2016
THE YEAR THAT WAS
What is happening in Sri Lanka in general?
NEWS THAT MATTERED IN 2016

Both positive and negative news came in over the last 12 months

Source: Lankabusinessonline.com
SRI LANKA GROWTH SLOWED DOWN IN 2016

Services are emerging as the major sector while Industries saw a fluctuation in growth, coming mainly from Construction. Agriculture sector continues to show a decline.

SECTOR CONTRIBUTION % TO SRI LANKA GDP

SRI LANKA GDP GROWTH RATE (VS SAME QUARTER LAST YEAR)

Source: Department of Census and Statistics, Sri Lanka
MAJOR INDICES MOVED TOWARDS A WORRYING TREND

The Colombo Stock Exchange declined 15%, Sri Lankan Rupee depreciated ~4% while Inflation and Interest Rates moved up

Sources:
lk.duinvest.com (Colombo Stock Exchange), Dept. of Census and Statistics (Inflation); BBC Financial Data (Exchange Rate); Central Bank (Interest Rates)
THESE EVENTS & TRENDS IMPACTED CONFIDENCE LEVELS

The highs on confidence from election results did not sustain with changes in tax policies and budget proposals. Business leaders expected more

Source: Nielsen Lanka CCI and BCI Surveys

*BCI is based on survey of 100 Managers/Senior Executives or above in the city of Colombo carried out by Nielsen and is compiled through series of questions on business conditions and expectations

*CCI is based on survey of 100 respondents every month. From 2011 onwards Nielsen tracks the consumer confidence index every month among 100 consumers in Western, Central and Southern provinces. Index is developed based on consumers’ confidence in the job market, status of their personal finances and readiness to spend.
CONCERNS DOMINATED MINDSPACE FOR CONSUMERS & BUSINESSES

Taxes, policies, investments, job prospects were top of mind

Source: Word Cloud based on Nielsen Lanka Business Confidence Index and Consumer Confidence Index Survey
WHAT ARE BUSINESSES SAYING ABOUT THE GENERAL ECONOMY?

About 1 in 3 feel economy will improve in the next 12 months, while investment sentiments moved from ‘Fair’ to ‘Poor’

**ECONOMY PERFORMANCE**

Percentage of respondents who expect Sri Lankan economy in general to **improve** in the coming 12 months

- Outer ring – Dec’16
- Inner ring – Dec’15

32%

**INVESTMENT CLIMATE**

Percentage of respondents who see current investment climate in the country as **Fair** or **Poor/Very Poor**

- 40%
- 49%

**TOP NATIONAL ISSUES**

Percentage of respondents highlighting the **three most pressing National issues** in the current environment

- Economy: 59% 59%
- Politics: 40% 67%
- Corruption: 23% 24%

*Source: Business Confidence Index Survey, Nielsen Lanka*
WHAT ARE LEADERS SAYING ON BUSINESS PROSPECTS?

Lesser percentage of leaders are optimistic on business performance in 2017 and therefore wish to stall any workforce expansion. Taxes remain as biggest concerns.

**BUSINESS PERFORMANCE**
- Percentage of respondents who expect their business to get better in the coming 12 months:
  - Outer ring – Dec’16: 39%
  - Inner ring – Dec’15: 61%

**WORKFORCE EXPANSION**
- Percentage of respondents saying company planning to Increase / Maintain / or Decrease its workforce in the coming 6 months:
  - 14% for Decrease
  - 27% for Maintain
  - 59% for Increase

**TOP BUSINESS ISSUES**
- Percentage of respondents highlighting the three most pressing issues for their business in Sri Lanka:
  - Taxes: 86% (Dec-15), 83% (Dec-16)
  - Inflation: 42% (Dec-15), 37% (Dec-16)
  - Interest Rates: 35% (Dec-15), 29% (Dec-16)

Source: Business Confidence Index Survey, Nielsen Lanka
WHAT ARE CONSUMERS SAYING?
Consumers are concerned with the inflation and say they will delay plans of purchasing durables and reduce spends on utilities and telecommunication.

