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ANALYSIS OF COVID-19 IMPACT ON THE FMCG MARKET IN KAZAKHSTAN

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Abstract

As a result of restrictive measures to combat COVID-19, new economic and social conditions have been formed. The pandemic has contributed to a major economic transformation, structural changes in lifestyles and health, and an opportunity to accelerate development and digital commerce. The scientific article analyzed the changes formed during the pandemic in the FMCG sector of Kazakhstan. The results of the sales structural transformation are reflected in the form of a trade turnover statistical interpretation in the pre-COVID and post-COVID period. Changes in individual FMCG categories and groups were analyzed in detail using statistical comparison and observation methods. In order to form a forecast for the application and change of strategies in the consumer goods market, an expert interview was organized and conducted. As a result of the primary research data systematization, key factors for the development of the trade market and a change in the strategic approach to managing these factors before, during and after the pandemic were identified.

In conclusion, recommendations were made for focusing a trading strategy for online and offline retail businesses. The results of the study can be used by Kazakhstani FMCG and retail companies, online stores, marketplaces when building an online trade development strategy, studying modern consumer behavior, as well as formulating a trade marketing policy.

Keywords:*FMCG market; analysis of sales structure; impact of COVID-19; trading strategies transformation;post-COVID period; expert interview.*

Introduction

The COVID-19 pandemic has had a significant impact both on the economic sphere of Kazakhstan in general and on the consumer goods market in particular, the consequences of the pandemic also predetermine the further development of this market and its diversification in the coming years. A new economic turn determines the change in the purchasing power of consumers and, accordingly, the their behavior transformation. The current external conditions prove the need to revise consumer strategies in the FMCG market. In this regard, the relevance and importance of studying changes in the FMCG market in the field of the structure and product sales features is increasing.

Despite the sales insignificant dynamics due to the current economic situation, the structure of consumer goods sales demonstrates significant qualitative changes at the level of consumer behavior and in the context of sales channels.

The complexity of the FMCG retail and online market is due to the new trends identificationand obstacles that have remained after the easing of COVID-19 restrictions. As a result, emerging challenges will determine the activities of retail companies in the medium term. Individual changes require special study and fragmentation: the structure of sales in the context of offline and online trade and in the context of individual categories; formation of new consumer habits; as well as changing consumer reactions to individual incentive mechanics from retailers.

Materials and Methods

The scientific article study objectiveswere implemented in two stages. At the initial stage, statistical observation was carried out by summarizing, grouping and comparing statistical materials. The source of statistical materials for the period from 2018 to 2022 was given from NielsenIQ sales data reports for the Republic of Kazakhstan.

The data for analysis was collected based on the aggregation sales by retail chains in Kazakhstan, traditional retail outlets, online stores and marketplaces. The classification and grouping of products was made in accordance with the basic trade features. Statistical information was assorted into two retrospective groups: a notional period showing the results of market development before COVID-19 as of January 1, 2019; the time period conditionally called the post-COVID period as of January 1, 2022. The study periods were determined based on the principle of the restrictions beginningtheir removal.

Technical systematization and grouping of data was carried out by writing an encoding and using Power BI tools.

At the study second stage, an expert interview was organized to assess the current strategic parameters of the FMCG sector and form forecasts for their further strategic management.

To conduct interviews, 20 experts from international and local companies in the Kazakhstan FMCG sector were involved. The main requirements for experts were:

– Experience in FMCG companies, retail or online commerce in marketing, sales or strategic development departments for more than 3 years;

– Possibility of obtaining a written consent to provide an expert assessment.

The peer review process was conducted on the basis of telephone and personal interviews.

Literature review

Scientific research on the consumer market transformation in the context of COVID-19 over the past few years has acquired particular significance and relevance.

