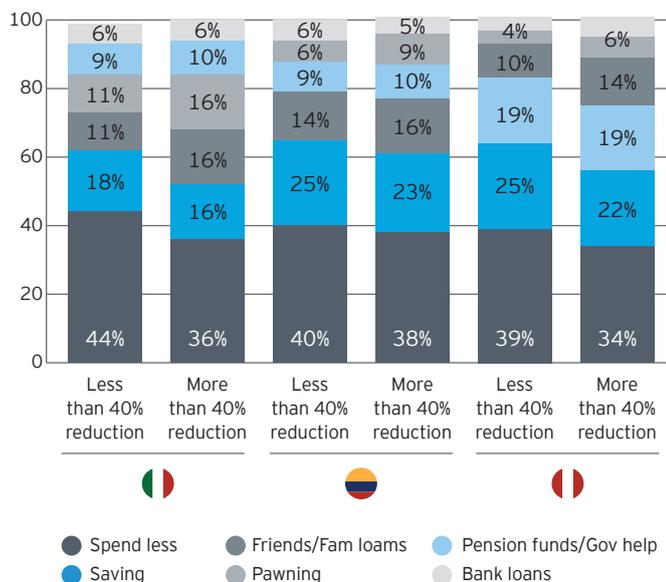
**How have you adjusted your spending for essential goods?**

(N= 2,652 MEX, N=1,127 COL, N=927 PER)



### How have you compensated for your income loss?

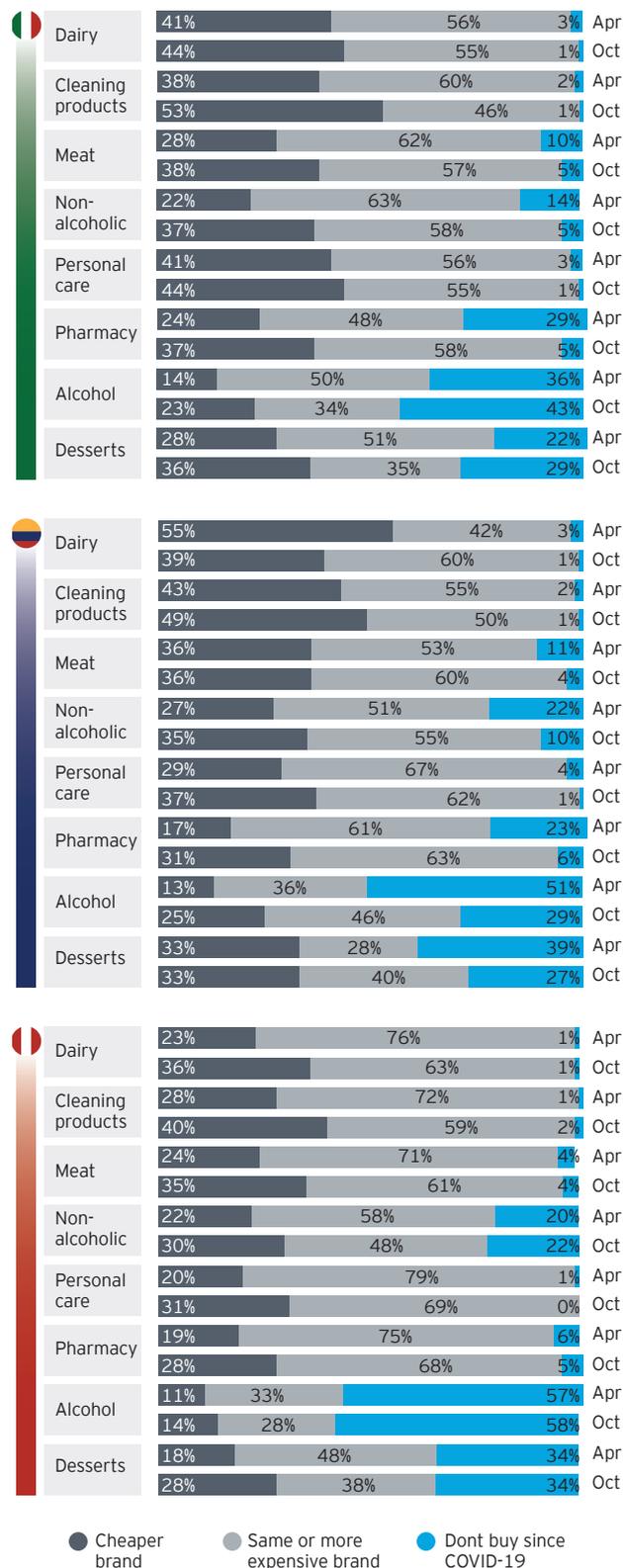
(N= 2,347 MEX, N=1,714 COL, N=2,344 PER)



