



BCG CONSUMER SENTIMENT STUDY IN ARGENTINA, COLOMBIA, CHILE, AND PERU, 2020

Consumption in Times of Crisis

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.



Consumption in Times of Crisis

*BCG Consumer Sentiment Study in Argentina,
Colombia, Chile and Peru, 2020*

By: Sandro Marzo, Cristián Carafí, Alfonso Astudillo and Flavia Gemignani

June 2020

SUMMARY

This *2020 Consumer Sentiment* study conducted by BCG in Argentina, Colombia, Chile, and Peru aims to uncover consumer perspectives and expectations in the region, with the goal of understanding how citizens perceive the current economic conditions in their countries, how they are thinking about spending in 2020, which products interest them most, and their attitudes toward promotions and digital channels. Additionally, the report provides deeper insights into consumer sentiment in the current context, largely shaped by the global health crisis of the COVID-19 pandemic.

SHARED SENSE OF CRISIS IN THE REGION WITH A TREND TOWARD DECREASED SPENDING

Despite some long-term optimism, consumers in most countries recognize the severity of the current economic crisis. Given this context, consumers indicate a general tendency to decrease spending and report trading down (switching to lower-priced options) in a large majority of the surveyed categories.

INCREASING IMPORTANCE OF PROMOTIONS AND GROWING WILLINGNESS TO BUY ONLINE

Promotions are playing an increasingly important role, as the context of the crisis is driving consumer willingness to switch brands based on the best available offers. Despite the large volume of product information that consumers access online, we have yet to see a shift in preference towards buying from online channels. This speaks to the existence of key frictions in the customer buying journey for the studied product categories.

IN A CONTEXT CHALLENGED BY COVID-19, COMPANIES MUST TAKE ACTION

Considering the current context, BCG has identified four key actions companies should take to successfully navigate the COVID-19 crisis:

1. Strengthen consumer awareness by leveraging data and analytics
2. Improve revenue management and branding
3. Drive end-to-end digital customer journeys
4. Double down on efficiency efforts

The BCG Center for Customer Insight (CCI) conducts research to identify key consumer trends and behaviors. With extensive experience in both developed and emerging markets, the BCG CCI publishes Consumer Sentiment studies for various geographies around the world.

The Spanish-speaking countries of South America are in the midst of a period defined by two primary concerns: deep socio-political divisions that emerged in late 2019 and fears related to the current COVID-19 health crisis.

Given this context, and because consumer spending plays a major role in the region's GDP, BCG conducted its first Consumer Sentiment study focused on Argentina, Chile, Colombia, and Peru. These four Spanish-speaking countries contribute meaningfully to economic activity in the region, representing ~40% of the region's GDP. This work, when combined with a January 2020 report on Brazil, captures consumer perspectives in countries that together represent ~90% of South America's GDP.

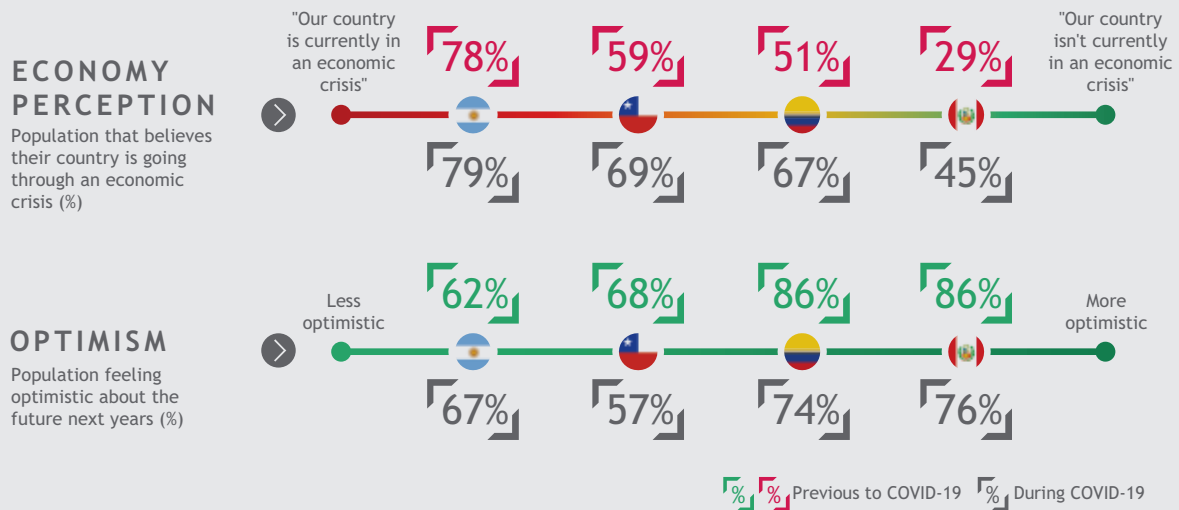
For the current analysis, a field study was conducted to understand consumer perspectives in January and February of 2020. Elements of the study were repeated in late March 2020 to complement the previous results and measure the impact of the COVID-19 crisis.

