Strategic Challenges in FMCG and Retail

Industry and Consumer
We have never experienced an era as exciting and turbulent as the current one. The transformation of society driven by digitalisation and globalisation, as well as geopolitical and economic elements, is completely transforming many industries and the consumption habits of their customers.

One of these sectors is the consumer goods and distribution industry. Private label brands, the crisis, new lifestyles, technology, internet, and so on, are all forcing an entire industry to reinvent itself.

Recently, Indra Business Consulting had the opportunity to develop the strategic framework for the Spanish food and beverage industry, working with the industry association FIAB and the Ministry of Agriculture, Food and the Environment, to chart a roadmap to meet the sector’s challenges for 2020.

That experience encouraged us to conduct this current study, extracting all the knowledge gained by incorporating the talents of Indra Business Consulting’s consumer goods consulting unit, making a thorough quantitative and qualitative analysis of key industry players, involving a representative sample of consumers.

The essence of this study is reflected in this document, intended as a practical guide on how to address the challenges arising from consumer trends that are already a reality in Spanish society.

If we look pragmatically at this study, we realise how much still lies ahead for the industry in responding to the challenges described. While it is true that many companies have already set out along the road to transversal innovation, most have not even begun. And contrary to what many analysts say, this is due to a problem of size, not of capacity.

Undoubtedly, we are going to experience more changes in the coming decades than in the last century, which will cause the major industry players to change radically. The current ranking of top companies in the sector will not look anything like the list of those leading the industry in the coming decades. Both the new-entrant digital companies, and those older firms that can show the ability to transform themselves, will find a place in the new leadership of the FMCG and Retail sector in Spain. For proof of this you only need to glance at the evolution of the Fortune 500 ranking in the USA over the last century.

In any case, at Indra Business Consulting, we are optimistic and firmly believe that our business fabric is sufficiently solid and well-prepared to face this transformation and lead the restructuring of the sector at international level.

Ángel Bonet y Pedro Valdés
Partners, Indra Business Consulting
Executive Summary

At present businesses are facing a very unfavourable market situation and there is a visible need to address complex management challenges. To do this successfully requires companies to make cultural, organizational and functional changes: we are heading towards a world that is more digital, more global and more instantaneous.

The challenge is centred on growing in a market with fewer buyers, less free space and greater competitive pressure. However, improvements in the economy can be seen and consumer goods companies must be capable of taking advantage of them.

To fight in this scenario and to become competitive in a deflationary context (produced by a price war), it is necessary to develop initiatives that allow product profitability to increase through efficient management of different channels, as well as of their respective commercial and product policies. Since Spain is moving towards an export model, another option is to search for the skills and resources to develop and/or strengthen exports or internationalisation processes.

In a context in which the importance of innovation has been declining, it is essential to develop innovative products that succeed in breaking through the entry barrier faced by distributors.

However, incremental value should not only be generated through innovation, but rather through increasing the value of existing products, and thus we must not lose sight of the development of Revenue Growth Management as a tool for portfolio management of products, channels and customers.

Managing the customer experience has become a major differentiating factor and an important driver for growth. Thus, it is essential to understand new consumers and how to reach them efficiently, profitably and in a way that makes an impact. And of course, to get the maximum benefit, we must be able to understand the role of brands for the consumer (as well as their role for distributors).

On the other hand, technological innovations will revolutionize the way we relate to one another and how we do things. We will have a wealth of information from many different sources at our disposal, enabling companies to adapt their offer to the consumer much more precisely.

Finally, companies dedicated to out-of-home consumption must develop initiatives to consolidate the activity given that this type of consumption has fallen significantly.
Objective of the report and methodology

This report has three main objectives: to understand the current consumer environment and trends, to analyse consumers and their behaviour, and to study the challenges that exist and the level of maturity with which companies currently face them.

We believe that beyond the macroeconomic dynamics or strategic analysis of each company, the challenges of the sector must be analyzed from the three points of view mentioned earlier, and for that reason this report has been based on four information sources:

- Analysis of market trends through public sources, research institutes and reports.
- Consumer surveys aimed at understanding buying behaviour and future consumption trends.
- Interviews with leading consumer goods and distribution companies to understand their challenges.
- Analysis of the maturity of the companies with respect to the challenges identified through questionnaires segmented by company type.
Trends: the evolution of consumption

The economic crisis has not only had an impact on the major macroeconomic indicators, but has also affected society’s consumption habits, especially in all matters relating to consumer and food distribution.

Although macroeconomic indicators and the forecasts made by nearly all authorities point to a recovery from the crisis, there is still a great deal of negative data that directly affects the recovery of consumption levels.

Although the number of jobless has fallen according to the data for the last quarter of 2014, the effect of the crisis is still palpable. Among other data, the following may be cited: there are almost five and a half million people out of work (23.7% of the population), the flow of migration is negative, there has been a wage adjustment which has reduced household purchasing power and savings, we are in a deflationary situation, the flow of credit has still not reached the real economy...etc

The crisis undergone has completely changed the mindset of the consumer and the structure of purchasing/consumption channels.

Currently people eat out less, “tupperware” culture has grown, spending on leisure has fallen, and prices, special offers and discounts have grown in importance.
Trends: the evolution of consumption

Evolution of expenditure outside the home (2009-2013)

Total spending out-of-home
32.025€

Average ticket per diner
-0.6%

Visits to restaurants and other F&B
-2.5%

Sales evolution
-3.1%

Source: Presentation Magrama 2013 consumption data

YoY evolution of Spanish GDP (%)

Source: IMF, INE

YoY evolution of unemployment rate in Spain (%)

Source: IMF, INE

Evolution of expenditure outside the home (2009-2013)

Source: Presentation Magrama 2013 consumption data
Despite the positive closing figures for sales in 2014 of around 3% in the Horeca sector, around 5,000 establishments are expected to close down, and both consumption outside the home and distribution have been affected by a change in consumer behaviour. The Discount and Mercadona formats are the clear winners of the crisis, being the only formulas that are growing both in volume and floor area.

The rise of these formats not only brings with it a decline in the average price, but has also led to the growth in importance of private labels.

The development of the discount format, with a much smaller range, and a greater role for private labels has meant that manufacturers have less space for new releases and product innovations.

This combination of factors (discount format, a reduced number of references and innovations and greater weighting for private labels) has led to a decline in the average price of products sold. This deflation has been caused by a war that has been centred on prices, and not on quality, productivity or innovation.

While it is true that for the first time there has been a 0.7 point drop in the value of private labels in Spain, the forecast is that their weight will consolidate around the current levels. This loss of importance has occurred due to the narrowing of the price gap between private labels and manufacturer brands, less promotion of the privates and increased promotional emphasis from the manufacturers.

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**Consumer goods sales evolution according to distributor format (%)**

<table>
<thead>
<tr>
<th></th>
<th>Total food industry</th>
<th>Fresh food industry</th>
<th>Rest of the food industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Spain</td>
<td>-</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Hypermarkets</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Supermarkets and indep. stores</td>
<td>-</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Discounters</td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialist stores</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of channels</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Kantar Worldpanel

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**Evolution of sales channels by categories**

<table>
<thead>
<tr>
<th></th>
<th>Total food industry</th>
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</tr>
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<td>Specialist stores</td>
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<td></td>
</tr>
<tr>
<td>Rest of channels</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Magrama 2013
03 Trends: the evolution of consumption

**Number of innovations in Consumer Goods**

Source: Kantar Worldpanel Radar de la innovación

**SKU number average chain 2007 and 2013 (grouped by typology)**

Source: Own analysis based on data from Kantar World Panel

**This deflation has been caused by a war affecting the price area, and not the areas of quality, productivity or innovation**

CPI evolution in the food industry

<table>
<thead>
<tr>
<th>Type of Food</th>
<th>Annual % variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread and cereals</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Fish and other seafood</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Oil and fats</td>
<td>3%</td>
</tr>
<tr>
<td>Legumes and vegetables</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Baby food and products</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Water, soft drinks and juices</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Wine</td>
<td>-2%</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

Source: National Statistics Institute (INE)

**This deflation is produced in part by the price falls in the main retailers...**

Price evolution 2013-2014

Source: National Statistics Institute (INE)

**... impacting on the standard shopping basket**

Evolution of standard and economic shopping basket 2012 vs. 2013

Source: National Statistics Institute (INE)
The signs of recovery seem obvious, but the big question is when this recovery will move into consumption and how. And even so, companies will have to face a very different environment: increased competitive intensity coupled with fewer consumers who also have fewer resources available, and new types of consumers with expectations that are much more difficult to meet, scattered across countless new channels in an infinity of social communities.

