



Spotlight on Europe

Understanding the European Consumer

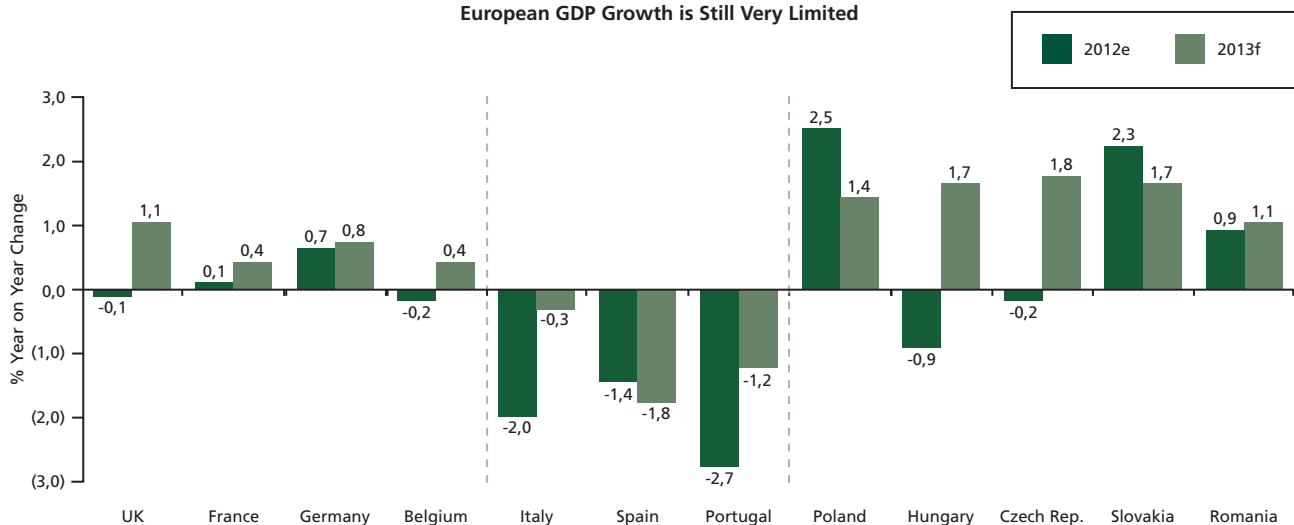
While there have been flickers of good news lately – recent upticks in French business and consumer confidence and Spanish auto sales, for instance – the countries of Europe are either still shrinking or are growing very slowly. During 2012 the economies of Western Europe (U.K., France, Belgium and Germany) grew by about a percentage point or less annually while the economies of central Europe (Poland, Hungary, the Czech Republic, Slovakia and Romania) did a bit better on a percentage-growth basis. Meanwhile, Italy, Spain and Portugal remained in recession.

Consumers, as a result, are hesitant. While there are obviously huge differences in conditions between the countries, across the continent unemployment is high and consumer confidence is low. European consumers – who collectively represent something like 75% of Eurozone GDP, according to Eurostat – have lived through the financial crisis, the euro crisis, and a series of double-dip national recessions. They've been deeply affected by tax increases, austerity and unrelenting uncertainty. Many – particularly in Spain – are still deleveraging.

After 2008, European consumers began putting off durables and other discretionary purchases and trying to save more. European consumers now meticulously compare prices and features before deciding and wait for promotions and sales. Around 80% of European consumers systematically look for the cheapest prices, according to data from L'Observatoire Cetelem recently analyzed by L.E.K..

According to a Nielsen survey of consumer confidence, in the second quarter of 2013 slightly fewer European respondents planned to spend on vacations, out-of-home entertainment, home improvement, or new technology compared to the first

Figure 1
European GDP Growth is Still Very Limited



Source: L'Observatoire Cetelem, TNS Sofres, L.E.K. analysis

quarter of the year. One third of Europeans say they planned to put their spare cash into savings, but 21% say they had no spare cash. About 50% of Europeans, Nielsen found, spent less on new clothes, cut down on out-of-home entertainment, switched to cheaper grocery brands, and tried to save on gas and electricity.