How do South American consumers feel? Are they in crisis?

Most people in Argentina, Chile, and Colombia believe their countries are experiencing economic crises; however, 75% of consumers are optimistic about the future of their countries in the long-term. This optimism is reflected in all four surveyed countries (see Figure 1), but is noticeably more accentuated in Colombia and Peru, where over 85% of consumers express optimism, versus only 65% in Argentina and Chile. This is among the first signals of a recurring contrast between northern and southern countries in the region, which is also observed in other dimensions. These high overall optimism levels are driven by younger generations (Generation Z and Millennials), who report optimism 10pp above average, with no significant differences observed between socio-economic levels. A more recent analysis following the COVID-19 outbreak shows a more negative overall outlook, with optimism falling between 10pp to 15pp, to levels of 65%, below pre-COVID-19.

In contrast to their long-term optimism, consumers indicate short-term concerns regarding financial and job security. This is particularly noticeable in Argentina and Chile; only 30% of Argentines and 40% of Chileans report feeling financially secure, and only 50% feel they have job security for 2020. In general, Colombians and Peruvians report higher levels of confidence, with 50% and 60% feeling “financially secure,” and 60% and 70% feeling “secure about their work in 2020,” respectively.

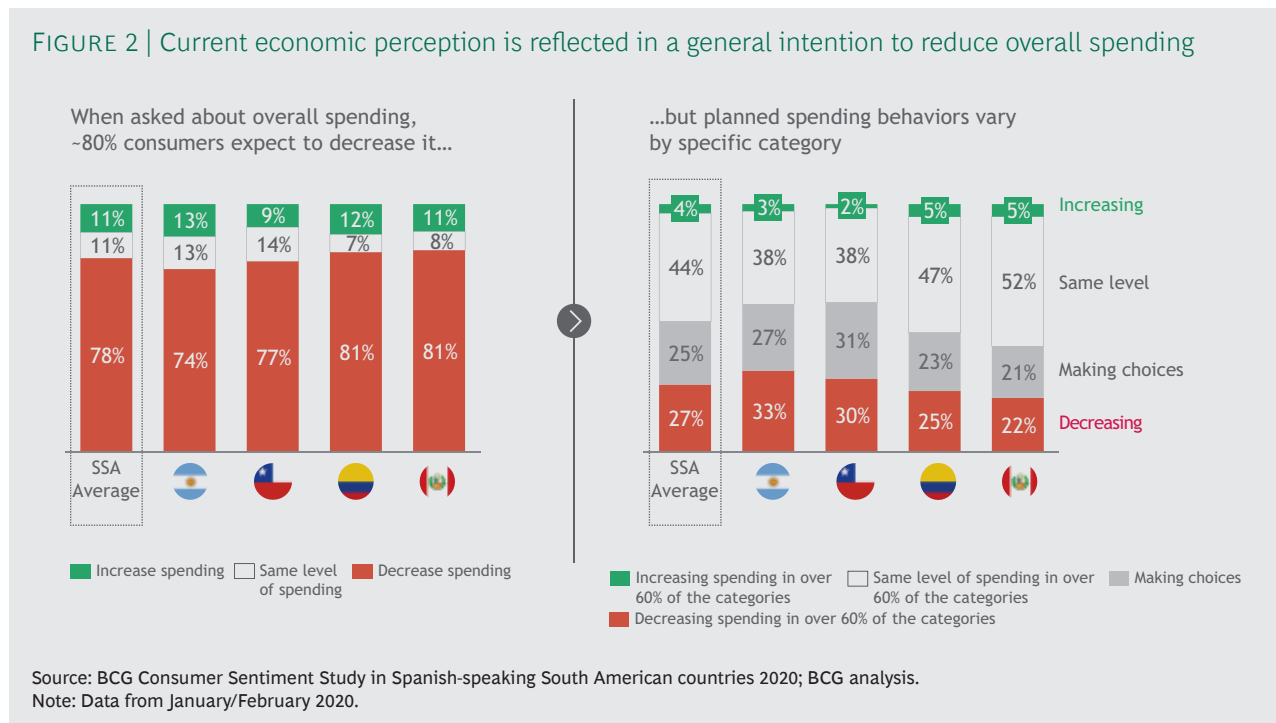
FIGURE 1 | Majority of population in Argentina, Chile, and Colombia believe their country is going through an economic crisis, but remain optimistic about the future