Issues related to the sustainability of consumer products before and during the pandemic were considered by the author Torben Hansen in the article «Consumer food sustainability before and during the COVID-19 Crisis: A quantitative content analysis and food policy implications» [1]. The impact of COVID-19 on the consumer transformation in certain segments of the food industry was considered by scientists Muhammad Ghufran, Sumran Ali, Fitri Rini Ariyesti, Muhammad Asim Nawaz, Luigi Aldieri, Peng Xiaobao. In the process of writing the article «Impact of COVID-19 to customers switching intention in the food segments: The push, pull and mooring effects in consumer migration towards organic food», the authors assessed the main trends in consumer behavior regarding the organic products purchase [2].

The impact of the pandemic on the transformation of consumer behavior was studied by scientists Jorge Cruz-Cardenas, Ekaterina Zabelinac, Jorge Guadalupe-Lanas, Andres Palacio-Fierro, Carlos Ramos-Galarza [3]. The result of the work was the confirmation of a direct interdependence between the limited social life of the population and the growth of sales in e-commerce.

In a study by Ulpiano J.Vazquez-Martinez, Javier Morales-Mediano, Antonio L.Leal-Rodríguez, the impact of the COVID-19 crisis on consumer motivation and behavior was observed [4]. The study result contain a quantitative and qualitative assessment of consumer motivations in the beginning of 2020.

Motivating consumersfactors in choosing goods during the pandemic, as well as the difference in purchasing behavior by age groups, were studied by scientists Ludvik Eger, Lenka Komarkova, Dana Egerova, Michal Micik [5].

Issues of consumer behavior sustainabilityin the field of e-commerce before, during and after the lifting of COVID-19 restrictions were studied by Cameron Guthrie, Samuel Fosso-Wamba, Jean Brice Arnaud. This study reflects the transformation dynamicsof online shopping behavior during the COVID-19 crisis [6].

In an article entitled «Analysis and Prediction of Changes in Customers' and Retailers' Behavior under the COVID19 Pandemic's Influence in Russia» by Russian scientists Melikova E. F., Burmistrov A. N., Kostin K. B., Semenova A.A. various aspects of the consumer behavior transformation under the pandemic influencewere described. The paper presents the main prerequisites for changing the behavior of consumers and retailers, generalizing these changes in terms of consumer preferences [7].

The development of the consumer goods market in Kazakhstan during the pandemic was studied by independent consulting companies. The study entitled «Analysis of the retail e-commerce market in the Republic of Kazakhstan» was conducted by PwC Kazakhstan in cooperation with the Digital Kazakhstan Association. The paper presents the results of a study of the modern e-commerce market in Kazakhstan, taking into account the impact factors of COVID-19 [8].

Results and Discussion

The current state of the consumer goods market in Kazakhstan is determined by global trends formed and catalyzed during the COVID-19 pandemic.

Based on a statistical information reviewby Nielsen Social Intelligence Solutions, it was revealed that the restrictions of COVID-19 led to the formation of seven main trends in the FMCG market. The interviewed experts also named the following trends:

1. Remote work - as of the beginning of 2021, 40% of employees continue to work online;

2. Online learning - according to experts, as a result of restrictions, the demand level for online courses and training has increased;

3. Online shopping - according to Nielsen, 72% of consumers increased the frequency for online shopping;

4. Eating at home - about 44% of consumers prepare food at home or order food;

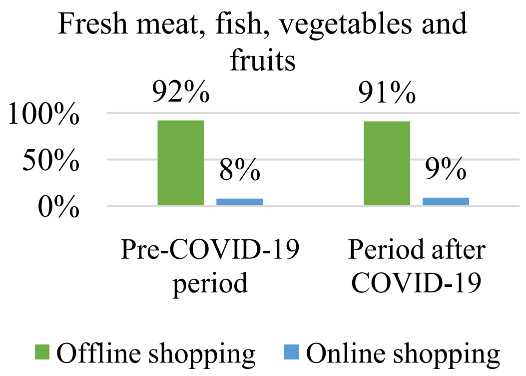
5. Health care - about 75% of consumers began to exercise more often and buy healthy products;

6. Communications - 72% of consumers report a decrease in trips and receptions in the post-quarantine period

7. Savings strategy - according to Nielsen, 35% of consumers began to buy cheaper brands, 49% of consumers began to purchase more products at discounts and promotions, 73% reduced the purchase of impulse goods [9].