CONSUMER CONCERNS SHOWING BIGGEST JUMPS OVER A YEAR

<table>
<thead>
<tr>
<th>Category</th>
<th>Dec-15</th>
<th>Dec-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Stability</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Increasing Utility Bills</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Children's Education / Welfare</td>
<td>32%</td>
<td>40%</td>
</tr>
</tbody>
</table>

CONSUMER REACTION ON CONSUMPTION DUE TO INCREASE IN VAT AND OTHER TAXES

- Will spend LESS than before
- Will spend SIGNIFICANTLY LESS than before

<table>
<thead>
<tr>
<th>Category</th>
<th>Dec-15</th>
<th>Dec-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Items</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Household Durables</td>
<td>26%</td>
<td>42%</td>
</tr>
<tr>
<td>Utilities</td>
<td>40%</td>
<td>17%</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>31%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Percentage of respondents highlighting consumer concerns

Percentage of respondents for change in consumption patterns due to increase in VAT and Other Taxes

Source: Consumer Confidence Index Survey, Nielsen Lanka
What are the trends in the Fast Moving Consumer Goods industry?
Source: Nielsen Sri Lanka, RMS Data, for All FMCG (33 Categories including Soft Drinks), from General Trade, Year 2016, New Universe Data
INFLATION DROVE GROWTH IN 2016 AS CONSUMPTION SLOWED DOWN

After a low inflation period in 2015, growth in 2016 is again driven by price increases. Consumption growth slowed down post a healthy first quarter of 2016.

FMCG GROWTH TREND IN SRI LANKA, GENERAL TRADE

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Price change component</th>
<th>Volume change component</th>
<th>Overall growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 15</td>
<td>7.8%</td>
<td>0.5%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Q2 15</td>
<td>6.6%</td>
<td>-1.1%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Q3 15</td>
<td>4.8%</td>
<td>-1.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Q4 15</td>
<td>5.9%</td>
<td>-0.4%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Q1 16</td>
<td>9.5%</td>
<td>1.1%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Q2 16</td>
<td>3.9%</td>
<td>2.1%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Q3 16</td>
<td>4.7%</td>
<td>2.5%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Q4 16</td>
<td>4.4%</td>
<td>3.0%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Source: Nielsen Sri Lanka, RMS Data, for All FMCG + Soft Drinks, from General Trade, excluding NP, Year 2016, New Universe Data
INFLATION WAS LARGELY SEEN IN PERSONAL CARE AND OTC

Prices of OTC products went up despite price control on some categories. Household Care Products see a decline in average price as low priced brands gain market share.

AVERAGE PRICE OF CATEGORY IN 2016 INDEXED TO 2015

-2
Household Care Products

-1
Food & Beverages

+3
Personal Care Products

+3
Over The Counter Products

Source: Nielsen Sri Lanka, RMS Data, for 25 Categories + Soft Drinks, from General Trade, Year 2016, New Universe Data
CONSUMERS SEEK VALUE FOR MONEY IN LARGE PACKS

While price benefits of Large Packs was sought by consumers, they also upgraded to higher price tiers across categories.

**SHARE OF PACK SIZES TO VALUE SALES**

- Inner ring 2015, outer ring 2016

<table>
<thead>
<tr>
<th>Pack Size</th>
<th>2015</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMALL</td>
<td>11%</td>
<td>43%</td>
<td>2.8%</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>10%</td>
<td>47%</td>
<td>2.2%</td>
</tr>
<tr>
<td>LARGE</td>
<td>42%</td>
<td>7%</td>
<td>-6.4%</td>
</tr>
</tbody>
</table>

**SHARE OF PRICE SEGMENTS TO VALUE SALES**

- Inner ring 2015, outer ring 2016

<table>
<thead>
<tr>
<th>Price Segment</th>
<th>2015</th>
<th>2016</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW</td>
<td>76%</td>
<td>73%</td>
<td>-25%</td>
</tr>
<tr>
<td>MID</td>
<td>17%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>PREMIUM</td>
<td>10%</td>
<td>7%</td>
<td>11%</td>
</tr>
</tbody>
</table>

**Source:**
- PACK SIZE ANALYSIS: Nielsen Sri Lanka, RMS Data, for FMCG excluding OTC (30 Categories), from General Trade, Year 2016, Old Universe Data
- PRICE POINT ANALYSIS: Nielsen Sri Lanka, RMS Data, for All FMCG (36 Categories including Soft drinks), from General Trade, Year 2016, Old Universe Data
Rural growth picked up to a level higher than Urban after a few quarters, across categories.
DISTRIBUTION GROWTH WAS RESTRICTED TO SMALLER CATEGORIES

Some Beverages grew on distribution while most categories growth was aided by higher per store off-takes.