**Down-trading:** The rapid income declines in Mexico, Colombia and Peru has forced consumers to trade-down across many categories. The downtrading has spread as the pandemic ensued, whereas in April 30% of consumers declared they switched to cheaper brands, in October 40% of consumers did so. In some extreme cases, consumers declared they have stopped buying the category in full, as in desserts, where over 27% of consumers in all three countries said they have not bought these products since the pandemic started.

### Have you changed the brand you purchase for the following products?

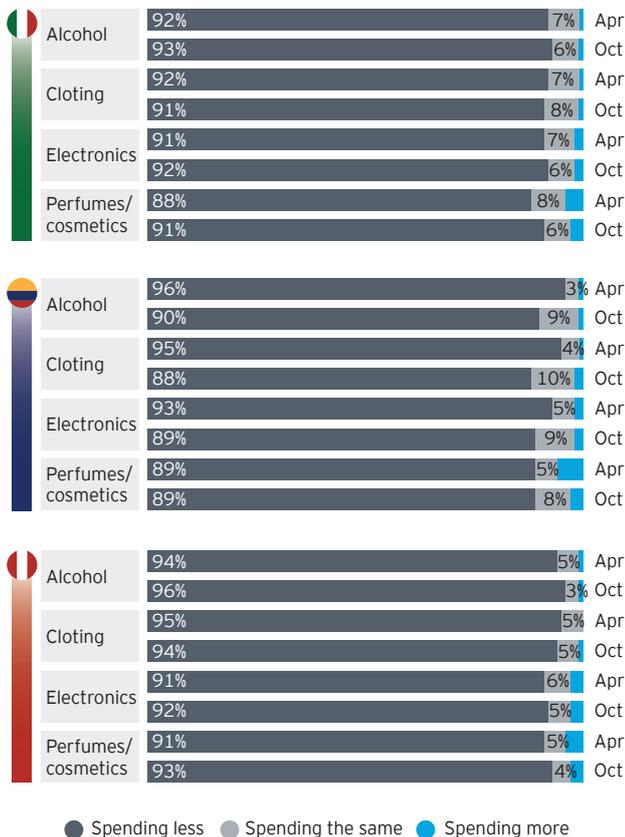
(N=2,652 MEX, N=1,127 COL, N=927 PER)



**Non-essential for later:** Some of the hardest hit categories are found in non-essential goods, as more than 91% of consumers in Mexico, 89% in Colombia and 92% in Peru declared they are currently reducing consumption for goods such as clothes and cosmetics, as quarantine makes these categories and others less relevant. This trend has persisted throughout the pandemic, as people realize that neither their income reduction, nor the pandemic will improve soon.

**How are you adjusting your expenditure for non-essential goods?**

(N= 2,652 MEX, N=1,127 COL, N=927 PER)



**Confinement has brought a shift in channel mix:**

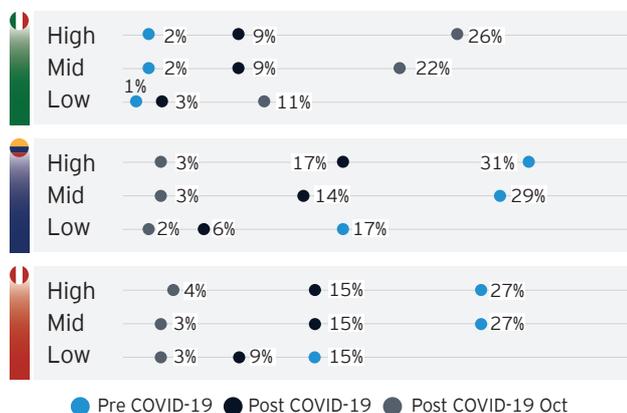
Retailers have experienced a shift towards their own digital or delivery channels as well as a surge in delivery platforms. Between 16% and 24% of people in Mexico, Colombia and Peru are now using an alternative order or delivery method (up from just 1-11% before Covid-19).