Similar global trends are also highlighted by Euromonitor International in the report «TOP 10 global consumer trends in 2022» [10].

In accordance with the research methodology, the FMCG market was researched in terms of the basic categorization: fresh meat, fish, vegetables and fruits; beverages; packaged food; personal hygiene products; home care products. The change in the order of purchases in these categories was considered based on the shares of purchases in online and offline formats. The sales structure also considered consumers who make online and offline purchases equally. Within the «fresh meat, fish, vegetables and fruits» category, in the period before COVID-19, 92% of consumers made purchases only in retail chains, 8% in online stores. After COVID-19 restrictions were lifted, 1% of consumers began to regularly buy these products online. As for the beverage category, the structure of online and offline sales in the pre-COVID-19 period was similar to the «fresh meat, fish, vegetables and fruits» category, in the post-COVID period the distribution has changed, the proportion of consumers shopping online increased from 8% to 10% (figure 1).



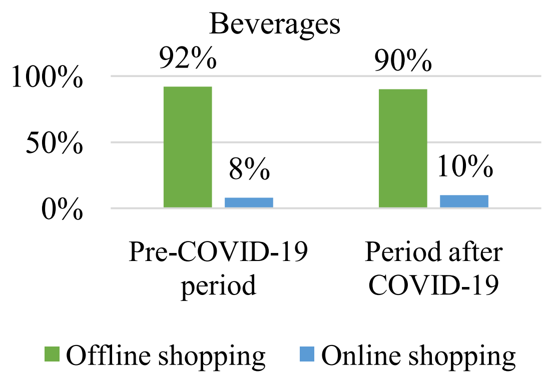


Figure 1 – Sales structure by categories «Fresh meat, fish, vegetables and fruits», «Beverages» for the periods before and after COVID-19

Separately, the sales dynamics in the packaged food category was also considered. This group included packaged cereals, canned food, frozen semi-finished products and other long-term storage products. In the post-COVID period, the online share of the category increased to 14%, which is also associated with increased demand for shelf-stable products during the restrictions and the consumer habits persistence in the post-COVID period (figure 2).

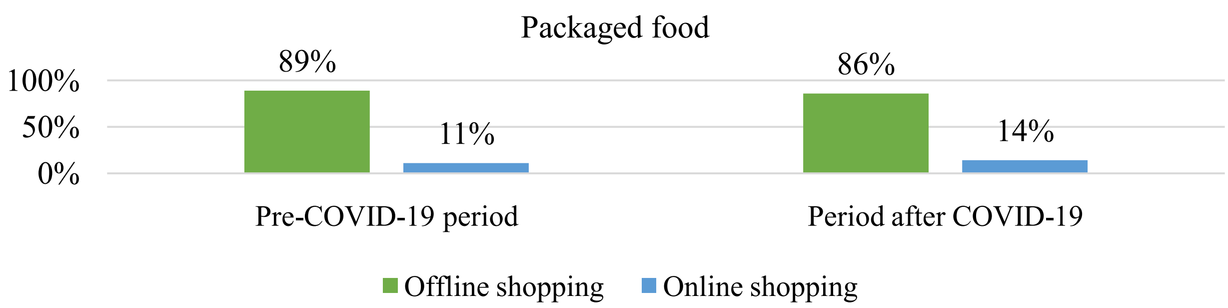
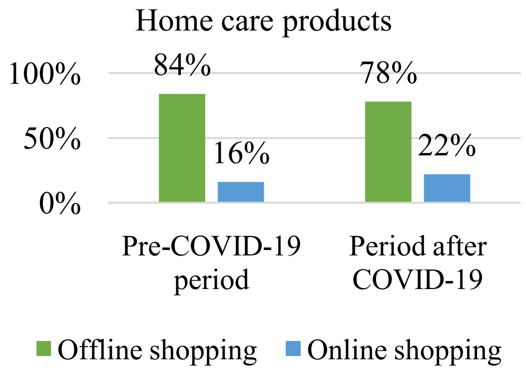