Source: Nielsen Sri Lanka, RMS Data, for All FMCG + Soft Drinks, from General Trade, Distribution growth is for Dec 2016 Vs. Dec 2015, and Value growth is for 2016 Vs. 2015, New Universe Data
SOFT DRINKS WAS AMONGST THE FASTEST GROWING CATEGORIES

Increase in average summer temperature and higher per store off-takes helped Soft Drinks tide over the floods related issues and lower distribution.

**TEMPERATURE IN CELSIUS IN 2015 & 2016**

- Summer temperature in 2016 was higher than in 2015
- The month of May saw floods all across the island impacting distribution and stock levels

**DISTRIBUTION IN THOUSAND STORES FOR SOFT DRINKS 2015 & 2016**

- Summer month distribution levels in 2016 were lower than 2015
- The floods in May and June 2016 also impacted stock availability

**PER DEALER OFFTAKE IN LITERS FOR SOFT DRINKS 2015 & 2016**

- However, the per-store off-take went up in 2016 to cater to higher temperature and stock issues in summer months
CHEMISTS AND COSMETIC STORES EMERGED AS GROWTH CHANNELS

Traditional Grocers remain the main channel. Chemists and Cosmetic Stores emerge as options for the upmarket consumer offering a better, premium range of brands. Modern Trade is around 15% of the market.

**FMCG GENERAL TRADE IN SRI LANKA, CHANNEL WISE CONTRIBUTION AND GROWTH**

Contribution of Modern Trade to All Island FMCG Sales estimated through secondary sources.

Source: Nielsen Sri Lanka, RMS Data, for All FMCG (33 Categories excluding Soft drinks), from General Trade, Year 2016, New Universe Data
GENERAL TRADE CAME BACK AS MAJOR CHANNEL FOR FMCG PURCHASE

Semi Wholesalers, offering a significant discount over market price, are the main channel for about a fourth of the population.

PERCENTAGE RESPONDENTS USING DIFFERENT CHANNELS AS MAIN CHANNEL FOR REGULAR FMCG PURCHASE

SRI LANKA ROSE ON THE ATTRACTIVENESS INDEX FOR MODERN RETAILING

Small format stores in are expected to drive Modern Retailing growth in Sri Lanka in line with retail trends in APAC.
THE FMCG INDEX ON COLOMBO STOCK EXCHANGE DECLINED ~ 5%

However, the FMCG market grew about 9% in value as large local companies saw healthy growth in sales.

BEVERAGE, FOOD AND TOBACCO INDEX: CSE

2016 VALUE GROWTH FROM TOP 10 FMCG COMPANIES
(Ranking 1-10 from left to right), NIELSEN RETAIL Audit Data (GT)

Blue bars indicate the company is listed on CSE

Source: Nielsen Sri Lanka, RMS Data, for All FMCG (38 Categories), from General Trade, Year 2016, New Universe Data
LOCAL COMPANIES GAVE 2/3RD OF THE INCREMENTAL FMCG SALES

While they account for about 55% of the sales share, local companies accounted for 67% of incremental sales over two years – driven by both distribution expansion and per store sales growth.

Source: Nielsen Sri Lanka, RMS Data, for All FMCG (38 Categories), from General Trade, excluding NP, Year 2016, Old Universe Data
News from other sectors!
Mobile penetration in Sri Lanka, Year 2016: 92%

Internet penetration in Sri Lanka, Year 2016: 32%

Smartphone penetration in Sri Lanka, Year 2016: 28%

Source: Nielsen Sri Lanka Survey 2016, amongst age group 16-60, All Island, All SECs
ABOUT A THIRD OF SRI LANKA NOW HAS ACCESS TO INTERNET

Internet penetration grew significantly in last two years and penetration of smartphones has helped this growth.

**INTERNET PENETRATION, SRI LANKA 2016**

- 21%
- 32%
- 21%

**MEDIUM OF ACCESS FOR INTERNET, SRI LANKA 2016**

- **DONGLE**: 13%
- **MOBILE**: 86%
- **ADSL**: 6%

*Inner circle 2014, Outer circle 2016*

*Source: Nielsen Sri Lanka Survey 2016, amongst age group 16-60, All Island, All SECs*
DATA WILL REMAIN FOCUS FOR GROWTH IN TELECOM

Like Global Trends, data consumption is increasing in Telecom and service providers will do well to come up with attractive options to ride this trend.