This year only 29% of Europeans say they are in a position to spend money as they wish, L.E.K.'s analysis of L'Observatoire Cetelem data found. However, 49% of Germans and 44% of Britons say they are free to spend as they like, which underscores the large differences between individual European economies. In late 2013 German consumer confidence rose to its highest level in six years, and one market research firm forecast that British Christmas spending this year will grow at its fastest pace since 2007 (the analysts cheerfully note that a British baby boom during the recession means more kids to buy toys for). Meanwhile, French consumer confidence recently climbed and jobless claims dropped for the first time in more than two years and Spanish retail sales rose slightly in September, the first year-on-year gain in more than three years. While all those gains are good news for retailers, none of them can be characterized as evidence of robust growth.

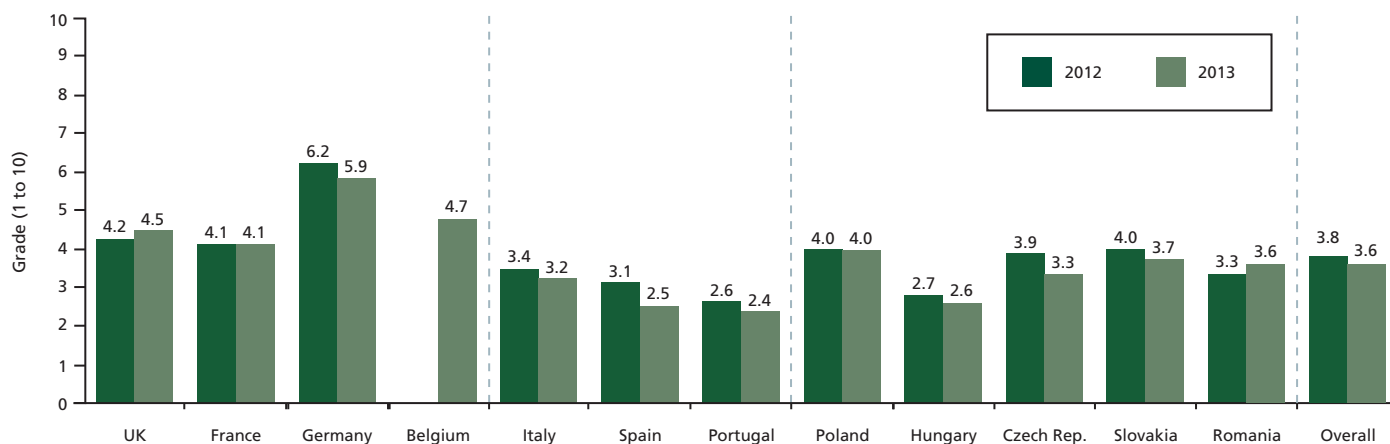
In the countries of Eastern Europe – where only about 20% of people say they are able to spend as they wish – consumption has picked up after a weak 2012, but it hasn't picked up much. In the Czech Republic, for instance, improving car and nonfood sales are expected to leave consumption nearly flat on the year, compared to a 2.7% decline in 2012. The picture is much the same in Poland, Hungary, Slovakia and Romania.

As hard times have continued, buying strategies have continued to evolve. These alternative consumption behaviors are a potential threat for existing models and an opportunity for innovators. European consumers have not just become frugal; they have changed their buying behavior in more subtle ways. Responsible consumption is gaining ground, for example: 55% of European consumers claim they intend to put more emphasis on ethical and sustainability aspects when choosing products; 52% of European consumers say they intend to avoid paying whenever possible by sharing, bartering or recycling goods. Fifty-nine percent say they already purchase second-hand goods and 68% say they intend to do so or more. Sixty percent say they are interested in supporting local, independent shops, craftspeople and open-air markets and 75% say they are interested in buying more directly from manufacturers, without going through retailers.

Figure 2

European Consumer Sentiment at an All-Time Low

How would you rank (from 1-worst to 10-best) the current general situation of your country?



Source: L'Observatoire Cetelem, TNS Sofres, L.E.K. analysis

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