Companies face a very unfavourable market situation and need to address the complex management challenges in many areas that will, over the coming years, force companies to develop their model for relationship with consumers and to transform all elements of their internal management to meet these challenges.

The analysis of consumption trends and patterns can be a complex element to manage due to the high number of factors that influence it, and for that reason at IBC we have developed a working framework that we have used to analyse the main trends and understand the effect of these on companies in THE CONSUMER GOODS AND RETAIL SECTORS.
Trends: the evolution of consumption

- Macroeconomic and socio-demographic background
- Business environment
- Consumer preferences
- News forms consume
- Technological innovation
- Stress and lack of time
- New Marketing
- Focus on emerging
- Turnaround in Outsourcing
- Engagement
- Quality and innovation
- Loyalty
- Brand image
- Ecoconsumer
- Digital consumer
- Security
- Online shopping
- Product experience
- Beacons Wireless intelligence robotics 3d Printing Big data
- Future Consumer Electronics Geo-socialization Satellite Technology Others
3.1 Macroeconomic and socio-demographic environment

**Moderate or non-existent economic growth**

Although the economy is slowly recovering, the global crisis has seriously affected the habits of consumers, who have reduced their levels of consumption and now place much greater focus on the value for money offered by all products they consume.

This trend seems to have come to stay, being referred to by the World Bank as the "new normal", and it is likely to hinder overall growth.

The growth levels of past times will be difficult to achieve and a period of some volatility is expected, despite the identification of a gradual growth trend.

This forces companies to change their traditional practices. Those that keep using the same practices and fail to adapt to the new environment will very likely face viability problems.

The need of consumers to save more has triggered initiatives like the so-called participatory or social economy, which is revolutionising many sectors. A good example of that is BlaBlaCar, which helps connect drivers with available seats, and passengers who are seeking to share the same journey. This way, drivers and passengers can travel to the same destination at a lower cost than with traditional transport means.

**Demographic factors**

Spain has traditionally been renowned as a country with low birth rates. If we add to this the effects of a new era with increased aging of the population, increased urban population and improved education, the existing population segments become modified, and their attractiveness is also affected.

The detection of these changes and their consolidation make it possible for us to adapt to new or growing niches. An example can be found in the orthopaedic products market, which can be expected to grow in sales as the demographic pyramid gradually inverts.

This is why there is a need for continuous mechanisms capable of analysing our target and monitor its status, as well as for the search of emerging niches.
The economy shows signs of improvement but there is still a lot of potential for consumption to achieve 2005-08 levels.

When financing arrives, the economy responds with growth.

The improvement in the labour market cause improvements in consumer trust.

Improved confidence increases consumption.

And there is still great potential for consumption to be normalised.

The big unknown is whether this improvement will impact on consumer goods or whether the trends seen up till now will continue.
Evolution of resident population in Spain during 2013... generated by an 8% decline in foreigners... this decrease started in 2013...

The population will decrease by 9% in 2054

YoY population growth in Spain and structure of resident population.

... generated by an 8% decline in foreigners

Evolution of resident population in Spain during 2013

<table>
<thead>
<tr>
<th></th>
<th>Resident population as at 1 January 2013</th>
<th>Resident population as at 1 January 2014</th>
<th>Absolute growth during 2013</th>
<th>Relative growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>46727890</td>
<td>46512199</td>
<td>-215691</td>
<td>-0,5</td>
</tr>
<tr>
<td>Spanish</td>
<td>41655210</td>
<td>41835140</td>
<td>179929</td>
<td>0,4</td>
</tr>
<tr>
<td>Born in Spain</td>
<td>40124239</td>
<td>40112835</td>
<td>-11404</td>
<td>0,0</td>
</tr>
<tr>
<td>Born abroad</td>
<td>1530971</td>
<td>1722305</td>
<td>191334</td>
<td>12,5</td>
</tr>
<tr>
<td>Foreigners</td>
<td>5072680</td>
<td>4677659</td>
<td>-395621</td>
<td>-7,8</td>
</tr>
<tr>
<td>Born in Spain</td>
<td>428911</td>
<td>441057</td>
<td>12146</td>
<td>2,8</td>
</tr>
<tr>
<td>Born abroad</td>
<td>4643769</td>
<td>4236002</td>
<td>-407767</td>
<td>-8,8</td>
</tr>
</tbody>
</table>

Source: INE
Another far-reaching factor to consider is the decline in the workforce, which is due to lower immigration. For the first time since annual data became available (1971), and now for two consecutive years, Spain has lost population. One of the main reasons for this decline can be explained by the fall in the number of immigrants.

In 2013 the number of immigrants fell by 7.8% to 4,677,059 people, due to the combined effect of emigration and the acquisition of Spanish nationality. Also during that same year, 547,890 people (of which almost 15% held Spanish nationality) left the country.

### Stress and lack of time

Stress is the second most common reason for taking sick leave in the European Union, only surpassed by back ache, and it affects approximately 40 million workers each year. This means an annual cost of twenty billion Euros spent in health costs, apart from the loss of productivity. According to data from the European Foundation for the Improvement of Living and Working Conditions, 28% of European workers have some form of job stress.

This kind of lifestyle, which does not give consumers enough time to perform many of their everyday activities, could be an opportunity for companies able to offer services to help their customers to save time.

The lack of time is one of the reasons why a large number of companies have developed their web based e-commerce channel, mobile app, social networks, etc. The aim is to be present whenever the consumer needs it, providing a service that is as user-friendly and efficient as possible.

For example, AisleFinder is an application that permits consumers to optimise the time spent in supermarkets finding the products on their shopping list. The application was praised as “The Google Maps of supermarkets”.

In the consumer goods industry, there has been a 14% downtown although the total value has been maintained due to the population factor and inflation.

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**Comparison of value variation 2002 vs. 2013**

<table>
<thead>
<tr>
<th>Component</th>
<th>2002</th>
<th>2013</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>15%</td>
<td>27%</td>
<td>42% CONSUMER GOODS TOTAL</td>
</tr>
<tr>
<td>Population</td>
<td>15%</td>
<td>41%</td>
<td>-14% OWN TRAINING</td>
</tr>
<tr>
<td>Decreasing population</td>
<td>15%</td>
<td>-14%</td>
<td>-14%</td>
</tr>
</tbody>
</table>

*Source: Kantar Worldpanel innovation Radar*
3.2 Business environment

3.2.1 Focus on emerging countries

The FMI estimates that 70% of global growth in the coming years will be driven by emerging markets (with China and India accounting for 40%).

This, coupled with the weak economic growth in developed economies is forcing companies to focus more on emerging countries and in many cases neglect mature markets such as Spain’s.

This switch of priorities by multinationals is an opportunity for SMEs, who see their competition has been reduced, but at the same time need to be better prepared to win the market share “abandoned” by the products of multinationals.

Many consumer goods companies have been targeting the Asian market for several years and others are focusing their efforts on emerging markets such as Eastern Europe and America. Still other companies, in the pharma sector, are planning to open subsidiaries in India, Indonesia and Taiwan, as well as in Russia and Turkey in the medium term.

To do so, the creation of an efficient Revenue Growth Management and go-to-market model, as well as the possession of a portfolio adapted to the needs of the channel and client are essential requirements for taking advantage of this opportunity.

3.2.2 The shift in Outsourcing trends

Each day there are more organisations that seek to achieve greater efficiency at lower cost, but without affecting quality standards and customer service. In a situation like this, outsourcing will continue to be a necessary resource to improve efficiency and compete in a more global market.