Figure 2 – Sales structure for the «Packaged food» category for the periods before and after COVID-19

As for the non-food category, during the period of restrictive measures COVID-19, the online sales share in the total turnover structure of the category increased from 16% to 22%, the sales structure of personal care products in the post-COVID period did not change significantly, theonline salesshareby category increased to 17 % (figure 3).



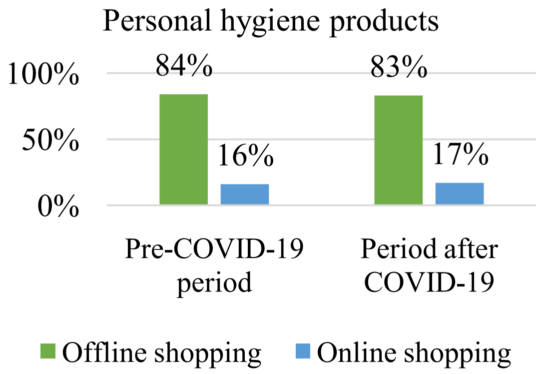


Figure 3 – Sales structure by categories «Home care products», «Personal hygiene product» for the periods before and after COVID-19

As a result of the sales structure analysis, it was revealed that the level of retail purchases for showed a prominent level for all Kazakhstani consumers both before the COVID-19 restrictive measures and at present. At the same time, it is necessary to pay attention to the fact that the share of online purchases for all productcategorieshas increased and, accordingly, the sales share in the offline sector has slightly decreased. These trends indicate that consumer habits formed during the period of restrictive measures have persisted to the present. Thus, COVID-19 functioned as an accelerating factor in transforming consumer behavior and increasing the volume of online commerce.

Along with the sales structure in the online and offline sectors, the importance degreeof individual categories in the retail sector has transformed. As of January 1, 2022, the sales structure has also changed. The increase in the main categories was calculated based on a comparison with the data of January 2019. The food products categoryremained the most significant (62% of the total retail turnover), the increase in sales in the category compared to 2019 amounted to 8.5%. The share of beverage consumption in 2022 was 19%, which is 2.8% less than in the pre-COVID period. Personal care and home care products accounted for a significant share in the total sales structure of 14%, however, the overall category sales trendwas transformed into a downward trend compared to the same period in 2019, a decrease of 2.6%. Sales of non-food products decreased by 3.4% by 2022, the share of sales in this category was 2%. The tobacco products consumptionin the overall structure of sales remained virtually unchanged, with a slight increase to 0.3%.