Shifts between traditional sales channels and modern ones are yet to stabilize. In the early weeks of the pandemic, traditional trade struggled to attract customers as this channel depends heavily on foot traffic and impulse buying, however as the pandemic continued and panic receded, consumers have returned to the streets.

According to mobility reports from Google, mobility to grocery stores and pharmacies has returned close to pre-pandemic levels in Mexico and Colombia, while Peru is still 26% lower than pre-pandemic levels due to its more stringent mobility restrictions. As for mobility to retail stores, they have increased during October compared to the levels seen in April and May. Whereas in April, mobility to retail stores (as compared to pre-pandemic levels) decreased by 56% in Mexico, 64% in Colombia and 82% in Peru, quarantine has loosened in all three countries and in October mobility is 28%, 39% and 43% lower than pre-pandemic levels. Still, restricted mobility has had a major impact on this channel. We see the following root causes and implications on each channel shift:

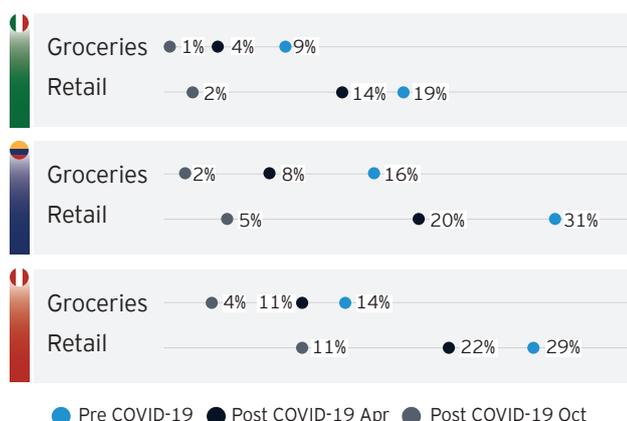
► **Remote ordering and delivery soars but not as expected.** Online adoption has increased to 16-24% compared to 1-11% before Covid-19 in all 3 countries. Higher socioeconomic levels have had the highest online adoption: 26% of consumers who belong to a high socioeconomic level in Mexico, 31%, in Colombia and 27% in Peru switched to online purchases. This is a significant increase from early pandemic levels, when only 9%, 17% and 15% of consumers from the high socioeconomic levels in Mexico, Colombia and Peru had switched to online sales channels.

**Switch to online platforms by socioeconomic level**  
(N=1,080 MEX, N=774 COL, N=1,530 PER)

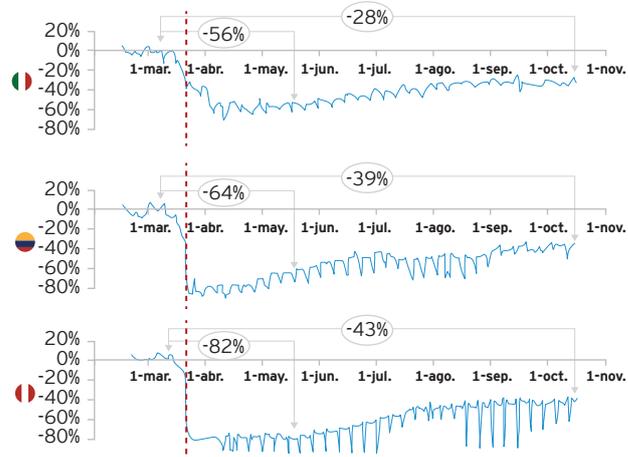


While there has been a significant increase in the use of digital channels, the base was extremely low. Consumers are doing more shopping online across categories. Before the pandemic, only 1-4% of consumers were doing their grocery shopping online. Now in October, it is 9-14% of consumers who have turned to the digital channel for their groceries. In other categories (e.g. clothing, electronics, video games), online adoption reached 19-31% where the video games category is the leader with a 59% online adoption.