This demand for efficiency will mean that, in the future, the criteria for selecting a region where certain functions or tasks are to be outsourced will not be determined by labour costs or productivity, but rather through a niche-based specialisation system, such as business analytics, development of software applications, product development, etc.

Therefore, the step that precedes the launch of this strategy is the analysis of the value chain of the company and the clear identification of those tasks and/or areas that may easily be outsourced in contrast with those that differentiate the company or generate value for it and can be considered as more strategic.

The implementation of an outsourcing strategy will bring the development of departments capable of managing and coordinating a large number of suppliers in multiple latitudes at the same time. One of the many companies that already do so is Barclays, which has software development centres in India.
The IMF estimates that 70% of global growth in the coming years will come from emerging markets, and of these, China and India account for 40%.
The marketing has focused traditionally generate consideration through traditional channels ... but must now expand its role to encompass the Full experience across all channels and throughout the lifecycle of the consumer.

3.2.3 New Marketing

Marketing will continue to become quicker, more personal and effective. The entire information footprint of consumers will be able to be exploited and, with the right tools, it will become possible to anticipate behaviours and adapt marketing actions.

An example can be found in Internet advertising, which is addressed to each individual on the basis of previous online activity. If the user has browsed for travel, the advertising will be for destinations, hotels, etc.

However, it is also possible to obtain other information from any channel, such as: consumption data, incomplete purchases, consumer trends, opinions and complaints on social media. The proper compilation and reuse of this information can become a differential factor for any company because the information obtained can be useful not only for the marketing department but also in terms of product development, customer service, etc.

This kind of information and the management complexity associated with it will cause the appearance of new and more capable marketing companies with a Business Analytics department focused on the analysis of such data. An example can be found in Upsight, a company aimed at developers and companies that conducts analyses of user behaviour with their applications and the marketing of virtual products based on their activity.
3.3 Preferences of consumers

Emphasis on Quality and Innovation

Customer experience is gaining importance and is becoming one of the key factors in the purchasing decision. Therefore, and in order to improve this customer’s experience, a great number of companies are now focusing on quality and innovation in the development of new products and services.

This forces companies to review and improve their customer experience value proposal in each point of contact and with improved consistency.

Examples of this change can be found in the new packaging for mineral water, adapted to fridges or easier to use or in businesses such as Buyfresco.com.

Engagement of the digital consumer

Establishing adequate communication with our customers will become a key lever for growth in the digital market. In Spain the increase in sales through this channel was 13.4%, equivalent to 12.383 billion euros, and annual growth in the sector of around 19% is expected. This figure is in line with the growth in digital investment, which rose 20% while the overall marketing spend was reduced.

However, at the level of a commercial brand, to start building a closer relationship with the consumer it is necessary first to understand how your brand works, and go into depth on what its strengths and weaknesses are, taking into account even the most minute detail.

Large brands that have well-established engagement such as Apple, Google or Inditex, have an “army” of advocates who speak well of them at all times and situations, creating a favourable environment for them. This mass is composed of ordinary users who, after a series of positive experiences with the brand, decide to become its evangelists and declare their loyalty to it.
Eco-consumer

Today’s consumer is more sensitised to the environment. This commitment has begun to be an element with some weight in the evaluation of a product, as well as modifying consumption habits.

For that reason, the efforts of companies to be “eco-friendly”, which up till now have been pushed forward by subsidies and regulation, begin to justify themselves from the economic point of view, providing improved results.

The launch of products that help protect the environment can be considered as a new strategy in today’s marketing, attracting customers who are more conscious about preserving the environment.

In fact, there is already a segment of consumers who are looking for “eco-friendly” products. New fashion brands like Wilby advertise themselves as “vegan fashion”, and announce that their designs do no harm to animals.

Brand image

The success of a company is not only in its products but also in the values transmitted by them. The reasons why we buy a brand at times go beyond the rational. The brand resides in the minds of consumers.

Strategic brand management is aimed at creating the brand, building it up and positioning it in a unique and differentiated location in the market. The growing consumer concern about the image of brands they consume has meant that many companies have now reacted by concerning themselves with their image.

For example, the platform Buycott makes it possible to boycott certain companies that do not meet the criteria demanded by consumers, which may in the future influence purchases of those companies’ products.

Loyalty

The consumer is becoming less loyal. Although consumers may have preferred brands, this does not stop them searching for information prior to their purchase and they will always compare the quality and prices of products. A clear reflection of this statement is found in the rise of the private brand. As already mentioned, although its growth is slowing down, private brands already have 40% of the market and in some cases up to 50%.

This reveals a market with great opportunities, where a well conceived offer and a good loyalty programme can allow any new venture to carry away a brand’s less faithful consumers, those who are more doubtful about opting for the product.

Company loyalty strategies are changing since they must adapt quickly to consumer demand, becoming ever more personalized in an attempt to really gain effectiveness.
3.4
New ways of consuming

The techno-savvy consumer

It is expected that in the coming years, the technological barrier which is currently a brake on adaptation for part of the population will be completely overcome.

Tablets and Smartphones will end up being used right across the board, amongst both the very old and those who live in rural areas.

This will mean that all consumption related to technology, as well as the future marketing based on this, will target a much broader population spectrum than it does at present.

As well, among the possibilities offered by technology is that of handling all the consumer’s inquiries and suggestions online, which will mean significant savings.

Companies need to analyse the possibilities that technology offers, seizing opportunities as well as considering possible constraints that a particular product may have and knowing how to solve these.

The consumer becomes a producer

Consumers spend more time at home and have decreased their out-of-home spending and this has meant that many consumers have changed from “pure consumers” to become manufacturers of their own products.

Categories such as confectionery have experienced growth in recent years with numerous launches and marketing strongly focused on “sweetening” the moment of preparing a dessert and highlighting the satisfaction to be had when you share what you’ve made with your loved ones.

Who would have thought a few years we would be able to brew our own beer at home? Now it is not only possible, but is also catching on among some consumer segments. There are companies like the Club de las Grandes Cervezas del Mundo that sell all the accessories needed to brew your own beer at home.

Among the latest developments, there is even a 3D printer launched that is capable of producing all kinds of food (Foodini). It may take some time to reach the wider public (the cost is around 1,000 euros) but it is something that in the future will be part of the lives of consumers.
3.5
Technological innovation

Everywhere people talk about technological innovation, but no-one dares to take the first step and implement it in their business. Where should companies be looking? Is there any development that is likely to bear fruit in the medium term? The trial period appears to have begun and already the first attempts at implementation can be discerned. Here are some examples.

**Beacons**
You hear about them more and more ... but really, what are these “beacons”? They are transmitters of short-range signals via Bluetooth, technology which in some situations should replace GPS or NFC technology, given their low battery demands and better accuracy within buildings.

So exactly how can they be used? Take the example of a consumer who passes in front of a product in a shop. Via the beacon, the consumer’s mobile advises her that her friend has purchased this product and is very satisfied with it, or that there is a special offer on a product that she has purchased previously.

The prestigious Regent Street in London launched an application connected to beacons installed in 130 shops, representing 80% of retailers in the street. Because they work through an app that requests users to show their preferences, the offers made to each customer were much more personalized. It is clear that this is a new type of digital marketing in real time, which will be implemented in the medium term and should be on our radar.

**Robotics**
Robotic technology combined with artificial intelligence will help humans in the manufacturing, space, military and transportation sectors. And not only from a professional point of view, but it will also soon become part of our personal relationships, providing us with servants and companions, and it may even make decisions in the future.

Applying this to the world of food, one of the first companies to implement this technology was Amazon, with so-called “drones” for home delivery of goods.

**3D printing**
3D printers are machines that can actually turn the designs generated by a computer into reality, creating parts and volumetric models. For the moment their high price (about € 1,000) limits their use, but it is more than likely that in the future they will completely transform household living and the consumer goods industry.