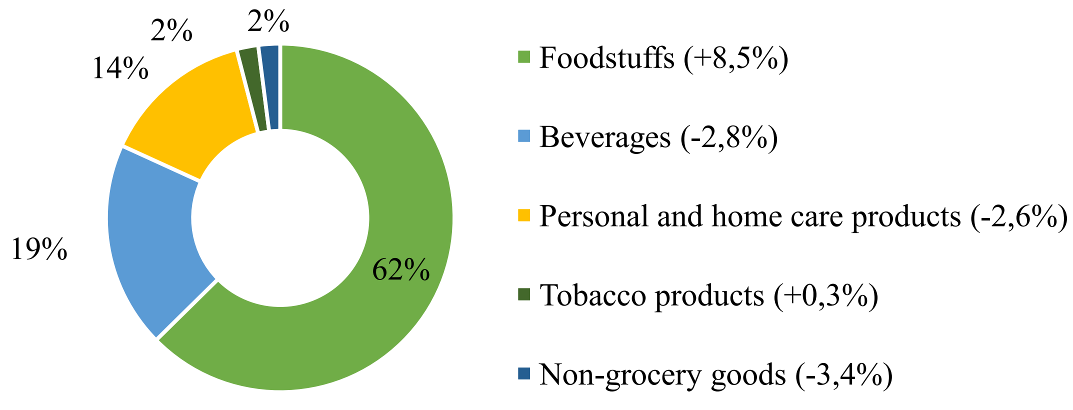


Figure 4 – Categories importance in the Kazakhstan retail chains, Jan. 2022

The quarantine period also contributed to the transformation of the top products list that showed the highest growth rate in sales compared to January 2019. As of January 1, 2022, top foodslist contained: fresh meat (121%), baking additives (117%), sausages (108%), fish and seafood (93%), rice (89%), margarine (82%), chocolate paste (78%), marinated vegetables (76%), household cleaning accessories (75%), home cleaning products (74%), pasta (70%) (figure 5).

The results are explained by the general trend of increasing time spent at home for consumers, which has led to an increase in demand for home cooking and cleaning products. Growth in other categories, such as rice, marinated vegetables, pasta, is explained by the general trend in the purchase of durable products. Experts predict that the general trend towards the popularity of products for home cooking and long-term storage products will continue. This forecast is explained by the general trend of reducing the purchasing consumers power and the unstable economic and political situation in the world [11].

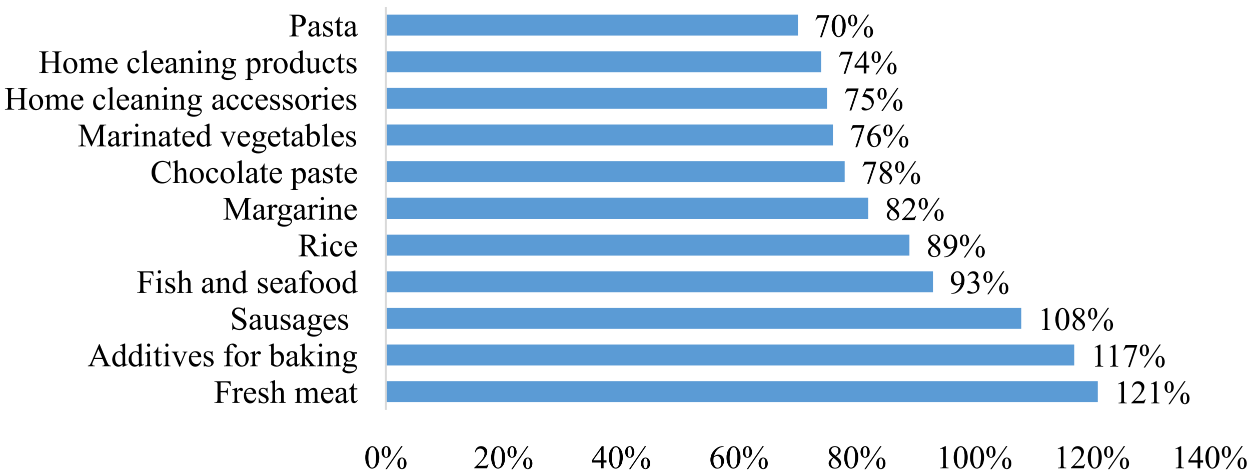
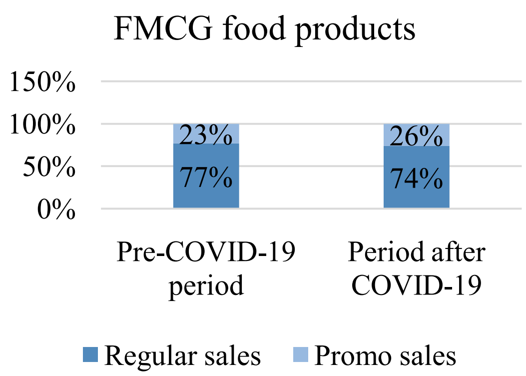


Figure 5 – Product categories with the highest growth from January 2019 to January 2022

In the process of assessing the impact of COVID-19 on the size of the average food basket purchased, it was also calculated that 45% of consumer checks show an increase in the amount of food purchases. At the same time, by the beginning of 2022, the volume of large-sized food packages sales increased by 46%, which also confirms the trend towards the formation of food stocks by consumers.