**Switch to online platforms by Sector**  
(N=1,080 MEX, N=774 COL, N=1,530 PER)



**Mobility trends for Retail Stores**  
(Google Mobility Report data)

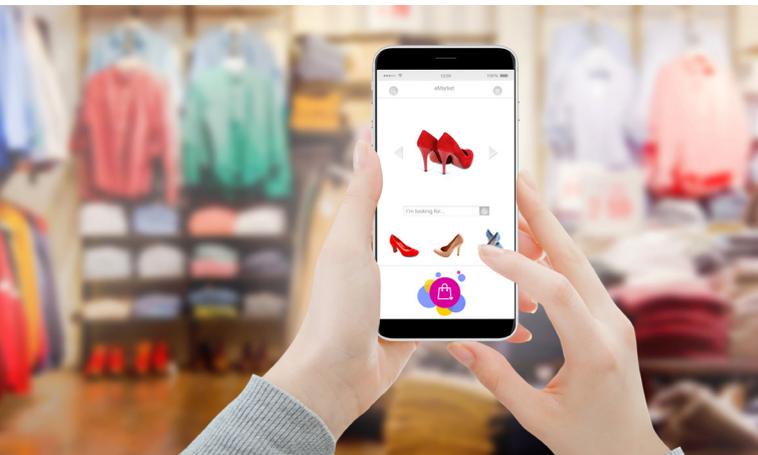


Winners in the online channel also vary by product categories. For groceries, the winners are the delivery systems of supermarkets. This is true for Peru and Mexico, however in Colombia, delivery platforms (e.g. Rappi) are the most relevant players. For retail products, the winners are e-tailers and department stores online platforms. According to our analysis, prices and promotions are the main criteria used by consumers when shopping retail products online, while prices and ease of use are the main criteria for groceries.

**Traditional trade is suffering from low traffic on the streets:** More noticeable in Peru than in Colombia and Mexico, foot traffic has decreased substantially, having a strong impact on the traditional trade sales. This channel is directly impacted by lower traffic on the streets and many small shops have closed since the pandemic started. Actions taken by companies such as AB InBev that are offering emergency credit lines to their Mom & Pop clients and e-commerce initiatives aimed at the traditional trade, are alleviating the impact and protecting many of them, but not necessarily reverse the loss in channel share. The consequences for the economy are huge given the large number of jobs the traditional channel generates.

## 02 | Next

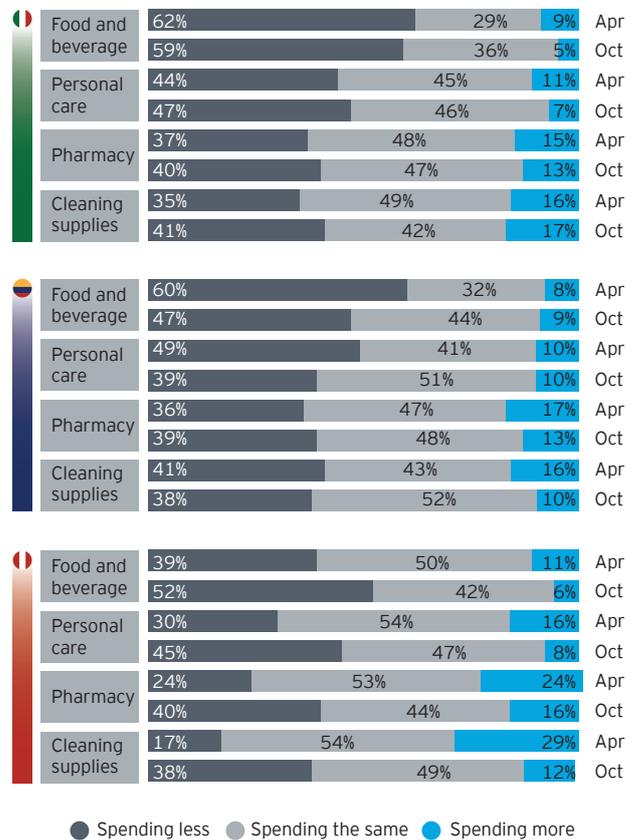
Predicting and forecasting during the Covid-19 crisis has proven highly difficult, even now when mobility has increased, and vaccines are months away from reaching the general population. Despite the uncertainty, consumers' sentiment allows us to identify certain trends that are likely to prevail at least during the following weeks:



