



Flanders
State of the Art



RETAIL MARKET

IN PERU

FLANDERS INVESTMENT & TRADE MARKET SURVEY

1. THE NEW FORMULA: CONVENIENCE, DISCOUNT AND CASH & CARRY STORES

Traditionally, retailers have focused on the supermarket category as a sales channel for food and cleaning products. However, according to APOYO Consulting, the current context of consumer confidence in negative terrain and the need for retailers to increase their penetration in SEL¹ C and D - in which supermarkets have a limited penetration - lead retailers to opt for convenience, discount and cash & carry stores.

With these formats, retailers seek to adapt to the consumers' purchase frequency. According to Antonio Castro - partner of The Retail Factory - supermarkets find it hard reaching the mass population because still 40% of Peruvians receive weekly income and 25% daily income, thus there is an important space (between bodegas and supermarkets) in which new formats could develop. For SEL C and D, which have a purchase frequency in the modern channel of 15 and 30 days, respectively, the proximity of smaller formats - such as Mass or the ones of Grupo Vega - makes families get used to them and migrate to him. For Ricardo Oie, expert solutions manager at Kantar Worldpanel, more than 50% of households in the southern cone (known as conos) visit the discount stores format, frequency that grows.

These new formats (convenience, discount and cash & carry stores) will grow in sales at ten times the speed of supermarkets. Convenience and discount stores will grow 492% in sales by 2022 with a total sales of S/. 2,188 million² without considering sales of Mass stores.

1.1 CASH & CARRY

Store size: between 1000 m² and 2500 m²

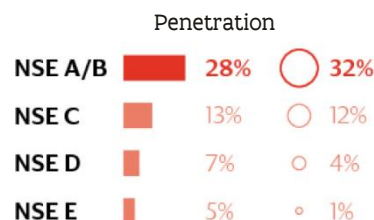
Products offerings: groceries, household cleaning and personal care products

Mission: supply

Cash & carry companies (C&C) seek to focus on the SEL A and B. According to Kantar WorldPanel, these socioeconomic levels are the main reason why despite maintaining the penetration rate in homes, C&C have increased the purchase ticket in the category by 48% in 2017.

Among these new three formats, cash & carry is not only the one that most competes with supermarkets (both focuses on a similar segment) but also the second category in which more competition is

Purchase ticket in Cash & Carry In %



*February 2017

Kantar
vs. feb 18

¹ Socioeconomic level or nivel socioeconómico (NSE)

² Please note that the exchange rate is 1 PEN = 3.9 EUR

coming. InRetail - for example - will opt for this format, opening 15 stores in the next three years that will compete with Makro, Mayorsa and Corporación Vega.

Even though this format originally focused on hotels, restaurants and catering, and bodegas; Cash & carry companies - such as Corporación Vega³ - saw an opportunity in selling to the final consumer. "We changed one of our stores with wholesale format (addressed only to bodegas) to a C&C format to serve the final consumer. Our sales doubled" stated Michel Vega, general manager of Corporación Vega.

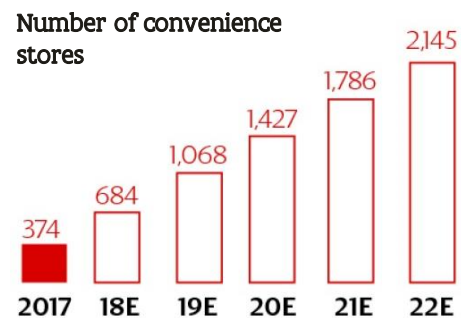
1.2 CONVENIENCE STORES

Store size: 400 m² or less

Products offerings: packaged, snacks, alcoholic and non-alcoholic drinks, fast food

Mission: convenience

The convenience store market will be the category with the most acute competition. This is due to the entry of the Mexican company Femsa with its Oxxo chain - projected for the last months of the year - and that of Justo, of InRetail. Oxxo has 15,000 locations in Mexico and 2,000 in Chile and Colombia. InRetail recently launched Justo; it currently has a location on the boulevard of Asia. Oxxo would aim to open 500 stores by 2021 and InRetail would look for a similar rate of openings with Justo.



Euromonitor, SEMANAeconómica

The entrance of both groups will increase the pressure on LindCorp to increase its target of 600 Tambo+ stores by 2021. This chain was one of the first with stand-alone stores and stores outside gas stations. Today it has 220 in Lima and needs another 30 to reach its break-even point, stated Luis Seminario, general manager of Tambo+ in 2016.

Although the investment per store does not exceed US\$70,000, the main challenge convenience store chains will face will be to grow together with a logistics system that will supply all of their stores. For this format, whose purchasing mission is mainly composed of snacks and fast food, a varied offer is essential to maintain the value proposition. "It is important that customers always find what they are looking for in the gondolas.

By 2022, more than 2,000 convenience stores would have opened - mainly in Lima - and total sales would exceed S/. 2,000 million. However, this will not have a negative impact on the bodegas. For Óscar Ibazeta, Peru-Retail's director, even though this format may be closer to the modern channel, there are still 100,000 bogedas in Lima and a lot of space to grow.

³ Corporación Vega is focused in the north of Lima and will open three new premises and with one of them will begin its expansion to Lima Modern, possibly Surco.

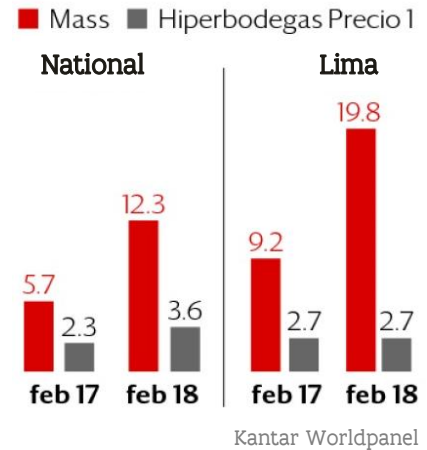
1.3 DISCOUNT STORES

Store size: between 400 m² and 1200 m²
 Products offerings: groceries
 Mission: price finder

There are two types of discount stores. While soft discount keep own brands and leading market brands, traditional ones only keep own brands and a few brands with less market share. Among the three formats, discount stores are still at an incipient stage among.

In this segment we find three players: Mass of InRetail; Hiperbodega Price 1 (HP1) of Falabella; and the Corporación Vega market format. Despite being the newest format, it is the one with the highest penetration in household consumption: 20% by February 2018, according to Kantar WorldPanel.

Discount store's penetration
 In %



This format can reach SEL C and D more easily than supermarkets and have a greater impact on bodegas than convenience stores due to its greater composition of groceries.

The lowest prices are the key to success in this format. The growth in the number of stores in order to achieve economies of scale and the own brands are the two strongest tools to achieve it. The fact that white labels can become a loyalty element for discount stores and that these stores - by not incurring marketing costs associated with recognized brands - are able to offer lower prices, reflects the importance and difference while labels make for this format.

Of the three players, Mass is the fastest growing discount store. In 2017 it closed with 160 stores, 90 more than in 2016. This year, according to Gonzalo Rossel CFO of InRetail, Mass will open 100 more stores.

2. SOURCES CONSULTED

- SEMANA ECONÓMICA
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