The possibilities are endless. There are already companies dedicated exclusively to marketing parts of all kinds, whose manufacture once was extremely complex. The use of this technology ranges from prosthetics, where its ability to adjust to specific measurements is extremely useful, through to making pizzas or burgers in the consumer sector, functioning in a way similar to the well-known Thermomix appliance.

**Big Data**
At present there is a large accumulation of data available on the consumption patterns of individuals, their sociodemographic situation, behaviour, likes, etc. The analysis of all this data is already a reality in many companies, and they use it along with future trend forecasts to prepare actions.

Furthermore, real-time analysis, as mentioned above in the case of beacons, is becoming steadily more important, and so there is increasing investment in systems of analysis for both consumer behaviour and Big Data, as a way of obtaining feedback on consumer demand in real-time, as well as other useful applications.

To leverage this data, the use of consumption analysis tools is needed that allow us to plan the provisioning of our stores. For example, Telefónica’s Smart Steps product is an application that uses anonymous data and data aggregated from mobile networks to draw conclusions on the behaviour of the masses of people that are physically near companies and establishments.
Wearables
The use of wearable technology, the so-called "wearables", is becoming increasingly popular. In the world of sport they have become a basic and widespread item: t-shirts that monitor heart rate, bracelets that count the steps you take a day... The iWatch is able to synchronize with the Apple iHealth platform, and is a clear example of how it is increasingly feasible to keep track of your health without having to recur to traditional methods...

Geo-socialisation
Is it possible to obtain information about the movements of potential consumers through social media? This can become a reality thanks to geocoding and geotagging.

Knowing the location of consumers through their use of "I like it" or "My location is", opens an opportunity for digital marketing and for innovative ways of socializing that promote more advanced interaction between individuals and organisations.

Applications such as Foursquare already capitalise on that kind of information. This tool provides information about the places users have been to, thus creating a network in each city based on shared experiences, positive or negative. The potential in this area seems to have no limits. By way of example, developers are working on apps that can identify information about clothes with the use of the smartphone camera.
The challenge of the consumer

When speaking about trends, we mustn’t forget to compare them with the opinions of consumers, since regardless of their logic, they are not always 100% applicable. A good example can be found in the case of e-commerce in the food sector. It was identified as a trend in 2002, but in 2015 it is still in the process of consolidation.

This new consumer (digital native) will comprise more than 56% of the population in 2034

Evolution of the weight of the segments of consumer (of total population)
4.1 The consumer of the future

One way of grouping consumers together may be according to their degree of relationship with technology.

**Traditional**
- People born before the 60s that have not been familiar with technology since childhood.
- They value simple things, so technology is perceived as an obstacle.
- Reluctant to use e-commerce.
- Reluctant to change.

**Digital immigrants**
- People born in the 60s and 70s that use new technologies but are not used to them.
- They seek more personal and human treatment.
- They generally don't enjoy using technology.

**Digital natives**
- People born from the 80s on who are very familiar with smartphones and tablets.
- They mostly interrelate through social networks. They are unable to conceive life without Internet and e-commerce.
- They are multitask and multi-device. They value their time and avoid tedious tasks or transactions.

In Spain, digital natives account for 38% of the population, and will become 56% in 20 years and 75% in 40 years time. Moreover many of them are second-generation digital natives, and have been used to digital devices and technology from a very early age.

According to Marc Prensky, the American author that coined the term “digital native”, by 2020 people all over the world will be connected to “AORTA” (Always On Real-Time Access). In such a future, people will be able to access information from any place on the planet.

In this futuristic environment, what are the most important characteristics that companies must take into account about the customer of the future?

**Always online:** The consumer of the future will be connected to the network at all times. She will use the network more intensively than at present to find and buy the products she wants.

**Interaction worldwide:** People will be permanently connected with others around the world and will be influenced.

**Culture of sharing:** The standard behaviour will be to share information with the rest of the world. People don’t only want to talk, they also want to be heard.

**Content creators, not only passive users:** Consumers not only have more knowledge thanks to the network, but will also have more control, will create their own contents and will express their opinions.

**Change of habits affecting information processing:** Due to the vast amount of information available on the network, consumers will mainly focus on headlines and not on the entire contents. In some cases, they won’t be.

**Expectations of “multitaskers:** The consumer of the future will have less time to devote to all they want to do, so she will look for ways to simplify and delegate tasks. In order to make the most out of limited time, consumers will seek valuable experience and high-level services.
Customer Journey
Since consumers have a need until their purchase occurs and then later they have a new need during customer service, the consumer experiences a process that today is known as the Customer Journey. This includes all the moments when a user makes decisions that lead him to choose between one product or another. The increased complexity of today’s consumers, combined with their highly demanding approach, obliges companies to adapt to consumer needs quickly if they don’t want to lose their place in the market.

Being the first to discover something that surprises the consumer may be the key to differentiating oneself from competitors. The advance of new technologies can help companies not only to create or provide a better service, but also to understand the tastes and preferences of their target consumers, and therefore to retain and attract their customers. However, it can also encourage rejection or indifference if the company fails to adapt or to live up to customer expectations.

How do consumers behave in the face of the emergence of new digital channels? Will they alter their customer journey, or alternatively will they cling to the traditional channels? How is real engagement with the consumer achieved? To answer these questions, we conducted a survey of more than 1,500 consumers aged from 18 to 65, in which we tried to understand their way of thinking in order to try to respond to their needs.

4.2.1 Search
Before the digital age, the search for any type of service or commodity started in the physical store or through advertisements in magazines and on television. Consumers today are better “educated” than before, i.e. they have all the information they need at their fingertips thanks to thousands of available apps, forums and social networks, and therefore they have more ability to compare similar products and choose the one best suited to their needs.

The type of search channel that consumers use today varies depending on the type of product or service they are looking into. On average, it can be seen from the graph below that the in-store search remains the favourite means, at all ages. However, looking at younger consumers, the tendency to search via the internet is increasingly common.

Today’s youth will become the future’s adults, so we must keep a clear focus on the need for an online shop window that gives them easy access.

But, looking at my own business, what channel is the most demanded by consumers? If we go into more detailed analysis, we realize that the store is still the most used search channel in many sectors such as food, medicine, jewellery or clothing.

Preferred search methods

<table>
<thead>
<tr>
<th>Store</th>
<th>Online</th>
<th>Catalogue</th>
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### Preferred search methods

- **Store**
- **Online**
- **Catalogue**

<table>
<thead>
<tr>
<th>Age Group</th>
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<tr>
<td>18 - 24</td>
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<td>55 - 64</td>
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- **Purchase**
- **Engagement**
- **Search**
- **Ticket / Payment**

- **Service**
Although the store maintains its influence in such sectors, there are others where you begin to observe the tendency to research via internet, combined with information from catalogues. This happens for example in the sectors of sports, household goods, toys, beauty and even cars.

But there are certain sectors where the tendency to search online outstrips any other method. In most cases, this is because of the ability to find opinions, compare prices and search for deals. Sites like TripAdvisor, Eltenedor or even specialized forums are the first filter used by many consumers before deciding on a particular product.

In other sectors, the pages of comparative websites like Booking and eDreams have enabled consumers to be in charge of their own journeys, avoiding processing costs, and choosing the value-for-money that best suits their needs.
4.2.2 Purchase

Being present in the online channel is now a requirement for all companies. As explained in the previous section, the Internet is the entry point that helps the consumer to choose a product or service. But after the search, how many consumers would buy through the online channel instead of in the store? Is it really essential to offer an online sales service, or are traditional channels enough? We asked consumers about this, and the answers were remarkable.

We started asking an objective question: How often do consumers buy online? According to the results, it can be seen that 35% of the sample purchase online at least once a month, followed by 47% who do so between one and four times a year. Only the remaining 19% admit they have never, or almost never, purchased a service via the Internet.

Frequency of online purchase

As the graph shows, there is a big difference between age segments. However, the trend is that the younger the consumer, the more often they make virtual purchases.