**Down-sizing is likely to continue but not as dramatically as in the early pandemic:** As mobility increases in all three countries, shops and restaurants are reopening and the economies are slowly recovering. However, consumers' incomes are not yet back to normal and this will put pressure on consumers' spending on essential and non-essential goods. Today 47% of consumers in Mexico, 41% in Colombia and 44% in Peru believe they are likely to continue in their "saving mode" in essential goods for as long as the pandemic continues. For Mexico and Peru, this represents a 19% and 4% increase, respectively, compared to consumers expectations on April. For Colombia, it is a 4% decrease compared to April, which signals to more optimism about consumers future spending.

### How will you adjust your spending in the next 6 months in essential goods?

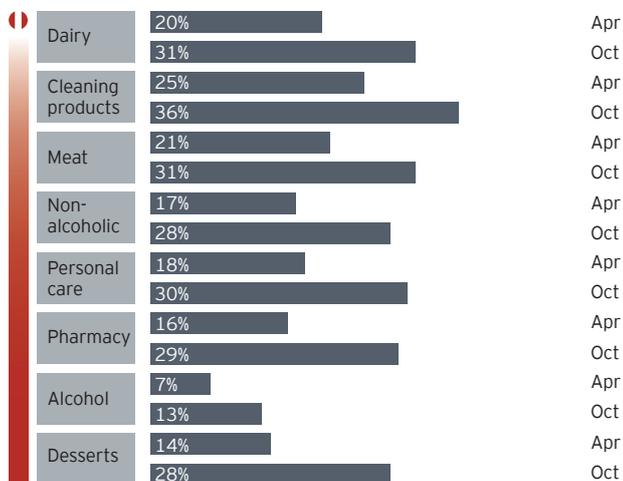
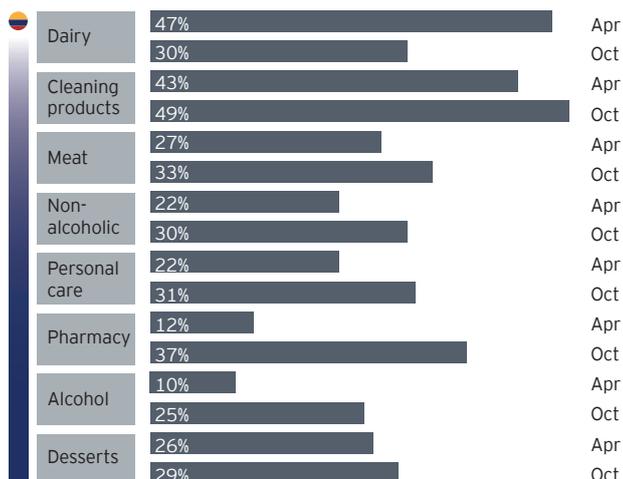
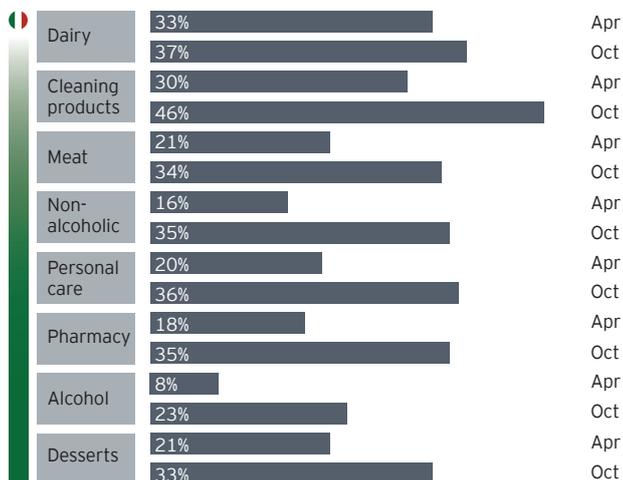
(N= 2,652 MEX, N=1,127 COL, N=927 PER)



**Down-trading is likely to continue:** Most people whose income has been affected plan to continue buying more affordable brands (or substitutes) and we might expect a further trade-down if unemployment worsens. Around 35% of consumers in Mexico, Colombia and Peru is likely to buy more affordable brands over the next 6 months. Cleaning products is the category with the highest down trade.