For a quantitative assessment, an analysis was made of sales in the context of standard prices and prices with discounts. This assessment was made for aggregated categories: FMCG food products, FMCG non-food products. The change in the sales structure by these categories in Kazakhstan was considered in the pre-COVID period and post-COVID period (Figure 6).



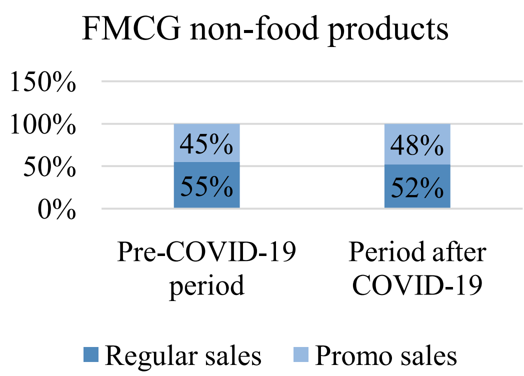


Figure 6 – Sales structure in terms of standard prices and prices with discounts for the periods before and after COVID-19

In the period before the pandemic, food products sale at regular prices accounted for 77% of the total turnover, promotional goodssales, respectively, amounted to 23%. In the post-pandemic period, the sales structure has changed, the sale of products at food prices has decreased to 74%, respectively, the purchase of goods at discounts has increased to 26%.

The non-food group was more sensitive to price changes. By the beginning of 2019, the average share of products sales at regular prices was 55%, 45% of products were purchased in accordance with the promotions and discounts availability. In the post-COVID period, the sales structure of non-food products also transformed in favor of promotional sales. By the beginning of 2022, the goods sales shareat a discount amounted to 48% of the total turnover, the sales share of at regular prices, respectively, amounted to 48%. The results obtained clearly reflect the trend of savings, especially for non-food products. As a result of the analysis, the structural transformation of the FMCG market was reflected in accordance with the main trends that emerged during COVID-19.

As part of the considered changes, the trading strategy for FMCG companies was also transformed. An expert survey was conducted to identify the main strategic focuses before, during and after the restrictions due to COVID-19. When compiling the structure of the research parameters, the following elements were selected: trade assortment, store format, online sales management, management of changes in the average sales receipt of products.

In accordance with the specified criteria, the main strategic focuses of the FMCG segment were identified and characterized. All comments received from the experts were transformed into Table 1.

The assortment policy was defined as one of the basic trading strategy components. The period before the introduction of restrictions was characterized by merchandising in accordance with the goods categorizationand the basic principles of product placement (bakery products in remote departments of the supermarket, departments with fresh products close to the entrance, etc.). The period during the pandemic and severe restrictions is characterized by the presence of supply problems, and a significant amount of products absence in stocks.

Transformed consumer behavior also had a negative impact on the volume of product inventories: as it was revealed during statistical analysis, during the study period, the demand for durable products increased significantly and the average bill of purchases increased. As a result of the formed conditions, the products merchandising was carried out in accordance with the presence of the required stocks volume, or its absence.

The accelerated transformation of consumer behavior contributed to a change in the principle of building an assortment policy, especially in the retail placement field. Currently, the assortment and products merchandising are formed in accordance with the characteristics of their consumption and in accordance with consumershabits. For example, salty snacks are now placed not only in the snacks department, but also in the soft drinks department, which reflects the statistics of joint consumer purchases in this category.

Experts noted that planning for the introduction of this approach into trade policy was planned and partially implemented over the past five years, but current social and political events have accelerated the introduction of trade management updated models.

