

## DEMONETISATION: THE NIELSEN VIEW

With the government's sweeping and decisive announcement on demonetisation, money supply will reduce in the short term, but only until the new currency notes get widely circulated. Facing the bigger and more long-term headwinds of a fall in consumer demand, could be the real estate, gold and luxury goods, which are historically driven by availability of surplus liquidity and a significant amount of cash transactions. Automobiles are also expected to feel the heat, though to a lesser degree.

'Cashing in' on the opportunity will be businesses that offer alternative modes of transaction like digital transaction systems, e-wallets and apps, online transactions, e-banking and plastic money. Compelled to adapt to the circumstances, small and self-businesses such as smaller retailers, doctors, apparel sellers and wedding planners are demanding access to credit card machines. We are already seeing an advertising blitz by e-wallets, ecommerce and other organised trade, wooing consumers towards their businesses.

### IMPACT ON THE FMCG SECTOR

It is too early for empirical data to be available with us to conclusively substantiate consumer response, but based on a large number of field visits, external interactions and industry experience, it is our measured opinion that demonetisation of high value currency could impact fast moving consumer goods companies in the short term and may change dynamically depending on how fast the monetary system settles.

### IMPACT ON DISTRIBUTION CHANNELS

Distributors may see their stocks piling up as a consequence of lower purchases by retailers and wholesalers. As a mitigating move, they are extending credit to sustain sales; however such credit will only facilitate business with directly-serviced stores and leave out the bulk of the nine million retailers across India who buy from wholesalers. This means the wholesale-led market is likely to bleed far more in the days to come.

Chemists saw their sales soar on the back of the announcement allowing them to accept old currency notes up to November 11. Personal care, and packaged food categories apart from medicines, will benefit from this development.

Using the might of thousands of our field auditors, we contacted over 750 stores in the last 48 hours to assess impact in traditional trade across urban and rural India. A few learnings from our interactions with these traditional trade retailers:

<b>A few stores accepting old high value notes...</b>	<b>12%</b> stores were found to be accepting old high value notes
<b>...but seriously lagging on card machines/wallets or coupons</b>	Just over <b>1%</b> stores had non-cash modes of payments, like credit and debit cards, e-wallets or Meal coupons.
<b>Stock replenishment has been difficult due to cash crunch...</b>	<b>67%</b> stores reported that they were facing difficulty in purchasing stock for their stores. Many wholesalers/distributors have stopped their visits to small towns and rural areas compounding the problem.
<b>...Hence business has declined for many.</b>	<b>70%</b> stores reported that due to cash-crunch on both purchase as well as sales side, their business has come down in the last few days.
<b>Trying multiple things to get demand back.</b>	Retailers are offering credit to known shoppers, accepting old notes but for full value to avoid giving change back.

In an agile move, modern trade extended operations till midnight on the day of the announcement and gained through increased sales. However, they have witnessed the inevitable lower footfalls and a significant dip in cash sales in the first couple of days. This was especially true in smaller towns with a higher proportion of cash sales. Expectedly, they are trying to promote the use of cards and payment wallets to minimise the impact.

We spoke to almost all key retailers who informed us that footfalls and sales in the first 48 hours dropped between 20% and 80%. However, for many stores, footfalls significantly increased over the weekend with Sunday 13th November clocking significant volumes.

Even the newest players on the block are feeling the immediate heat. E-commerce companies have stopped or limited the cash on delivery (COD) option for consumers. Some are incentivising the use of online payment modes, or facilitating card payments at the doorstep. Sales in tier 3 and 4 towns are likely to face a more severe impact because of the popularity of the COD mode of payment.

## IMPACT ON CONSUMERS

While consumers are largely emphatic in their support of the move in principle, liquidity crunch is a present reality for them, affecting their ability to purchase. Discretionary consumption will go down as consumers spend selectively.

At Nielsen, we believe, the order of importance is likely to play out is as follows:

- Priority 1: Low impact - Grocery and other household Food items such as packaged grocery, edible oil, tea-coffee etc.
- Priority 2: Medium impact - Home and Personal Care categories like Toilet Soaps, Toothpaste, Detergent, Shampoo, etc.
- Priority 3: Highest impact – Impulse and Non-Essentials like Biscuits, Chocolates, Soft drinks, Frozen Foods, Packaged Foods, Snacks etc.

Besides, consumers will exercise caution in utilising cash and could down-trade to smaller pack sizes in the short term.

### WHAT ABOUT RURAL INDIA?

The sluggish rural consumption is staring at a further dip due to their higher dependency on cash transactions. Discretionary spends will see a bigger impact in this geography. Mandis may experience a shortfall of cash for the purchase of daily essentials including fruits and vegetables; leading to further problems for farmers and having a domino effect on their ability to purchase. Also, relatively lesser access to banking and lower awareness may lead to a slow recovery of liquidity in the rural market.

### WHAT DOES IT MEAN FOR YOU?

- Manufacturers must work closely with distribution partners to mitigate the temporary cash crunch in the market and be agile to address volatility in demand in the form of different pack sizes or stock keeping units.
- Similarly, brand owners must sustain investments on brand building as planned because this is likely to be temporary and consumers might still be willing to spend after a blip. The need of investment gets further underscored to counter the sluggishness from consumers.
- For organised retail, this would be a golden opportunity both in the short and long term. Govt's aim to reduce cash in circulation augurs well for consumers' shift towards a cashless, convenient and engaging shopping experience.
- Players in the digital payments space, must work on:
  - Educating the already connected consumers on usage of e-wallets as a convenient alternative to cash transactions.
  - Rapidly build platforms for the non-connected consumers that can facilitate payments through feature phones, SMS, USSD etc., and promote them heavily.

Habit rather than unavailability has dictated our behaviour and understandably made it difficult for our economy to bear the sudden brunt of a policy decision such as demonetisation. However, both businesses and consumers have come out emphatically in favour of the move with a view to the long term. In our opinion, deft adaptability alongside quick, informed moves is all that is needed to tide through the initial discomfort and make way for the expected benefits from a more transparent business environment.

## 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 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.

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