But in that case, what motives encourage my consumer to buy online instead of going to the store? The results speak for themselves. The main factors that induce online purchases are cheaper prices and good promotion, followed by the option of having the goods home-delivered. Third, while most adults assert that online shopping helps them before buying, it is observed that the youngest consumers investigate the opinions of others who have already enjoyed the experience to ensure that the product they are buying is the most suitable. It is therefore important to pay attention to online media, because, just as it can promote the product or service, it can also “tarnish the brand”.

¿Quién participa en el mercado?
¿Qué productos se compran y por qué?
¿Cómo se compran?
¿Donde se compran?
¿Cuándo se compran?
¿Por qué se compra?
So, what aspects are appreciated by those who continue to flock to the physical store? The ability to see, touch and try out the product appears to be the most important for the majority (88%), followed closely by the ability to receive the product immediately without shipping costs.

Within this digital framework, a second variable arises: the mobile device. Is it necessary to have a website adapted for mobiles? Or even an additional app? On the other hand, is it enough to have just a standard website? In short, what do consumers use their mobiles for while they shop and what do they think they will use them for in the future?

The graph shows that currently they search for information (22%), offers and promotions (20%), and even use mobiles for other purposes unrelated to the purchase (19%). These are the main reasons for having their mobile with them while shopping. However, the main response from all respondents is that today you do not use your mobile device while you shop, although this was only true for 40% of younger consumers compared with 70% of older ones.
Nevertheless, in the future it seems that consumers will change their ideas on this. The main use of the mobile device will be to find information about the product (39%), followed by the search for promotions (38%). It is notable that younger consumers especially expect to have an app to help them throughout the purchase process, and that digital natives will use their mobiles for almost any reason.

Probably the next question that arises is: how often, then, do they use other channels? And in the next 20 years, what will they use? For my particular sector, what do they demand most?

Currently the most widely used purchasing method is through the physical store, where most of the surveyed sample goes every day or at least once a week. The second place is held by the computer, which consumers use to buy something almost once a month. Other digital devices lag behind by a wide difference.
However, consumers are confident that in the future they will make more use of the computer and mobile, both via apps or website, and tend to buy less at the store and by phone. Still, those who enjoy physically going to the shop maintain that they will keep going despite having other options available. In general, there is a tendency to buy much more through digital devices.

As in the questions on purchasing, we asked consumers what their preferred channel was for the purchase of products or services. The store is the favourite channel in sectors such as food, household goods and even textiles. Consumers still value the ability to try out, touch and see a product before they take it home.
The challenge of the consumer

But as with searches, there are certain sectors where online purchase is almost obligatory because of the ease and speed with which these products are purchased on the internet.
Within online shopping, what is the most used device? As shown in the graph, the preferred method is the standard website for computer (80%), which is ranked much more highly than the next favourite methods, the websites for tablets and mobiles.

4.2.3 Receiving goods

With the pace, the hurry and the stress of modern life, receiving the product at home or at work has become increasingly common. The home delivery option competes with the shop itself in sectors such as food, jewellery, clothing and footwear, cars and even restaurants. However, among the youngest age segment there is an increasing expectation to have the option to receive the product at home. The mentality of “I’ll only buy it if I’m going to use it” is changing to “I’ll buy it, I’ll try it, and if I’m not satisfied I’ll take it back”.

In addition, the option for home delivery of the product or service is even more important when any of the following reasons apply:
- The product is bulky or heavy and needs to be transported: home and furniture, electrical appliances, electronics…
- The delivery is available immediately: movies, music…
4.2.4 Payment systems

These days, the mobile no longer has the sole function of making telephone calls; rather it has become indispensable in people’s daily lives, and the ability to make payments through this device has become the focus of many companies, who are facing a slow but constant battle to become the leaders in creating and providing their customers with increasingly sophisticated payment systems.

At present, 93% of consumers pay either by cash or credit card, followed by PayPal, mainly used by younger segments.

But today’s customer demands more and more convenience and speed when shopping. Therefore in the future, the ratios will be altered by other means of payment. Cash and credit card remain the essential means of payment but their use will fall to only a core 75% of users. PayPal follows them on the list with almost 50% of consumers, up 7% from today’s figure. The big difference comes with NFC cards and the mobile phone, which show an increase of 30% compared to current levels, gaining popularity especially among younger consumers.

Means of payment used currently

Means of payment used in the future

- Cash and credit card with chip or magnetic strip
- PayPal
- Card with NFC
- Mobile phone
- Bitcoins
4.2.5 Communication & customer service

By what means does the customer expect to receive information on the product or service? For items that appeal to you, do you prefer a classic television or radio advertising message or do you prefer to find the research information you need on the internet?

Regardless of age, it seems that the website is the channel that most people choose for getting information. With respect to other channels, there is a great difference if an age group analysis is made.

The youngest consumers choose social media. The fact that they use these networks almost daily fosters the discovery of new brands or the following of already-favourite ones. Online videos and even companies’ own applications are also well rated. If segments of the adult population are analyzed, the classical channels that we are used to such as television or radio are still the most demanded, followed by email.

And once the product has been received and used, how can I give the best after sales service to my customer? It seems that once again consumers demand access by internet, both through the product website and by email. Phone is in third place among preferred after-sales service channels. In last place are SMS and emails through the mailbox. They turn out to be a very slow way to respond to the customer’s problem.
4.2.6
Social Media/engagement

Twitter, Skype, YouTube, Google, and Facebook are some of the best known social media that have exploded into the lives of millions of people regardless of age, sex, social status, religion or political preference. In just nine years, with more than 1,230 million users, this new platform has transformed itself, offering companies a space to promote themselves and to generate interest among consumers. The obsession with innovation and maintaining high awareness is driving companies to jump on the social media bandwagon and in that way obtain a presence. But to what extent do consumers demand that this platform should go beyond the purely social?

As shown in the graph, 66% of those surveyed said that they used social networks daily, followed by 19% who accessed them at least once a week. It makes sense to analyse the great difference between age segments: The most addicted are the young, up to age 34, of which 85% connect daily, compared with only 46% of those over 55. We face a reality in that only 24% of those over 55 do not use social networks, which clearly shows the importance of this relatively new medium.

However, as well as using social media for their original purpose, users increasingly see them as one more information medium allowing them to keep up with their favourite brands and distributors. In this interaction, 57% of young people aged between 18 and 34 recognize that they follow their favourite brands and actively participate in attractive promotions. As well, thanks to the social media, new unknown brands have been discovered.

In the 35 to 54 year age group, there is a change in preferences for use of social media. This segment is disinterested in following brands, but participates in promotions if they are seduced by them. Above 55 years of age, consumers only follow brands if they want to research product information.
4.3
Trends

Finally, we asked all those surveyed about the factors they believe will be most influential on moments of consumption in the future. To do this, we selected several of the trends identified in the report and asked questions about them. According to those surveyed, the five main trends which are going to affect their consumption patterns in the coming years are as follows:

1. Economic evolution of the country
2. Increase in data security in the internet
3. Greater access to technology
4. Online shopping
5. Availability of private labels

In the graph, we can see how much effect these trends have today compared to the forecast for the future. Some obvious differences should be mentioned: despite the great importance of private brands today, in the future their importance will diminish, already pointed out at the beginning of this report, quite the opposite of what is expected in the case of green products and technology in general, which will gain in importance.
After understanding the trends and validating them with consumers, there is the need to examine whether they are aligned with the current reality of companies and how companies can adapt more effectively to the future.

Since the birth of mass consumption, the strategy to reach consumers has been constantly changing, adapting to consumer needs and the increasingly-tight supply-demand equation of the market. Before the outbreak of the economic crisis, producers presented their supply and consumers responded to the limited variety available. The reality that we face in our time requires both producers and distributors to change their strategy from the beginning of the value chain right through to the final customer.