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.
Note: Data from January/February 2020. Data “during COVID-19” from March 2020.

What do South Americans plan to buy in 2020?

The current, largely negative economic outlook in the region is reflected in consumers' intentions to reduce spending in 2020 (see Figure 2).



In fact, 80% of consumers intend to decrease their total expenditures, a finding that was consistent across all studied countries.

However, when evaluating spending intent in more than 30 categories, we observe significant variation between categories which may justify some cautious optimism. In fact, 50% of consumers expect to maintain or, in a few cases, increase, their spending in over 60% of the studied categories.

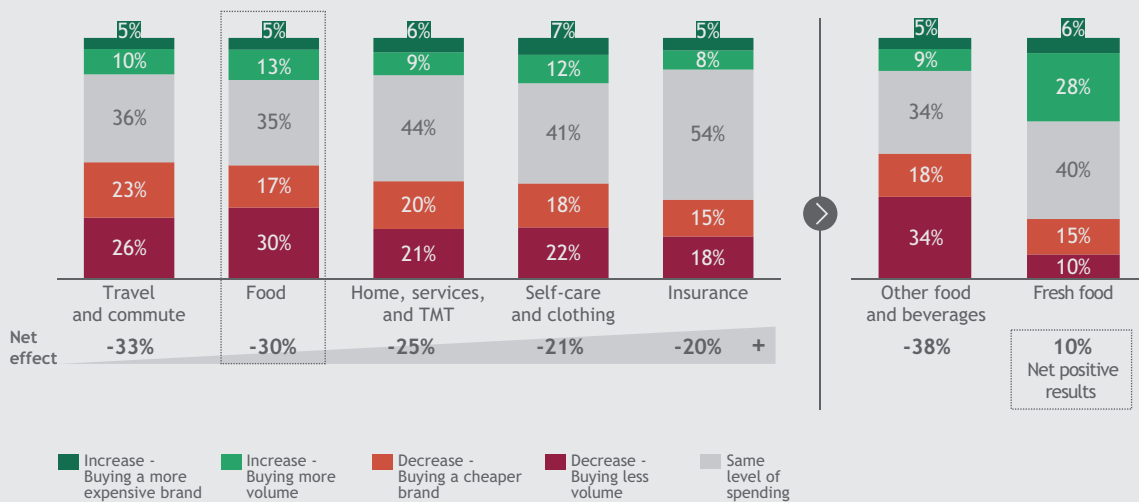
From the results, we can identify four groups of consumers with different behavioral patterns: (i) those who want to reduce their spending in most categories (25% of total); (ii) those who selectively seek to increase or decrease their spending in different categories (25% of total); (iii) those who plan to maintain their spending in most categories (45% of total); and (iv) those who seek to increase their spending as much as possible (5% of total).

Though these four archetypes exist in all studied countries, fewer consumers in Chile and Argentina plan to maintain or increase their spending, in line with generally negative perceptions of the current economic climate in those countries.

This net decrease in consumer spending is observed across all macro categories¹ except fresh foods, which is the only category among the 30 studied in which more consumers expect to increase spending than decrease (see Figure 3).

FIGURE 3 | Despite net decrease spending across all macro categories, when analyzing the food category...

...there is a clear preference towards fresh food



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.
Note: Data from January/February 2020.

