

**Voluntary Report** – Voluntary - Public Distribution

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## **Report Name:** Spanish Retail and Distribution Sector Update

**Country:** Spain

**Post:** Madrid

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### **Report Highlights:**

During the COVID-19 pandemic, the Spanish food retail and distribution sector continued to function as an essential activity in response to the crisis. Although the sector faced some initial adjustments, Spain had the fewest stock shortages compared to neighboring countries. In the peak of the confinement measures, the most popular retail food categories were flour and wheat-based products, eggs, fresh vegetables and fruits, sugar, chocolates, snack foods, and frozen seafood. The least popular were spirits, beer, and higher-end meat cuts. Regional retailers and eCommerce took center stage as preferred ways to shop for groceries. In addition, the COVID-19 crisis rekindled consumer preference for domestic foods (food patriotism). This trend is expected to continue past the pandemic.

## General Information

The scale and impact of COVID-19, both at global and national levels, remains uncertain and fast-evolving. It is still early to report on the real effects of the COVID-19 pandemic on the Spanish economy, though initial predictions are not optimistic for trade and consumption. In their latest report, the Bank of Spain projects that in the second quarter of 2020, the Spanish GDP will contract between 16 and 22 percent, officially indicating the start of an economic recession in Spain. This follows a record-setting GDP drop of 5.2 percent during the first quarter of this year. While the Bank foresees the Spanish economy will begin recovering during the second half of the year, it still predicts Spain's GDP will shrink between 9 and 11.6 percent for 2020, and the unemployment rate will be between 18.1 and 23.6 percent. In a more adverse scenario, the Bank forecasts the economy to shrink 15.1 percent in 2020. In the best-case scenario under consideration, complete recovery would take place in 2022, while the most pessimistic view pushes the recovery to begin in 2023 at the earliest.

## Consumption habits and trends

The Ministry of Agriculture, Fisheries and Food (MAPA) has analyzed the volume of food Spanish households purchased since the declaration of state of alarm on March 14, 2020. During the first full month under lockdown (April) the results show an increase in the shopping basket to 3 million tons, a 32.5 percent rise compared to the same month last year. The significant increase in volume compared to the previous year was driven by the need for consumers to stay at home in accordance with confinement measures in response to COVID-19. During that month of confinement, the most purchased food categories were as follows:

<b>Product Category</b>	<b>Volume Evolution Percentage Change 2020 vs 2019</b>
Flour and Semolina	+128.3%
Eggs	+53.1%
Sugar	+52.0%
Fresh Vegetables and Potatoes	+44.2%
Legumes	39.5%
Fruits	+35.6%
Total Meat	+30.6%
- Pork	+40.0%
- Chicken	+34.7%

- Beef	+27.0%
- Processed Meats	+23.3%
- Rabbit	+14.2%
- Sheep/Goat	+5.1%
Total Fish	+22.9%
- Frozen Fish	+51.1%
- Canned Fish	+10.1%
Dairy Products	+20.9%
Spirits	+10.4%
Beer	+8.9%

Source: MAPA

In relation to beverages, products that are consumed in greater proportion outside the home, such as spirits, wine and beer, were incorporated into the shopping basket for home consumption. The presence of both bottled water and soft drinks in Spanish households increased, although with lower variation as these products are already prevalent in Spanish homes. In addition, the presence of snacks and nuts, chocolates, pickles, and olives in the Spanish shopping basket also grew. As consumers stayed longer at home, these products grew in popularity consumed between meals or for leisure. Nevertheless, in most cases, the increase in household consumption has not successfully offset the loss in sales due to the closure of the hotel restaurants and institutions (HRI) channels.

### **Proximity and eCommerce Paved the Way for Consumers during the Pandemic Crisis**

The State of Alarm brought a whole new meaning and value to proximity shopping. With the saturation of online channels and the government-mandated movement restrictions, proximity shopping became key for many Spanish consumers. Hence, regional supermarket chains have multiplied their sales during the first two months of lockdown. This rise in sales reinforced their market share in a sector typically dominated by large operators in the market. The fact that regional chains gained so much ground in Spain during the pandemic is a unique phenomenon in the European region. Most of these regional chains share strategic characteristics: proximity, fresh produce, and a commitment to providing local products. One of the main differences among the regional chains is the presence of private label products. Some distributors put stronger emphasis on this strategy than others.

The joint share of these stores has increased to around 15 percent, three percentage points more than at the end of 2019. Regional stores are now only behind Mercadona (close to 25 percent) and well ahead of other larger operators like Carrefour with 6 percent of sales and DIA with 8 percent. Some examples

of regional chains include Consum in Comunidad Valenciana; BM in the Basque Region; Ahorramas and Sanchez Romero in Madrid; Condis in Catalonia; Gadisa y Froiz in Galicia; and Coviran and El Jamon in Andalucia.

During the pandemic, larger distributors have yielded market share in favor of market atomization and expanding available shopping options. Prior to COVID-19, Mercadona and Lidl led in sales, while DIA experienced considerable falls. Eroski and Carrefour dealt with the closure of hypermarkets, and regional supermarkets had a timid start of year. However, these trends shifted during the pandemic. Mercadona and Lidl ceded market share, DIA recovered significantly, while regional chains became the sector's front runners. With the ease of confinement measures, for the next few months the questions will be whether proximity will continue to be as relevant and whether regional chains will maintain their success. It is possible that lingering consumer concerns about crowded places may bring shoppers back to the hypermarkets which have larger spaces that can better accommodate social distancing.

