

## REPORT

—Spain



## Priced out of the market?

MADRID—Faced with a serious challenge from discount-focused competitors, Spanish retailer El Corte Inglés is fighting back with price cuts, although doubts remain over whether its strategic shift will translate into a sales revival.

by Steven Maxwell



**W**hen it comes to the state of the Spanish economy, newspaper headlines over recent months have been consistently gloomy, reflecting public concern over soaring unemployment and a slump in consumer spending, which have helped plunge Spain further down into a perilous economic spiral. The country's grocery retailers have, to a great extent, also been negatively affected by the economic circumstances, with discounters seemingly the only winners as Spanish shoppers look to save their euro cents and are said to be avoiding stores perceived as being expensive.

Into this latter category falls El Corte Inglés, Spain's largest department store retailer, which also operates a string of grocery outlets under the Supercor, Hipercor and Opencor banners. Although its 2011 results have yet to be announced, the retailer was reported to have secured a €3.6bn refinancing of its debt in June, which will be partly used to fund a massive overhaul of its pricing structure that intro-

duces a focus on discounts. According to the company, the list prices of between 4,500 and 5,000 lines are to be reduced by 20 per cent, with weekly reviews of fresh produce pricing, as well as fortnightly reviews for other items.

The policy will be implemented across El Corte Inglés' retail banners, including department-store food halls, Hipercor hypermarkets, Supercor supermarkets

and convenience stores. Speaking to EUROFRUIT, a spokesperson for El Corte Inglés says the company has responded to the economic situation in Spain with a “change of strategy” that consists of a new pricing policy for food – both for fresh products and imported brands.

“During a difficult time, such as the one we are currently living through, we wanted to make a gesture towards family budgets by reducing our supermarket prices.” The strategy will be “stable in form and permanent in outlook,” she says.

“The most important thing is that, although we have lowered our prices, we are maintaining the same quality and service as always,” the spokesperson continues. “El Corte Inglés has always been recognised as a flexible company, able to adapt to consumer needs, and for this reason we have put in place this initiative.” The retailer, which is understood to have received support from its suppliers for the change in strategy, also claims there was an understanding among such companies that lowering prices would increase sales, a move it sees as “beneficial for everyone”.

### INCREASED COMPETITION

For Carlos Hernández, Spain specialist at market analyst Planet Retail, the move has been prompted by the threat of greater competition from rival retailers, as well as the widespread perception among Spanish consumers that El Corte Inglés is at the expensive end of the scale. However, he remains doubtful as to whether the decision will deliver long-term benefits for the retailer. “El Corte Inglés announced sales increases just a few days after introducing the measure, but will these sales increases make up for the reduction in margins? Unlikely – in any case, prices will still be higher than Mercadona and most other chains, so it will not pose direct competition or trigger any price war.”



It also remains to be seen whether El Corte Inglés is able to stage a fight-back against the dynamic growth of discounters in Spain, in particular that of market leader and ‘soft discounter’ Mercadona, and to a lesser extent its more convenience-focused rival Día. Mercadona recorded a sales increase of 8.2 per cent in 2011 compared with the previous year, which Hernández calls a “remarkable performance, considering the state of the Spanish economy”.

Día, which separated from parent company Carrefour last year, also posted a more modest sales growth of 1.7 per cent for 2011. “Mercadona and Día both rely on large private-label offerings and are regarded as providing very good value for money by consumers,” says Hernández. “At the start of the crisis, they reacted by lowering prices and making savings through changing packaging and delisting poor-selling products.”

However, from a suppliers’ perspective, Maria José Pardo Losilla, managing director of Andalusian interprofessional fresh produce association Hortyfruta, says low pricing policies are having a negative effect on already hard-pressed growers. “At

the current time, and since the beginning of the E coli crisis, the supermarkets have adopted lower pricing policies as a means of reviving consumption, which have led to growers receiving far lower prices for their products. This has taken place not just in Spain, but in all the major European markets.”

To tackle this problem, Hortyfruta is working to open a “more fluid” line of communication between its member producers and their retail clients, as a means of attaining greater collaboration and synergies in the supply chain. The need for such initiatives is clear, Pardo argues, as the current economic climate has led to stagnation in consumption levels and caused shoppers to become far more price driven. “Consumer shopping habits have changed because now they look a lot more at the price of products and when they go to the supermarket they stick to strictly what they need,” she adds. “In particular, they are buying much more own-brand goods.”

### CONVENIENT CONVERSION

El Corte Inglés has announced plans to rebrand its Opencor convenience stores in Spain’s Madrid region to its Supercor Expres fascia.

The decision was influenced by the recent liberalisation of operating hours in the region, according to Planet Retail’s Hernández, meaning Opencor was no longer able to distinguish itself through extended opening times. “Opencor stores are really pricey and not suited to the current economic environment, so in quite a few cases they will be rebranded to the more traditional Expres neighbourhood proposition, offering lower prices.” —E

### STERLING EFFORT

To fund its price cuts, El Corte Inglés is making efforts to trim its cost base. The group has introduced IBM Sterling order management software to boost service levels, reduce delivery times and gauge stock levels more accurately across its sales channels.

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 ABOVE—Price cuts on fruit and vegetables  
 OPPOSITE TOP—The sun shines on the El Corte Inglés store in central Barcelona  
 OPPOSITE BOTTOM—The retailer tells shoppers it has lowered its prices