### Do you plan to keep buying the new cheaper brand?

(N= 2,652 MEX, N=1,127 COL, N=927 PER)



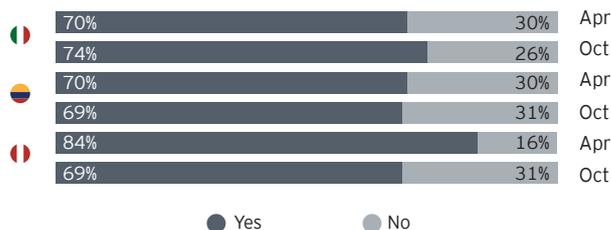
● Cheaper brand    ● Same or more expensive brand    ● Dont buy since COVID-19



**Digital/delivery is expected to continue growing:** We expect an increasing number of consumers to try delivery platforms and online or phone ordering services from retailers. We also expect current consumers using these platforms as 91% in Mexico, 90% in Colombia and 89% in Peru said their digital experience was as good or even better than their physical shopping experience (a notable increase given that only 83% of consumers said the same in April). It is also worth noticing that ~70% of respondents in all three countries declared they are likely to continue using these delivery platforms and online or phone ordering services in the future.

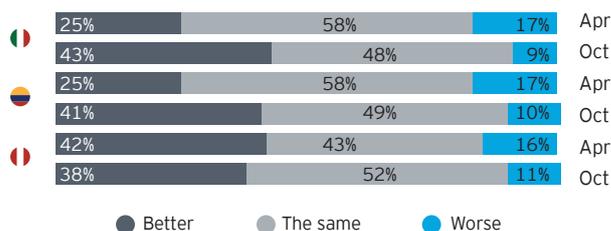
### Do you plan to continue using online sales channel in the future?

(N=1,080 MEX, N=1,127 COL, N=927)



### How was your experience buying online as compared to buying in store?

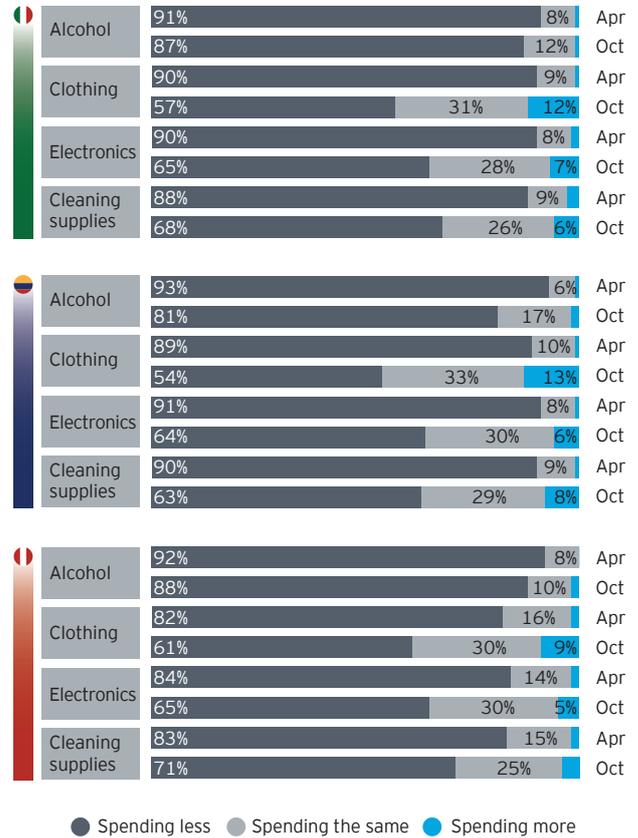
(N=1,080 MEX, N=1,127 COL, N=927)



**Focus on essentials:** Consumers also mentioned they are likely to keep prioritizing essential goods on their spend, hence retailers should adapt to new consumer habits. However, it is noticeable that consumers in October are showing a longing for non-essential products more than they did on April. On April, over 85% of consumers in all three countries expected to stay in saving mode for non-essential goods for the next six months. In October, this same statistic has decreased to ~69% in all three countries. Clothing is the category where the most consumers expect to spend more in the next 6 months. Still, manufacturers of products from non-essential categories will face deprioritized demand from consumers, and retailers' supply chain efforts should focus on ensuring that the most essential categories fill the shelves.

