The new, post-crisis consumer

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The recession has changed the habits of consumers, who are now far more price sensitive. Manufacturers and distributors must to invest in advertising and innovation.

Data from Spain's National Statistics Institute (INE) indicate that the country may start moving toward economic recovery in 2011. But any chance of revival depends on the return of previous consumption patterns.

In a society noted for insufficient population growth, along with an impoverished population and a rising number of single-person households, a short-term boom in consumption is highly unlikely.

In the second installment of "Understanding and Overcoming the Crisis," IESE Prof. José L. Nueno and Eva Vila, managing director of IRI in Spain, identify the keys to overcoming this stagnation.

New habits

It may seem contradictory, but Spain currently has a high savings rate (22 percent). In fact, Spaniards save twice as much as the French. So why don't they consume more?

The main reason is that consumers have new shopping strategies. They are spending less on average grocery receipt and, due to the prevailing uncertainty, spacing out their shopping, even putting it off whenever possible.

The recession has brought about major changes for sales channels. Case in point: In 2009, just one hypermarket was opened, while the number of supermarkets was up 9 percent. Shopping at nearby stores enables consumers to spread out their purchases over time and spend less.

Meanwhile, consumers only visit clothing and luxury stores to shop for products that are unavailable elsewhere. They buy the rest at outlets or wait for the sales.

Bars and restaurants have also been affected by the crisis, with their clientele consuming at home instead of frequenting those establishments. Consequently, revenues from the hotel and restaurant industry have dropped 9.5 percent in terms of value and 8.2 percent in volume.

No going back

In the United States and Britain, where macroeconomic indicators have improved, there have been no immediate changes in consumer behavior. This would indicate that, even when the recession subsides, consumers are not necessarily going to change their shopping habits.

In Spain, one determining factor is the unemployment rate. Job stability is precisely what concerns Spaniards most (80 percent), and that hurts consumption. Those who have lost their jobs, and those who have let others? attitudes rub off on them, have all witnessed the advantages of not consuming, or consuming fewer/cheaper products.

How does this affect mass consumption? Negatively, of course. The last year in which this sector experienced any significant growth (7 percent) was 2008.

This trend is most obvious in the food industry. Fierce price wars have led to deflation and sudden drop-offs in the sales figures of major brands. The Spanish supermarket chain Mercadona, for example, has held its market share (27 percent) by lowering prices, but at the cost of a 16 percent reduction in its revenues.

Generic brands from distributors are becoming quite a phenomenon, with Spaniards turning to them as a way to save money. Store brands represented 38 percent in 2009, up from 20 percent in 1999. They now constitute a formidable competitor for manufacturers' brands.

Make necessity a virtue

Advertising and innovation are the strategies that the major brands must employ if they intend to come out of the recession on top.

At times like these, the question emerges as to whether it is better to invest in advertising campaigns or save resources. Given that the competing brands are reducing their investment, and that more and more consumers are staying at home watching television instead of going out and spending, it becomes paramount to seize the opportunity to reach the client in the most direct way.

At the same time, manufacturers must innovate, distinguish themselves and build their brands to attract a set of customers with new consumption patterns.

According to studies, companies that maintain their investment in advertising and innovation both before and during a recession get the highest returns (10 percent). Those that only do so during a recession, but launch innovative products, also see good returns (4 percent). Any other model yields negative results.

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