### Years 80 - 2000

**Context and trends**
- Lack of awareness of consumer preferences
- Companies centred on encouraging demand by increasing the supply
- More industrial scope oriented to production
- Mass production and saturation of offer
- Production moved offshore
- Consumption cycle tied to production cycles
- Reduced accessibility to sales channels
- R&D centred on increasing efficiency in production

**Value chain**
- Traditional value chain, from the manufacturer to the consumer.

- Push Model (one-way)

### Years 2000 - 2014

**Context and trends**
- Appearance of new channels: e-commerce
- Production begins to become localised
- Increases attention to the quality
- Design and production carried out following guidelines based on the consumer and the purchasing experience
- R&D centred on increasing quality and innovation in production
- Increases environmental awareness: “eco” companies appear

**Value chain**
- The value chain loses its structure through the appearance of a new channel that will enable communication and direct transactions with each player in the chain.

- Push - Pull Model (bidirectional)
From 2014 on

Context and trends

The Communications Era: Big Data applications

Feedback is obtained in real time. Companies will be constantly adapting to consumer preferences.

The consumer as the centre of business management

R&D centred in designing new products to meet the changing needs of the consumer.

“Human” companies appear: “honest about their failings”

Value chain

Total loss of structure of the value chain, collapse of the division between manufacturer, distributor and consumer.

Collaborative Model

An analysis of business maturity aims to understand the current situation of companies in different areas such as innovation, business strategy, knowledge of consumers and the development of products and services, all analysed from the perspective of consumer trends and the new consumer. Scores from 1 (immature) to 4 (highly evolved) have been awarded based on the level of development in every aspect analysed and this has been completed with a summary graphic showing the differences in each of the areas analysed.

Business maturity

In the study we have conducted, both national and international companies have rated this factor as decisive in maintaining their competitive advantage and a critical element of business management.

However, the large companies seem to have advanced further in creating a corporate culture among their employees.

Knowledge of the consumer

What information is available about our consumers? Are the data collection tools we have sufficiently accurate? Is this information used well?

In this area, companies with greater resources are continually taking initiatives related to improving consumer knowledge, since they believe that this knowledge is key if they are to continue developing and selling their products and/or services. The initiatives that are being developed today are related to big data, Smart Analytics, reaching the consumer directly through direct sales platforms, etc.
Small businesses recognise that they do not have as many resources to get close to the consumer and offer them such personalized products and services. As many companies commented during the interviews, "there should be a regulatory change to help the SMEs to open a significant space of their own among the corporate giants."

**Supply**

Are there still opportunities for profitable growth in my business? Where do the priorities lie? Is my price positioning ideal to maximize the profitability of my business? Is the promotional policy efficient and effective?

It is surprising to find that the domestic companies of larger scale are those which recognise they are farthest away from an appropriate revenue management strategy. In this regard they believe that proper revenue management (price, promotion, business conditions, portfolio and channel) could make a substantial improvement in revenue and profitability. They currently identify this area as a major area for improvement which has not been given much attention in the past.

The small firms, also having smaller markets, and narrower customer portfolios admit that they have more control over everything related to the supply and in this point they do not feel they have much scope.

**Relational model**

What is the model of interaction with the consumer? Does the business manage its channels using segmentation and differentiation?

In general all the companies analysed claim that defining a good relational model is a key element of competitive differentiation because they believe that excellence in this point has a direct impact on sales and profits.

Specifically, the largest domestic companies stand out due to their good practices in this area. They know that the relational model with the consumer is key to maintaining loyalty and achieving a greater degree of linkage with these. On the other hand, multinational companies or small businesses recognize that they have difficulty responding to all clients, whether due to the variety or volume of their consumers in the first case, or the lack of resources in the latter case.

They also highlight the increasing difficulty of managing social networks. Most companies interviewed state that they know they have to be present and proactive in their management, but claim that no one has yet managed to handle this channel efficiently and with tangible and measurable results.

On this point they not only claim that Social CRM should be so too, yet they are still waiting for the latter to evolve in such a way that it allows a gain in efficiency and results.

**Commercial model**

What is the sale channels management model like? How is it organised? Does it take the social networks into account?

This is the aspect that presents the best improvement opportunity since, basically, all the companies analysed identify areas where they believe that their commercial model can be improved.

The main improvement areas identified are related to management and professionalisation of the sales force, the improved segmentation of customers and channels oriented to their profitability and potential, the efficient management and planning of visits, the establishment of quantitative and qualitative objectives enabling the orientation of the sales force towards the defined model, etc.

**Innovation**

Is there any formal procedure oriented towards transversal innovation and not only the product? What is the situation of innovation in the company? Is there a transversal innovation culture? Or is it focused on the product? Which mechanisms are used to foster innovation?

As in the commercial model, this area shows great opportunities for improvement. Most companies have been focused so far on cost optimisation and margin defence through efficiency. But now is the time to reorient the care centre towards innovation. And this does not only include product innovation but also processes, customer experience or labour culture, among others. Innovation should be able to create a competitive advantage enabling the generation of new revenues or broaden margins on current revenues. In stagnated markets with low growth, transversal innovation is presented as the main growth and share defence tool.
According to the survey, small companies have fewer opportunities for innovation compared to the multinational companies, who have begun to see this as a challenge they can adopt to differentiate themselves. The largest national companies are at an intermediate point. Due to the major crisis at domestic level, support for innovation has decreased in order to maintain margin. In spite of this, it is necessary for Spanish companies to go further in this direction, especially considering that one of the greatest challenges is their internationalisation.

**Technological innovation**

Does the company use its current IT systems efficiently? Is technological investment in any specific area being considered?

It seems that technology is not a key point of investment for companies at present. “Survival” in an environment where a major recession has taken place, means investing in those aspects that ensure sustainable level of return. However, as we reported in the first part of the report, the status quo is changing, and it is necessary to take into account that technology is going to play a key role in business development. Thus, attention should be given to this subject.
In the last part of the report, we are going to analyse the companies strategies in the fields of corporate strategy and growth, commercial and marketing strategy, human resources, innovation, technology and organisation. Despite the fact that there are common strategies for each type of company, it is necessary to analyse the market strength and the particular situation of each company.

5.2 Business strategies

5.2.1 Corporate strategy
Where is the market heading? Are the companies of my sector planning alliances, or on the other hand, are they focusing on organic growth? Is it the time for internationalisation or to grow within Spain?

During the crisis, the dominant strategy of companies was to reduce costs in order to survive in an environment of significant revenue falls. At present, with the opportunities for cost optimisation policies almost exhausted, and with moderate growth prospects for the coming years, companies are reviewing their current businesses and analysing new growth opportunities.

Most companies are focusing on sustainable growth, which can be produced by four types of strategies:
The right selection of a successful growth strategy must be based on an in-depth analysis of the possible alternatives and, above all, the maturity of the company itself:

- Understand the market and its possible opportunities
- Internal analysis of the company, identifying the main strengths and weaknesses
- Identification and assessment of the main growth initiatives
- Develop the growth plan and allocate responsibilities among the organisation’s own team
- Establish monitoring model and a contingency plan
5.2.2 Commercial strategy

In an environment in which companies have to sell more and better than the competition in order to grow, the importance of relying on a strong commercial strategy has regained the relevance it had before the crisis. Having reached this point, many of the companies that took part in the interviews are beginning to question the way they manage distribution channels: Do I have the portfolio the channel needs? How can I manage pricing in order to improve profitability?

The responses to this kind of question tend to have complex answers because there is no universal solution. What works for one producer may not necessarily work for the rest. The category, channels and the type of customer are highly relevant for obtaining the right responses.

Customer Management

A common mistake companies make is not developing customer plans based on advanced segmentation. The customer plans should rest on four major strategies upon which the implementation plans and the monitoring and control mechanisms can be based:

- Increase / Develop: “Maximise share in customers with the optimal product range”
- Retain: “Maintain rate of sales with minimum commercial effort”
- Reduce: “Exit plan for non-profitable customers”
- Capture: “Attract the most suitable customers”

Channels in the food and beverages sector

The great variety of channels through which the consumer can access a product forces companies to be present in all of them in order not to lose potential customers. The strategy to be followed and the inherent complexity caused by the simultaneous management of channels is one of the major concerns of companies. Correct management of channels can avoid effects such as the cannibalisation of products between different channels due to mismanagement of the pricing and portfolio of the channels.