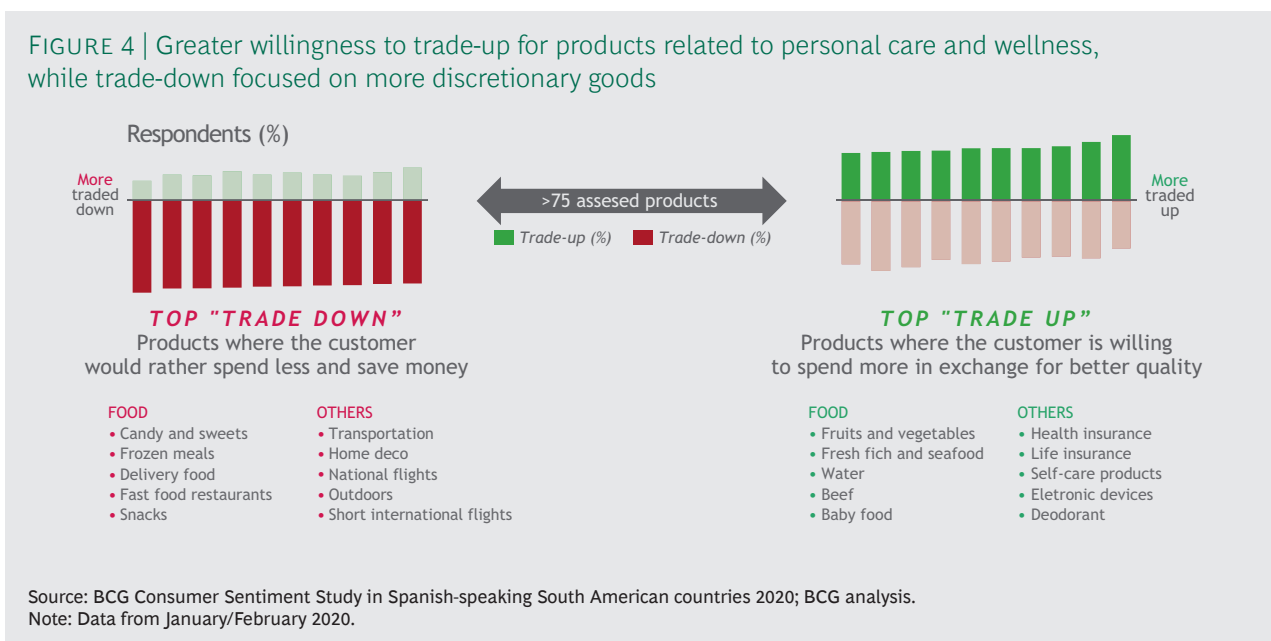
Despite net decreases, every category has groups of consumers who expect to increase spending (on average, ~15% of consumers in each category), and companies would benefit from proactively identifying these areas of potential growth. It's worth noting that, among those consumers who expect their spending to change (both those who expect to decrease spending, and those who expect to increase it), most expect to achieve those changes through increasing or decreasing volumes (66%) rather than prices (33%), with similar trends noted across categories.

The macro categories expected to be most affected by net spending decreases are food and beverage (e.g., alcoholic beverages) and tourism and mobility (e.g., taxis, hotels, and airlines), the latter being further impacted by COVID-19. Generally, these trends are consistent across the studied countries.

1. This study addressed 77 products in ~30 categories which, for the purposes of this article, were grouped into the 5 “macro categories” included in Figure 3.

When explaining their decisions to decrease spending, the primary reasons cited were a desire to increase savings (~63%), an uncertain future (~48%), and debt payments (~43%). In fact, more than 70% of consumers say they spend over 10% of household income on debt payments, directly impacting their ability to save. In line with these findings, 50% of consumers report saving less than 10% of their income, though at least half of those consumers intend to increase this percentage. Financial services companies seeking to operate in this context should remain cognizant of these consumer intentions and consider repositioning their product offerings (e.g., by promoting investment products versus credit).

In the current context, defined by decreased spending in most categories, BCG analyzed trade-up and trade-down projections for more than 75 products. In this report, “trade-up” refers to consumers’ increasing willingness to pay for higher product quality, while “trade-down” indicates a tendency to buy cheaper products within a category (see Figure 4).



