The return of the consumer to Spain

According to a book by IESE Prof. J.L. Nueno, the Spanish consumer will return, but slowly, cautiously and with new spending habits.

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Since 2007, household consumption in Spain has decreased by 48 billion euros. The majority of families have lost at least 25 percent of their purchasing power. In a quarter of the cases, this loss is as high as 75 percent of purchasing power.
The middle class in Spain has been hit the hardest by the economic crisis and inequality has become more acute.

Although consumption is expected to recover, increasing by 53 billion euros between 2014 and 2017, both the government and the private sector need to do their part to assure this recovery, warns IESE Prof. J.L. Nueno in his book *El regreso del consumidor* [literally, *The Return of the Consumer*].

Nueno writes that post-crisis consumers do not have pre-2007 attitudes; they are more cautious and have new purchasing options — a situation that is here to stay.

As a result, companies need to adapt to mobile devices, combine online and offline strategies, and offer exclusive products, discounts, speed and proximity of service. They also need to learn to leverage the advantages of social media in new ways.

Speakers at IESE's first industry meeting on E-Commerce comment on retail trends

The three r's of recovery

The tepid improvement in consumption that began in the fall of 2013 revolves around three main concepts:

1. *Repositioning*: During the recession, consumers were able to do without many products or substituted them for more affordable alternatives. In addition, certain frequent-use products were reserved for occasional use only.

Repositioning gains will be central in the modest recovery over the next few months. Some emerging opportunities identified by the author will require a new retail ecosystem as well as revived consumer turnout.

2. *Renewal*: Consumers went into the crisis well equipped with state-of-the-art furniture and appliances. They have used these intensively over the last several years, and therefore, renewing their household goods will be a priority.

Spending on renewal will be well-thought-out and tending towards common-use goods for homes — items like sofas, beds, mattresses and office furniture for working from home.

3. *Relevance*: Though "reward purchases" are back, they are not frivolous buys but rather goods with relevance. Tablets, smartphones, flat screens or certain audio-visual equipment are some examples.

What is different now is that buyers deliberate over their decision more than before. Accordingly, brands need to be sure they are effectively addressing real needs and aspirations.

Winners and losers

Nueno warns that companies are entering this period of recovery, perhaps less burdened, but still weakened after a long period of declining sales, during which their prices and margins were eroded.

Retail has been most affected. For example, a third of multi-brand stores have disappeared in the textile sector in Spain. The same happened in furniture and appliances.

The main retail channels in danger of extinction are small, independent stores located on secondary streets, malls anchored by hypermarkets in city outskirts, mail-order catalogs and vending machines. Hypermarkets and medium-sized specialized retailers also face an uncertain future.

Generally, there is a shift away from sales channels that require a large investment in real estate and have little digital presence.

Proximity, discounts and store hours are some of the key characteristics that will help supermarkets, small convenience stores and other physical stores survive. Meanwhile, outlets, flagship stores, click-and-collect stores, pop-up stores and "shoppable windows" are holding their own.

New sales strategies should integrate online, mobile and social channels. However, they should not abandon physical stores, which remain cornerstones of the sector. At the same time, e-commerce is expected to grow by 105 percent by 2016 and will become the most relevant channel for certain categories like travel.

Sector by sector

Durable goods — such as appliances, electronics and furniture — will enjoy modest comebacks related to repositioning and renewal, Nueno writes.

The automotive sector is also showing signs of improvement in Spain, thanks in part to government financial incentives — such as the PIVE plan, which encourages people to trade in their older cars for newer, more environmentally friendly models.

Meanwhile, the consumer goods sector is trapped in a vicious cycle.

In food and beverage as well as in personal hygiene, the cost of product promotions is hindering investment in communication, pressuring margins or both. As a result, spending on innovation is limited and consumer apathy is perpetuated. On the other hand, the consumer goods sector remained relatively resilient during the recession, so its recovery is expected to be more modest.

In the hospitality industry (including hotels, restaurants and catering), companies are adapting to a new reality, in which a third of employed people have replaced eating out for a bag lunch from home.

The role of taxation in consumption levels

The author notes that consumers' discretionary spending is largely controlled by their required spending on taxes, utilities, public services and interest payments on outstanding loans and mortgages.

For this reason, governments should take into account that growing financial pressure seriously impacts consumption. They need to accept, just as companies have done, that consumers have changed.

A more empathetic approach to taxation could be the most effective recourse to encourage spending, according to Nueno.