On Premises Channel

It seems there is a common opinion regarding the Horeca channel: the future belongs to organised F&B and restaurant professionalisation. The professionalisation of the point of sale, mainly in less sophisticated bars and cafes, is seen as clear opportunity for manufacturers since it increases the ease of the channel management and leads to new opportunities. An efficient management of the Horeca channel must be based on:

1. Understanding of the proper distribution model based on the product category and the category importance
2. Design of a portfolio strategy that does not cannibalise other channels’ sales
3. Control over discount policy and commercial conditions
4. Proactive management of distributors and development of partnership strategies focused on the exchange of routes

Retail

The retail channel has traditionally been the main sale channel for manufacturers; however, this channel is undergoing a metamorphosis thanks to the reduction in consumption, the growth of discount formats and the Mercadona phenomenon.

The companies that have traditionally been most focused on the Horeca channel are now focusing on the development of their strategy in the retail channel due to the fall in out-of-home consumption that is affecting the Horeca channel. This has caused these companies to implement organisational changes in commercial systems and Indra Business Consulting | Strategic challenges 45 marketing strategy, refocusing them towards their own channel management needs. On the other hand, manufacturers observe a reduction in the value of products sold which is linked to the price war underway in the channel and the lack of sufficient speed in the introduction of innovations into the channel.

Distributors consider the growth in this channel will be low in the coming years and initiatives based on space optimisation, operational efficiency, development of categories and loyalty building are being developed in order to maintain margins and fight against other formats.

E-commerce

E-commerce is revolutionising trade but, how deep is its impact on the food production and distribution market? The success of initiatives carried out by producers has so far been very discrete. This fact, together with the deep rooted mentality of the traditional Spanish consumer has seriously hindered the development of the online channel of many food production and distribution companies.
The Spanish consumer still prefers to go to the supermarket and purchase in person, but if we compare this situation with other similar countries, it is logical to expect that this channel will gain momentum.

**Pricing**

“The trend towards low prices has come to stay.” This statement provides an introduction to the reality that the crisis has brought us to. In this environment, what is the most optimal pricing strategy for my business model? How can I get maximum profitability without losing customers?

The main challenge at this point is the right implementation of Revenue Growth Management, which consists of much more than just the analysis of volume sensitivity to price. The concept includes a very wide approach: the identification of “purchase modes”, the establishment of the best access route to the different purchase modes, the price definition for each access route, the trade terms to achieve the prices desired.

With regard to this point, the main initiatives being developed are related to:

- **Consumer price and commercial policy**
- **Portfolio strategy (brand packaging)**
- **Channel prices**
- **Activation and visibility**
- **Investment by channel and PoS**

The target of these initiatives is to understand the purchase and consumption preferences in order to adapt the offering and capture the highest value in the market.

### 5.2.3 Marketing strategy

The area of marketing must be treated in different ways for manufacturers and distributors. In the case of the former, a good marketing strategy can lead a brand to success or failure. However, the reasons that lead consumers to purchase from a given distributor don’t normally depend so much on marketing as on other factors such as proximity, convenience or the range of products offered.

We are told that, “in contrast with other countries such as France or the UK, Spain doesn’t fully exploit its marketing strategy. There is a need to rethink the marketing mix”.

**Customer understanding and loyalty building**

“Marketing has distanced itself from the consumer and must evolve radically”. With this message, companies assert the need to rethink the current marketing rationale. We seem to have realised that the efficient management and segmentation of our customers, together with an understanding of their needs, can also translate into profitability.

Customer segmentation is a key factor, but there are many companies that still use basic variables (age, sex, social status), which are unable to accurately reflect the behaviour of customers/consumers at the time of purchase. There is a need to use a more advanced and dynamic segmentation capable of reflecting the actual value of the client at all times, regardless if the same consumer belongs to different segments.

Some of the axes of this segmentation are:

- Socio demographic variables: Age, gender, family structure, income, etc.
- Current Value/ potential value/ route: Very high, High, Medium, Low
- Consumer status: New, active, loyal, lost
- Behavioural: Frequency, purchase mix, moment of consumption, etc.
- Moment of consumption: Leisure, weekly shopping, impulse, etc.

Focusing on loyalty is seen as a challenge, given that consumers have more access to information and can easily become disloyal. The development of a loyalty strategy brings a series of benefits for the company: increased sales by increasing the frequency and the average spend, improving the purchase mix and extending the average lifetime span of the customer. Loyalty provides additional value to a brand, it also increases competitiveness through differentiation and helps during the negotiation with suppliers.

At the time of constructing a loyalty programme, companies should have a clear strategy:

- Recognition: Offer more of the products or services of the company
- Rewards that are not related to company products or services
- Partnership: Permit customers to choose the reward from the main loyalty programme or from that of related companies
- Discounts: Categorise customers based on their procurement
- Similarity: Create a long-term relationship based on a common-shared interest and not on rewards
- Association: Undertake joint actions with other companies aimed at obtaining more information about the customer
**Digital Marketing**

Is social media more than just a tool for “connecting people”? Even if 45% of companies have not yet defined a digital marketing strategy, the response is affirmative in all cases. Although most companies confess they do not control this channel, they are aware that it is **necessary to be present if they do not wish to be forgotten**. It should be taken into account that social networks are presented as a double-edged sword. As reported, “bad news travel faster than good”.

A good bilateral relationship, giving responses to customers to make them feel heard and providing good information at the right moment can make consumers feel closer to the brand. This can also happen in developing mobile applications for customers, a very common fashion among companies. Many of these projects are led by the Technological department and lack a clear business strategy.

For Digital Marketing to be successful, it should be treated like any other Marketing investment, clearly defining the relationship with sales, targets and KPIs such as:
- Attracts customers to points of sale, or alternatively it represents a new sale channel
- Builds customer loyalty
- Offers an experience that enriches the consumer
- Complements current marketing campaigns
- Appeals to target consumers
- Ensures learning and development of digital intelligence on customer relations
- Positions the company as a reference in technological innovation
- Enables the measuring of tangible results: Incremental sales, promotional efficiency, number of downloads, number of users, etc.

**Customer experience**

Emotions are becoming increasingly important in consumer decision-making when purchasing. The social responsibility image of the company engaged with the environment, the equality of conditions, health, etc. seems to be the new strategy to capture and retain customers.

“The investment in the company advertising is increasing with respect to the investment in the brand advertising”. Consumers have a mistrust of brands due to the appearance of the Internet -where they can find all sorts of information about the product they consume has caused a series of marketing fashions. For example, “Premium” brands offer exclusivity or are aimed at an specific consumer, appearing as a good opportunity for many retailers to be differentiated. “If you offer consumers something they won’t find at any other place, you will successfully get them to come back to your store”.

To assess the consumer experience, the company should understand the customer journey of its customer, in order to align the external perception with the internal vision of the value proposition. The following steps are useful in this:
- Identification of the customer
- Understanding of the stages of the relationship
- Identification of the motivations and needs
- Mapping of the points of contact
- Assessment of the key moments and its metrics
- Understanding the reasons for customer dissatisfaction and detection of opportunities

**5.2.4 Organisational strategy**

Restructuring the organisation to achieve better efficiency seems to be a point worthy of consideration by all companies, particularly, at a time when the general trend is towards growth.

**Approach**

The obsession for resource optimisation during the years of decline caused entrepreneurs with strong financial skills to be situated at high levels, people able to manage a P&L and guide the company to maximum profit with minimum cost. In this situation, many companies think that the core objective - selling - has been forgotten. Now, the trend is not to go back to purely commercial profiles but rather to find the balance between both.

“It is a mistake to make radical changes in a crisis time. The company portfolio provides solutions for both hard times and good times”.

**Work teams**

To achieve sales, it is particularly important that the central axis of business development is the customer. In many companies, there is a certain level of rivalry between departments and they are only focused on achieving the goals of their department without taking into account an overall vision of the customer. One of the ways to solve this issue is to form work teams with employees from different department who jointly provide service to a customer group / segment.