This analysis confirms that the region is currently in a trade-down phase for nearly all products; 76 of the 77 products analyzed are being traded-down, with fruits and vegetables as the only exception. Despite net trends towards trading down, 25% of consumers are willing to trade-up and, depending on the product, this percentage of consumers planning to trade-up ranges from 15% (e.g., transport and snacks) to 40% (e.g., fresh fish and health insurance).

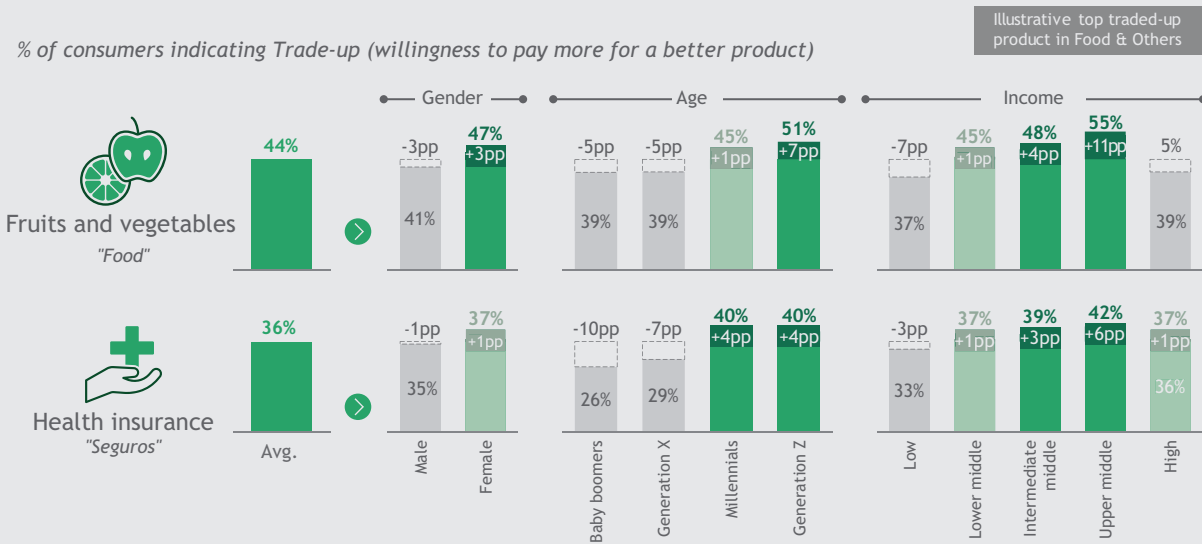
To summarize:

- Health, personal care, and wellness are the categories in which consumers are more willing to pay for better products or services. Some examples are fresh, healthy food products, personal care, and clothing products (particularly for infants).
- Discretionary products are likely to see the greatest negative impact, as low priorities for consumers. Among them are food (primarily unhealthy), travel, transportation, and durable goods.

Consumers who report intent to trade-up indicate that their decisions are based on product quality, health impacts, and better results, while those who expect to trade-down mainly reference budgetary concerns.

Given the varied impact across product and customer segments, companies should deepen their knowledge of specific category dynamics to better understand and project which demographic groups will drive changes in the market. For example, categories with the highest percentage seeking to trade-up (fruits and vegetables and health insurance) see that net trade-up intent is driven by women, younger generations, and those in upper-middle socioeconomic class (see Figure 5).

FIGURE 5 | Women, younger generations, and upper-middle class driving products with the greatest likelihood to trade-up



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.
Note: Data from January/February 2020.

Promotions on the rise

As seen in Figure 6, 75% of consumers in Argentina, Chile, Colombia, and Peru state that they regularly (always, often, or sometimes) make purchases taking advantage of promotions. This purchasing trend is high in all macro categories (over 70%), with personal care and apparel as the categories where consumers most often take advantage of promotions (85%). Similar results are observed in all studied countries, though Colombia has the lowest relative percentage of consumers who regularly buy on-sale (70%).