Table 1 – Strategic Focuses of FMCG Companies Before, During and After the COVID-19 Pandemic

Parameter/ dynamicsofchange	Pre-COVID-19 period	Period during COVID-19	Post-COVID-19 period
Assortment Merchandising according to product categories		Merchandising subject to availability	Changing the display of products in line with changing consumption habits
Store Format	Classification of stores depending on the purpose and size	Increasing the importance of traditional stores	Continued growth in traditionalstores
Online sales	Less than 1% share of the FMCG market	Sales accelerating, attracting new customers	Fixing the sales channel to a new level
Check size per purchase	Reducing the receipt, increasing the frequency of purchases and promotions	Purchase of goods for future use, price sensitivity	Demand stabilization, increasing importance of product quality (price-quality ratio), growth of promotions to compensate for reduced consumption

During the evaluating the second criterion «store format», approaches were evaluated in working with various channels for FMCG productssale. Modern distribution channels in FMCG market on the practitioners'part are divided into three main groups: organized trade (hypermarkets, supermarkets, chain stores); traditional trade (mini-markets, small convenience stores, markets and bazaars); trade of immediate consumption (cinemas, bars, cafes, restaurants, etc.).

Prior to the pandemic restrictions, the FMCG trading strategy was based on a clear classification of stores according to the trade purposeand its size. Convenience stores have skyrocketed in importance during the pandemic with social distancing and restrictions on organized retail stores. According to experts, this category showed results in the degree of goods turnover and the sales marginality level. In line with this new trend in post-COVID distribution strategies, the surveyed FMCG companies plan to invest in supporting this distribution channel. As for the immediate consumption sector, investment support for the segment is planned to be restored in the second half of 2022.

Another principal factor in trade policy was the development of online trading by FMCG companies. Prior to the period of restrictions due to the low sales volume, according to experts about 1% in certain categories, online sales developed at an insignificant pace and had a low share of investment from trading companies, especially from the food sector. Under the conditions of restrictions, companies quickly developed and implemented online strategies. For other businesses that have established sales in e-commerce, as well as an influx of new consumers in this sales segment. In considering the strategic marketing policy, experts confirm the importance of online implementation and helping to consolidate the channel in a new position. 18 out of 20 surveyed enterprises are currently developing and partially implementing a separate policy for the sale of goods in e-commerce. These strategies also include assortment policy, digital merchandising, as well as quantitative indicators for product placement.

Strategies for ticket size management were also characterized through primary research. The pre-Covid period was characterized by a positive trend in the frequency of purchases and, accordingly, a decrease in the average bill for one consumer purchase. The period of social restrictions reduced the frequency of purchases and increased the size of the consumer's check due to the new «buy in advance» strategy, and, as was confirmed by the statistical analysis of sales, the sensitivity of consumers to the price of products increased. The experts surveyed expect this trend to continue at least until the first half of 2023. For this reason, future FMCG strategies will focus on stabilizing demand, considering the importance of product quality (value for money), and increasing promotions to compensate for the overall decline in consumption.

During the interviews, the experts were also asked about the marketing factors that will be given special attention in future strategies. As a result, the experts named: the development of online commerce, the restoration of supply chains, the support of innovative strategies, the consumer behavior modeling, considering new behavioral trends.

Conclusion

As a result of a scientific article writing, the main objectives of the study were implemented as part of a structured sales analysis in the context of variousCOVID-19 stages. The findings reflected the changes in consumer behavior provoked by the social and political situation in the country. COVID-19 has caused not only the emergence of current trends, but the acceleration of the existing market innovations development.

The study of the FMCG companies'strategic focuses contributed to a qualitative reflection of the enterprise'scommercial reactions to the changes that have arisen. Based on experts' forecasts, the main elements of focusing future marketing strategies in the FMCG sphere were identified: assortment policy in accordance with consumer habits; investing in traditional trading; strengthening the position in online trading, as well as stabilizing demand for certain categories of products.

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