**Centralisation-MNCs**

The consequence of this detailed optimisation has generated a trend towards centralisation. What began as “Iberia”, through the unification of Spanish and
Portuguese management, will it seems continue to become, in many cases, “Southern Europe” or simple “Europe”. Many interviewees are aware of this trend: “It must be borne in mind that the knowledge of one’s own culture is a value that cannot be lost, particularly in the marketing and sales areas”.

**Culture**

As has been commented, “A cultural change in the entrepreneurial class is essential”. New digital consumers are advancing at top speed, forcing top managers to train in the digital sector and in the new consumer demand and needs.

This cultural change will impact not only on profiles and their education, but also in the creation of new positions and responsibilities in the organisation. The figures of Customer Manager or Digital Experience Manager are starting to become common in many entities’ organisational charts.

### 5.2.5 Human resources strategy

There is a notably solid collective response to the question: Do you think that your organisational resources are a key element in your company success? Answers such as “the great differentiator between companies is talent and the way it is exploited” or “It is not about making a change but being in permanent evolution” show a common willingness to make the most of a generation that is eager to learn and grow with the company.

**Multidisciplinarity**

“We need more multidisciplinary people, with an overall vision of the company and not just focused on their department”. There exists a trend to generating new transversal categories able to provide knowledge to all the departments. The creation of shared targets fosters team work and the involvement of employees in their tasks.

Training people with a wider perspective generates a leadership environment and active participation, makes hierarchies more flexible and ensures the proper monitoring of projects.

**Retention of talent**

“It is, at the very least, noble to put the new generation to work and train it, given the high level of national talent that exists”. The development of resources, from the factory worker to the sales agent, requires training adapted to the work position. This investment—which has been regarded as optional so far due to the need to optimise every euro of spending - is now a mandatory subject for all companies, since in this training they see their future success in sales.

Motivated staff members, with a sense of being part of the firm, deliver high performance levels and make greater efforts than those without incentive.

On this point, there is a difference between large and small companies. While the general trend in large companies is to introduce people into the firm with “critical mass” levels so that training is common and shared, small companies do not have that ability and opt for cross training, providing employees with more responsibilities.

**Change of values**

Even so, it seems that it is not sufficient just to train employees and provide them with an overall vision. In an environment where stress and the lack of time have become part of our everyday lives, employees appreciate being able to work with time flexibility. The increase of women present in the labour market is leading to an unavoidable drop in the number of births, and impact of this on the country’s economy and on consumer goods companies is to be avoided.

**Employee Segmentation**

The key to achieving dedication from employees is to consider them as being as important as customers. This involves a deep understanding of their ambitions, needs and skills and an employee segmentation to identify their personality / behaviour at work, by using the following dimensions:

- The way changes influence employees’ behaviour
- The way risk is perceived depending on employees’ temperament
- The level of interaction / social recognition that employees need

### 5.2.6 Innovation

How innovative are Spanish companies? In Spain, there is a great cultural fear of failure and this places the country among those that are least innovative, offering a lower chance of success. Innovation involves change and change increased costs, greater uncertainty and lower guaranteed return. There is the belief that things can change if you carrying on doing the same thing and many companies are starting to realise that this belief is erroneous.

And after this question, another one inevitably arises: What do we mean by innovation?. There are people who claim that “there is no true innovation”, but just
“good adaptation to one’s environment and demand”. Nevertheless, everybody agrees that not only does product innovation exists, but so does the possibility of innovating throughout the entire value chain. Many companies already include this as an additional ratio among their targets. Some people talk about process re-engineering, optimising times and tasks; other people speak about developing a different business model or even launching in new geographies. Innovation is also an issue related to the organisation, its human resources and the management of these. The levers for this change are analysed throughout the document.

When speaking about product innovation, some manufacturers say they find they face difficulties when they try to include new products in distributors’ assortments. The great increase of low-cost products within the Consumer Goods industry makes the entry of other more expensive products difficult, restraining companies from investing in the development of new products. From the distributor’s point of view, it is considered that manufacturers should help them to differentiate themselves, adapting and understanding the particular strategy of each of them so that, they can find an ideal formula that benefits both parties.

5.2.7 Technology
How do companies use technology? All of them believe that technology can play a crucial role to achieve differentiation; however, the key questions are where and how to use it? There are three areas where technology plays a role of vital importance:
- Internal efficiency processes
- Data organisation
- External data analysis

La tecnología puede ayudar a conseguir inmediatez, reducir la necesidad de recursos gracias a la automatización de procesos y favorecer la comodidad y la satisfacción del consumidor.

In recent times, the expression Big Data has become very familiar, but do companies believe this is a short term solution? Or, on the other hand, do they think that due to current technological advances, it does not have to be implemented? Reality demonstrates that the ease with which technology now can be copied holds companies back from investing in it. If this is added to the uncertainty regarding the real effectiveness of this system, the consequence is that no technological advance able to provide consumers with a more personalised treatment is expected in the short term. Many believe that Big Data does not currently seem sufficiently efficient to generate revenues.

And what about payment systems? As mentioned in previous sections, consumers are increasingly using mobile phones in this area for different reasons. Distributors know they will have to adapt to this new payment system. In fact, they assure that this is the reason that restrains many from investing in other technological areas. They are aware that, given the rapid evolution of technology, it could be obsolete very soon and therefore would not achieve sufficient profitability.

Based on all the factors described above, the majority of companies realise that technology is currently an enabler but not an end in itself.
Conclusions

The growth strategy in new businesses must be developed according to a series of steps:
- **Prior analysis**: Analysis of target geographies, channels and/or categories, complementing existing knowledge with external data acquisition
- **“Real” understanding**: Gathering of onsite information with the aim of comparing the analyses conducted and obtaining relevant information. Visits to points of sale, interviews with consumers, with people in different geographies...
- **Analysis and decision-making**: Feasibility study of sale prices, logistics, costs, people, distribution model, commercial conditions, etc.
- **Reflection of the business model**: Reconsideration of the business model according to the alternative suggested (channels, categories and geographies)

Main identified levers for growth in the current business:
- **Clients**: Development of current customers, improvement in the product mix, search for new customers
- **Commercial area**: Adaptation of the relational model to customers’ needs, improvement of the commercial strategy implementation (commercial efficiency), revenue growth management initiatives, streamlining of the commercial processes
- **Marketing**: Increasing the brand value, innovation in product / format / category, increase in Trade Marketing efficiency
- **Organisation**: Innovation in the organisation, improvement in the information flow (communication), establishment of working groups focused on the customer, talent management
The 10 grand challenges of the sector

In summary, after the analysis conducted, we are able to conclude that there are 10 great strategic challenges for the Consumer Goods industry:

1. Understand consumer changes and the way my company adapts to these changes

2. Develop new ways of marketing, in particular, in all aspects related to:
   a. Creating engagement with brands.
   b. Understanding the Customer Journey of consumers and helping to differentiate it at every step.
   c. Developing a collaboration model that makes it possible to listen to consumers bilaterally and constantly.

3. Leverage opportunities that exist in other channels such as the hospitality industry.

4. Generation of an organisational model based on four main axes:
   a. Shared targets.
   b. Centralised functions.
   c. Search for motivation through values.
   d. Understanding the reality of each market and organising resources by adapting to needs.

5. Develop the necessary capabilities for international growth, understanding that this does not necessarily mean exporting.

6. Tackle commercial management from the following areas:
   a. Set up a commercial policy that shows a fairness across the different channels.
   b. Boost commercial alliances or collaborative formulas that enable margin to increase, brand equity to be raised or be a partner for the client.

7. True innovation, understanding this as innovation throughout the entire value chain and not only focused on the product.

8. Take advantage of function clustering by multinational companies to fill the gap with local knowledge.

9. Develop the skills needed for proper price management and promotions (Revenue Growth Management).

10. Create value in the categories to prevent converting the product into a commodity.

To fulfil any of these challenges it is important to really understand who the competitors are. Competitors are not only in the adjacent categories within the food industry, but in all categories where my company has a share of wallet.
The elaboration of this report would not have been possible without the collaboration of some of the most representative ambassadors of the industry.
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