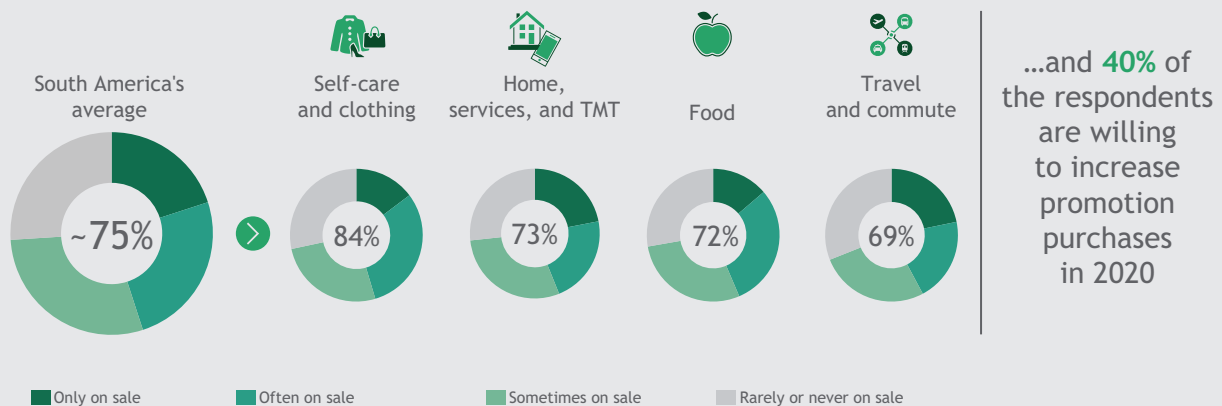
Despite a high starting point, and in line with the economic context of the region, ~40% of consumers expect to increase their utilization of promotions in 2020.

Recurring patterns in this report, such as reduced spending on discretionary products and a desire to increase savings, are reflected in consumer expectations of increasing purchases of discounted products. Chile is a noteworthy outlier, as only 28% of its consumers plan to increase their use of promotions; this could be explained by a greater willingness to reduce spending in other categories during 2020.

Additionally, for South American consumers, promotions play an important role in influencing brand choice. Approximately 85% of South American consumers expressed willingness to switch brands based on sales, without significant variation between countries. This behavior is seen across all macro categories, with travel and mobility being the most impacted (~90% willing to switch brands based on promotions) and food the least impacted (~80%).

FIGURE 6 | ~75% of South American consumers state that they buy products on sale...

Average percentage of customers buying products only, often, and sometimes on sale per category (%)



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.
Note: Data from January/February 2020.

Digital continues to grow

The digitalization of daily life in South American is pushing customers toward increased connectivity, and these trends are impacting buying behaviors as well. It is therefore not surprising that online channels are gaining importance versus offline retail, particularly in the initial stages of the customer journey. When comparing products, 70% of consumers research online reviews, promotions, product/service features, and prices; 60% of consumers report doing these comparisons offline. The main difference between online and offline research at this phase is the ability to view consumer reviews, which 80% of customers report doing before a purchase.

For the South American consumer, the use of digital channels at the beginning of the customer journey does not yet translate into completing a purchase online, as consumers still show preference for “physical” channels. In fact, 70% of consumers prefer to make purchases in-person, though—as seen in Figure 8—this number varies by category. Travel and mobility leads the studied categories in preference for

FIGURE 7 | Across the region promotions can influence brand choice...

...and it applies to all categories, especially travel and commute



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.
 Note: Data from January/February 2020.

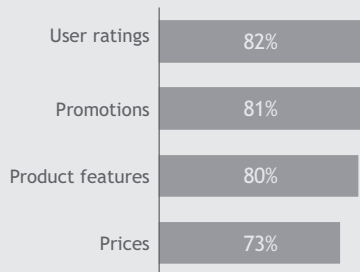
digital buying channels, with 55% of consumers preferring online channels for products in this segment (e.g., hotels, flights, and package tours). On the other end of the spectrum are products like food and personal care, with beverages representing the product category least likely to be purchased online.

Companies who seek to increase their digital sales must identify strategies to address the pain points that limit uptake of digital channels in their target customer segments. The most common challenges raised by consumers are: the inability to test a product (30%), its price (19%), a lower sense of security when making purchases (19%), long delivery periods (15%), and shipping price (13%). Despite the relevance of these pain points across categories, their relative importance varies. For example, inability to test products is more relevant when buying clothes, while delivery time and cost are more important when purchasing furniture or household goods.