**How will you adjust your spending in the next 6 months in non-essential goods?**

(N= 2,652 MEX, N=1,127 COL, N=927 PER)



## 03 | Beyond

**What to expect after the Covid-19 Crisis?** Even now, 9 months into the pandemic, it is still hard to predict the economic implications of the Covid-19 crisis. As more vaccines are approved, there is more optimism in the stock market. But it seems that at least for the foreseeable future, the everyday consumers lives will remain with limited mobility and thus, a damaged economy. Still, our experience from the past few months allows us to detect the consumer behaviors that will prevail even after the pandemic. Companies should take note of the following challenges as they plan their strategy going forward:

► **Up-trading:** As we analyze consumers habits on a regular basis, there is a noticeable trend for consumers to stick to cheaper brands and even more so as the pandemic unfolds. Once incomes stabilize, CPG companies might have to invest heavily on marketing to remind people not only of the higher quality of more expensive brands, but also of the indulgence of shopping. Switching to the previous brands is likely to involve an emotional factor among consumers, so connecting through sentiment will be key.

**Non-essential categories will require strong incentives:** Consumers are waiting for seasonal sales events to shop for non-essential goods. Campaigns such as the Hot Sale and Black Friday have had huge success in attracting first-time online shoppers as they look for bargains. Convincing

consumers to resume their purchases on everything from electronics to cosmetics, will require coordinated campaigns as “El Buen Fin” to get consumers excited since they would be getting the best deal possible. Clothing is the category with the highest expectation from consumers with over 50% of consumers waiting for promotions in all three countries.

► **Switch to Modern Trade:** As Mom & Pop shops struggle to stay in business, CPG companies must invest in tracking down lost clients and helping them reopen their doors to the public. This can be achieved by selling products at cost for the first few months, negotiating past debt or providing working capital. Even with these efforts to bring back the traditional channel, its relevance will be reduced for a while. In the meantime, CPG companies might need to double down on the modern sales channels and negotiate more shelf space, invest in trade marketing strategies and closely follow up on the ROI of each investment.

► **Winning in digital:** With digital on the rise, CPG companies and retailers might have a hard time accessing data. As e-tailers and grocery delivery platforms become the gatekeepers for this data, CPG companies and retailers need to strengthen their alliances or partnerships with these stakeholders. A strong presence and visibility in online shelves are of paramount importance when consumers must pick products from their smartphones. Companies that decide to bypass retailers and launch direct-to-consumer platforms will face a trade-off between higher margins and more complex delivery logistics and consumer service.

We are committed to continue understanding the impact of the sanitary and economic crisis that Covid-19 has brought to our societies in Latin America. We will continue launching surveys to understand how these trends evolve. Among the current uncertainty, we believe there will be opportunities that players in the consumer ecosystem can leverage to preserve and restore their presence, revenues, and margins.

## Authors



### **Jorge Lacayo**

Partner  
Booth-MBA  
EY-Parthenon Strategy  
jorge.lacayo@parthenon.ey.com



### **Juan Felipe Arango**

Partner  
Stanford-MBA  
EY-Parthenon Strategy  
juan.f.arango@parthenon.ey.com



### **Angel Estrada**

Partner  
Duke-MBA  
EY-Parthenon Strategy  
angel.estrada2@parthenon.ey.com



### **Juan David Taboada**

Partner  
ISEAD-MBA  
EY-Parthenon Strategy  
juan.taboada@parthenon.ey.com



### **Carlos Palacios**

Senior Consultant  
Cornell-MBA  
EY-Parthenon Strategy  
carlos.palacios@parthenon.ey.com



### **Mariana Martínez**

Consultant  
UC Berkeley-MBA  
EY-Parthenon Strategy  
mariana.martinez@parthenon.ey.com



### **Federico Garza**

Associate  
ITESM-Mechanical Engineering  
EY-Parthenon Strategy  
federico.garza@parthenon.ey.com

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