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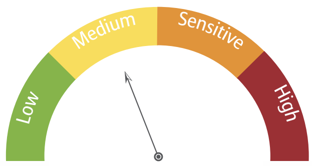
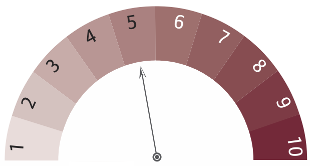
Retail in Spain

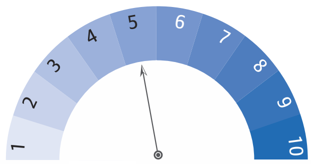
Aging in the age of digital



Retail Non-Payment Risk (Q1 2017)



Digital Pressure



Digital Potential

- **Retail sales stabilized at +2% in 2016, after struggling to climb out of negative territory. Yet the deterioration in consumer confidence and an expected slowdown in expenditures pose serious challenges.**
- **Spanish retailers' financial situation considerably improved in 2016 (8.5% EBIT). Yet indebtedness remains high (100% net gearing).**
- **Apparel is the leading segment while food & drug is challenged by population decline.**

The not-so-quick win: Converting senior citizens to digital shoppers

Retail sales in Spain saw a +2% growth on average in 2016, still half of pre-crisis levels. Looking forward, inflation is forecast to tick up +2.2% in 2017 and +1.7% in 2018 after several years of deflation. Yet this slight recovery in pricing power may be undermined by declining consumer confidence – the first since 2013.

In the long run, demography poses a real threat. The population could start to shrink as soon as 2024, which will pressure retail sales. By 2050, not only could Spain lose 11% of its current population, but over-65s would account for a third of it. The Spanish customer profile and shopping culture still call for a traditional experience in -store. E-shoppers only represent 50% of the population while online retail made up a mere 4.1% of total retail in 2016, reflecting customers' skepticism of online payment services and delivery systems. No unicorn company has so far emerged out of Spain, a clear sign that neither digital culture nor customer experience has been fully embraced. Successful companies will be the ones that manage to provide efficient and secure digital services, while also continuing to offer some sort of human touch. Such services are critical in an economy where senior citizens play an ever growing role.

Fighting for nothing?

Companies have managed to shed some weight off their balance sheets. While huge debts weighed down on retailers in 2011 (185% net gearing), the ratio now stands at an acceptable 100%. Profitability remained stable at around 8.5% over the last five years. Overall, at the beginning of 2017, the non-payment risk for the retail sector in Spain is assessed as Medium by Euler Hermes.

Spanish retailers' concerns diverge from the global picture portrayed by the Euler Hermes Digital Retail survey. The population's non-readiness for a 'shopping 3.0' customer journey drives the top three local challenges: (#1) mobile customer journey, (#2) cost of online presence,(#3) mitigation of reputational risks.

The other reason why Spain just averages both potential and pressure to change is the poor logistics compared to the other countries covered by the Score. Timeliness is a particularly thorny issue. This deficiency strains retailers' productivity and feeds the Spanish households' little confidence of remote shopping. Delays and cancellations still plague the local industry.

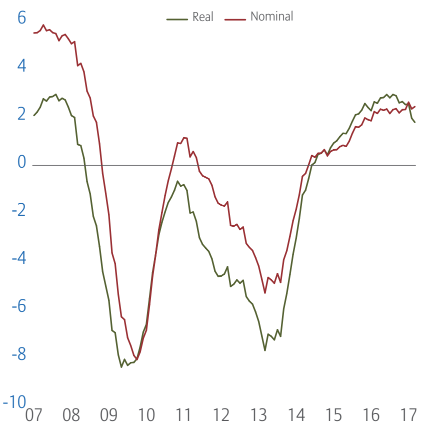
Looking forward: What does it all mean for businesses?

Retailers' should prioritize a twofold strategy that mixes today (traditional) and tomorrow (digital). Companies must humanize the digital experience to reassure customers. This will not be an easy task: the country's structural weaknesses and high debt ratios leave little room for the needed investments.

✓ Promising sub-sectors: Apparel has been resilient to years of crises

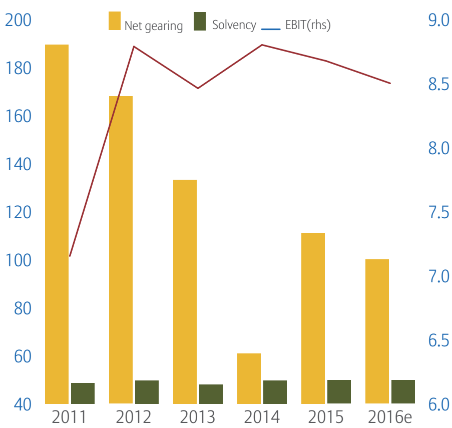
✓ Sensitive sub-sectors: Food & drug is most at risk with regards to demography concerns and sales price decrease. ■

Chart 1 Retail sales in Spain
in %, 12m/12m, as of March 2017



Sources: IHS, Euler Hermes calculations

Chart 2 Financial performances of Spanish listed retailers



Sources: Bloomberg, Euler Hermes calculations