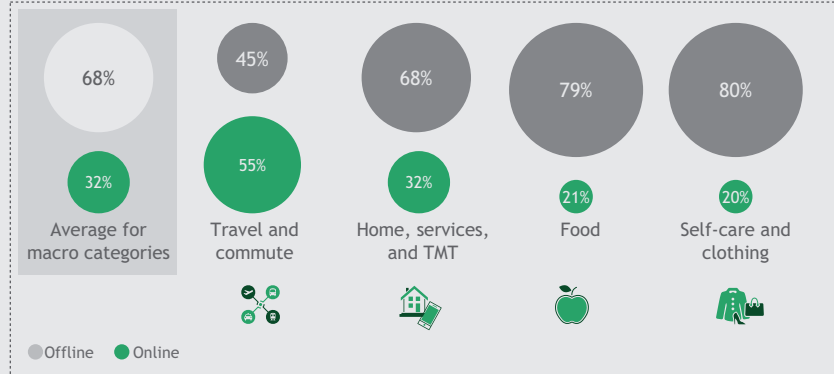
FIGURE 8 | High relevance of online channels at the beginning of the customer journey...

...which is not yet fully translated into channel preference for purchase; ~70% of consumers still prefer to purchase offline

Respondents receiving/looking for different types of product information through online channels (%)



Purchase channel preference (%)



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.
 Note: Data from January/February 2020.

COVID-19

What impact has the public health crisis had on consumer sentiment in the region?

Considering the context of the current COVID-19 pandemic, it was important to assess how consumer perspectives changed. To that end, additional fieldwork was done in March 2020, when both Colombia and Argentina announced mandatory quarantines, and Chile and Peru were under previously declared states of emergency.

Surveys show that consumers are not indifferent to the ongoing health crisis, as 75% say the virus has negatively affected their countries. As stated in Figure 1, excluding Argentina, feelings of instability and pessimism are intensifying across the region. On average, affected countries experience a 10pp decrease in the percent of consumers expressing optimism and a 10pp to 15pp rise in individuals who believe their countries are experiencing economic crises. Despite this, short and long-term perspectives are polarized, as about 80% of consumers in the region believe the economy will not improve in the next six months, though 80% believe it will improve in three or more years.

Under the context of the COVID-19 crisis, consumer consumption patterns were immediately affected, particularly in travel and mobility and food (the other macro

categories remain within 3pp of estimated pre-COVID-19 spending). To that effect, Figure 9 shows a drop of 7pp in expected consumption of travel and mobility services (including holidays, hotels, and domestic flights, which experienced net reductions of 13pp, 10pp, and 6pp, respectively). Food consumption also increased (+8pp), with fresh products receiving the biggest bump (+14pp) due to concerns around staying healthy, a trend that can also be observed in other parts of the world². Other winners in the current context include health insurance (+9pp) and streaming and cable services (+9pp and +5pp, respectively).

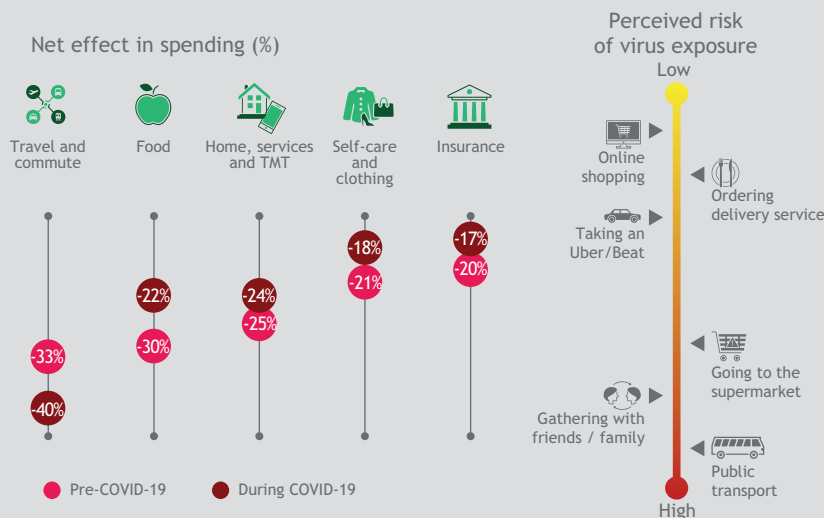
In general, about one-third of the projected increase in consumption is driven by the need for basic supplies, indicating cautious consumer habits as they quarantine in their respective countries. This is illustrated in the 27pp increase in expected purchase of processed foods (versus expectations prior to COVID-19), within which more than 50% of the increase is driven by a consumer desire to stock up on supplies. Such patterns suggest that many of these consumption habits may decrease in the medium-term, as consumers grow their stores of food at home and this specific need is fulfilled.