Breaking many barriers in recent months, the other frontrunner during the pandemic has been eCommerce. For example, the purchase of fresh products through this channel grew 1.9 percent, with catapulting sales of 141 percent. Another important achievement is the profile of the consumer reached through this channel. Consumers over 65 increased their eCommerce expenses by 210 percent. According to Alimarket, Ecommerce increased 115 percent in value and gained 15.5 percent more buyers. Specifically, in the metropolitan areas, such as the cities of Barcelona or Madrid, online sales are already bordering at a 5 percent share, in line with other European capitals.

A clear example comes from Mercadona, one of the main retail players in the Spanish market. Mercadona is currently investing in improving multi-channel options, to increase sales and attract younger consumers, more inclined to make online purchases. The online service facilities are known as “*colmenas*” (hives). These *colmenas* are warehouses specifically intended to facilitate online services, considered more efficient than those sourced from a physical store.

Since the beginning of the State of Alarm, Mercadona reinforced the *colmenas* in Barcelona and Valencia. In other cities, Mercadona decided to temporarily suspend servicing online purchases sourced from the stores. In order to respond to increased demand and reinforce online sales, in April, the company opened their first *colmena* in Getafe, Madrid. In 2020, Mercadona plans to expand their online service throughout the country, aiming at consolidating its online position. The fast evolution of eCommerce invites some to think of this channel as a great opportunity, which in recent weeks, has taken an expected leap forward. However, there have been some hiccups. Distributors faced logistical difficulties which generated unsatisfactory experiences with some buyers, who may not want to return to this channel. According to Euromonitor, supermarkets are adopting the omnichannel approach in line with consumers' changing shopping habits and to compete within the channel and the ongoing progression of eCommerce. The omnichannel strategy has been pointed out as the most desired, especially in food. Omnichannel puts the customer and not the product at the core, removing boundaries between the different channels. This omnichannel includes formats such as online shopping, telephone, drive services or click & collect.

In addition, the COVID-19 crisis revitalized consumer preferences for domestic foods (or food patriotism) around the world. In Spain, this trend is expected to continue beyond the pandemic. According to Kantar's COVID-19 Barometer, 73 percent of Spaniards favor buying goods and services from their own country. Spanish consumers indicate that they are now paying more attention to the

origin of products. In response to this sentiment, some retailers have launched initiatives to promote the consumption of Spanish products. The Spanish Ministry of Agriculture has also placed great emphasis in encouraging consumers and distributors to support farmers by buying local.

Lastly, economic uncertainty combined with the possibility of a second wave of COVID-19 infections, and the long-term impact of the pandemic leads Kantar to believe that pricing, promotion, and added-value strategies will be critical to maintain brand competitiveness in this market.

### **Other Noteworthy Spanish Consumer Patterns**

According to a regional consumer survey conducted by the Alaskan Seafood Marketing Institute (ASMI) during the month of April, 46 percent of surveyed Spaniards intend to return to their regular shopping practices after the pandemic. Over 50 percent stated that price remained a key factor in their buying decisions during uncertain times. Forty-seven percent of Spaniards were cooking more at home and almost half gravitated towards nonperishable food products. During the confinement, nearly 60 percent of Spaniards were trying new recipes at home and encouraging their kids to join in meal preparations. Lastly, over half of the Spanish participants were optimistic that the pandemic crisis would ease in the next three months.

### **The Return of the Private Label**

With some consumers already facing economic difficulties, greater control of spending is expected in the coming months. This reopens the possibility for private label to grow in Spain after years of stagnation. This situation will force supermarket chains to adapt their strategies. That said, the margin for private label to grow is significantly more limited today than during last Spanish economic crisis (2008-2013). At that time, there was room for private label to significantly expand its weight in the shopping basket. Compared to the previous economic crisis, the starting point today is already between 35 and 40 percent.

The trend to buy more private label was already seen since the state of alarm began in mid-March. A study recently released by Aecoc points out that the percentage of Spanish consumers buying more private label products has risen from 23 to 33 percent. The success of the private label differs among distribution groups. For instance, Mercadona, DIA, Lidl and Aldi gave more shelf space to private label during this period, while Carrefour, Alcampo or El Corte Inglés tend to favor manufacturer brands.

Another difference worth noting is the evolution of consumer perception towards private label. Compared to the previous economic crisis, the image of private label products has improved from being associated with low-cost products to good value for the money, with offerings in even more "gourmet" segments at a higher price.

## Retail and Distribution

The food sector has been one of the sectors largely improving its image during the first weeks of confinement following the COVID-19 outbreak. Despite some initial issues, over the course of the weeks, local stores, supermarkets, and hypermarkets rapidly adapted to a higher-than-normal demand and successfully overcame the pressure. Since the beginning of the crisis, demand in the sector has increased, largely due to the initial consumer stockpiling reaction. A slowdown in consumption is expected to last until autumn and gradually return to usual levels by the middle of 2021. In addition to this stabilization in demand, in this complex future, it is important to also consider the increase in costs incurred in implementing new COVID-19 security measures.

The food sector has set a great example in ensuring supply during this crisis. Spain and Canada have been two of the countries with the fewest stock shortages compared to other neighboring countries. In fact, 92.8 percent of the times that Spanish consumers went to the supermarket in March, they found the product they needed. Despite the exceptional situation, the product availability index was only 2.8 points lower than the rate registered during the same period last year. In addition, on March 13, the Friday before the confinement began, was the day with the highest demand, with a 179 percent growth in distributor sales. During that weekend, the availability of products fell merely to 90 percent, as a result of consumer stockpiling. The availability rate bounced back in the following days and stabilized at around 93 percent in the following weeks.



Source: El Confidencial

These numbers place Spanish food distributors as the best responders to increased consumer demand in Europe during the month of March. Comparing Nielsen's international barometers, the "out of stock" in Spain was around 7 percent, while countries like Italy and Belgium peaked at almost 12 percent, and France reached 18 percent in the first days of confinement.

**Attachments:**

No Attachments.