**TELECOMMUNICATION INDEX: CSE**

**USAGE OF MOBILE DATA FOR DIFFERENT PURPOSE**

*Source: Colombo Stock Exchange, *Nielsen Sri Lanka Survey 2016, amongst age group 16-60, All Island, All SECs*
Bank account penetration in Sri Lanka, (amongst adults, Year 2015-16) ~ 85%

Credit Card penetration in Sri Lanka, Year 2016 12%

Online banking penetration in Sri Lanka, Year 2016 (amongst those using any banking service) 5%

Source: Nielsen Sri Lanka Survey, 2016, amongst age group 20-60 years, SEC A, B, C & D
Growth of new Motor Cars registration, 2016 vs. 2015 -57%

Growth of new Motor Tricycles registration, 2016 vs. 2015 -56%

Source: Motor Vehicles Department, Sri Lanka
Who is advertising and where in Sri Lanka?
TV CONTINUED TO RETAIN LION SHARE AS DIGITAL EXPANDS GLOBALLY

Digital commands almost a 1/3\textsuperscript{rd} share of Ad spends globally. In Sri Lanka, Radio has a significant share

SHARE OF GLOBAL AD SPENDS BY MEDIUM

\textit{Inner ring 2014, outer ring 2017}

- Television: 32%
- Internet: 24%
- Radio: 22%
- Print: 18%
- OOH: 7%
- Cinema: 6%

SRI LANKA AD SPENDS LANDSCAPE

\*Excludes OOH, Internet, Cinema

\textbf{Total spends 2016 LKR}

\textbf{90bn}

\textbf{5\% Growth year on year}

\textbf{TV share 70\%}

\textbf{Radio share 22\%}

\textbf{Print share 8\%}

Source: Global Ad Spends – ZenithOptimedia, Sri Lanka Ad Spends Nielsen Lanka Ad Tracking Solution, Internet includes wired and mobile
RADIO AND PRINT CONTINUED HEALTHY GROWTH IN SRI LANKA

As newer sectors (BFSI, Luxury Brands) grow, Print media enjoyed high growth. Radio helps drive tactical promotions and messaging

SRI LANKA AD SPENDS TREND BY MEDIUM

Source: Sri Lanka Ad Spends Nielsen Lanka Ad Tracking Solution

SRI LANKA AD SPENDS GROWTH 2016 VS. 2015
TOP 3 SPENDERS REMAINED FMCG, FINANCIAL SERVICES AND TELCO

FMCG spends accounted for almost half of TV spends while Financial Services spent on Radio and Print too.

SRI LANKA AD SPENDS 2016, SHARE OF SECTORS BY MEDIUM

GROWTH IN AD SPENDS BY SECTORS, 2016 VS 2015

Source: Sri Lanka Ad Spends Nielsen Lanka Ad Tracking Solution
• GDP growth slowed down in 2016
• Policy uncertainty impacted Business Confidence
• Consumers are cutting down consumption on account of inflation

• FMCG growth in high single digits, inflation picks up again
• Consumers look for ‘Value for Money’ but adopt premium products at the same time
• Chemists emerge as a growth channel
• Local companies drive growth

• Internet penetration and Smart phone usage continues to grow
• Online banking still low on penetration
• New Motor Vehicles registration dropped in 2016

• Television continues to be the major advertising medium but Radio and Print grow faster
• Financial Services and Telecom Service providers are major Non-TV advertisers
Fiscal consolidation will continue for Sri Lanka. There will be short term pain but Businesses and Consumers would do good to be patient for the benefits to come in.

Specialist Channels will continue to grow in Sri Lanka. Local, regional players will emerge as competition and growth drivers.

Data penetration and consumption will continue to grow, also enabling Online banking and shopping. Taxes, duties and registration policy will define growth for vehicles.

Digital media will become more and more important. DTH channels will see higher penetration and share of TV spends.
CONSUMERIZATION: How to **organize around consumers** by building a proprietary understanding about the brand’s most profitable consumers and then activating across the entire business system against these segments.

INNOVATION: How to improve the brand’s innovation success rate: **identify white spaces and unmet needs**, develop better products faster, and increase launch performance.

MARKETING EFFECTIVENESS: How to **engage consumers through effective and efficient marketing**

SALES EFFECTIVENESS: How to **activate plans through superior sales execution**, effective assortment and integrated price and promotion decisions.