Finally, it's important to highlight that the context of COVID-19 has generated new consumer concerns of contracting disease during daily activities, such as using public transportation or visiting grocery stores. This could push consumers to accelerate adoption of digital channels or move them toward companies who differentiate themselves through health and safety measures.

2. For further reading, consult the following studies: BCG Consumer Sentiment Snapshot #1 (USA), #2 (USA, Italy, Great Britain, and France), #3 (China), and #4 (India).

FIGURE 9 | Consumers expect to increase their spending in food, while decreasing it in travel and commute versus Pre-COVID-19 expectations

In a crisis context, lower perceived risk of digital channels could increase consumer preference towards online



Source: BCG Consumer Sentiment Study in Spanish-speaking South American countries 2020; BCG analysis.

Note: Data from January/February 2020

OVERALL, We are facing an increasingly complex scenario from the consumer's point of view. It is therefore important that companies take action to strengthen their positions in the market, while considering the implications of the overall market outlook:

1 - STRENGTHEN CONSUMER KNOWLEDGE BY LEVERAGING DATA AND ANALYTICS

As we observe in the survey data, consumer behaviors vary across product categories and customer segments. Though most consumers may seek to trade-down, some will trade-up to obtain higher-quality products. It will be essential for companies to differentiate between these customer segments in each category, and to connect with them at the right moments in their buying journey, through digital marketing or other efficient means³.

2 - IMPROVE REVENUE MANAGEMENT AND BRANDING

Nearly 75% of consumers report buying products on-sale across categories, and 40% believe they will make more of these purchases. Additionally, 85% of consumers would switch brands if offered the right promotions. Given this low brand loyalty, data-driven, customer-centric revenue management (pricing, promotion, and trade management) can attract new customers and increase spending among existing customers. This is particularly true given the context in the region, in which companies often fail to apply consistent pricing strategies across their product portfolios and launch promotions which, in one-third of cases, destroy value. Companies should take this opportunity to strengthen their brands or, in the case of retail, deepen their investment in white-label brands.

3 - DRIVE END-TO-END DIGITAL CUSTOMER JOURNEYS

Online sales are low in South America relative to more developed markets, but this study shows that 30% of customers prefer digital channels and that 70% research products online. To capitalize on these consumer behaviors and increase digital channel adoption, companies must develop frictionless, end-to-end digital customer journeys in which consumers receive differentiated and improved service compared to physical stores.

4 - DOUBLE DOWN ON EFFICIENCY EFFORTS

Recognizing that the ongoing economic and health crises will stagnate spending growth in the short-term, companies must optimize their cost structures to protect margins while financing investments required to gain market share once the economy rebounds.

3. For additional reading, consider "Data-driven Marketing: Latin America's road to digital maturity", accessible at www.bcg.com.

About the authors

Sandro Marzo is a *Managing Director & Partner* in the Bogotá, Colombia office of Boston Consulting Group. *He can be contacted at marzo.sandro@bcg.com*

Cristián Carafi is a *Managing Director & Partner* in the firm's Santiago, Chile Office. *He can be contacted at carafi.cristian@bcg.com*

Alfonso Astudillo is a *Partner* in the firm's Santiago, Chile office. *He can be contacted at astudillo.alfonso@bcg.com*

Flavia Gemignani is an *Associate Director* in the firm's São Paulo, Brazil Office. *She can be contacted at gemignani.flavia@bcg.com*

Acknowledgements

The authors would like to thank Ernesto Grijalva Ortega, Dafne Badilla and Juan Esteban Abadía for their valuable contribution to this study.

To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com.

Follow Boston Consulting Group on Facebook and Twitter.

© Boston Consulting Group 2019. All rights reserved.
06/20



BCG