How Can Spanish Companies Return to a Growth Path After COVID-19?

Following the Example of Financial Crisis Leaders

By Miguel Sánchez Arbeo, José Miguel Gómez Rivas, Ignacio Serra, and Jose Flores

WHAT WILL PUT SPANISH COMPANIES ON A PATH OUT OF THE COVID-19 RECESSION?

The question is urgent given the severity of the pandemic's impact on the Spanish economy, being the most impacted country in the Euroregion and the developed world. According to the World Economic Outlook report from the International Monetary Fund (IMF) in January 2021, Spain's 2020 GDP declined by 11.1%. For context, the global 2020 GDP declined by 3.5% according to the IMF. In other words, Spain is in a particularly deep hole and Spanish companies will deal with the financial and operational impact of this crisis for a long time to come.

With a vaccine rollout already underway in some countries, there is hope ahead. That said, the fundamental changes and structural impact of COVID-19 will be ongoing. There is no time to waste—the pursuit of a strong recovery must be a target for all companies.

Spain's Challenges: Underexposure to Growth Sectors and Great Dependency on Travel and Tourism

Globally, unlike in past recessions, some sectors have continued to grow. But Spain is less exposed to these strong growth sectors, such as biopharma, health care, and technology. The exception to the rule is the power and gas sector, which is experiencing robust growth in clean energy and renewables, delivering a 20% Total Shareholder Return (TSR) in 2020, 22 percentage points higher than its global peers.

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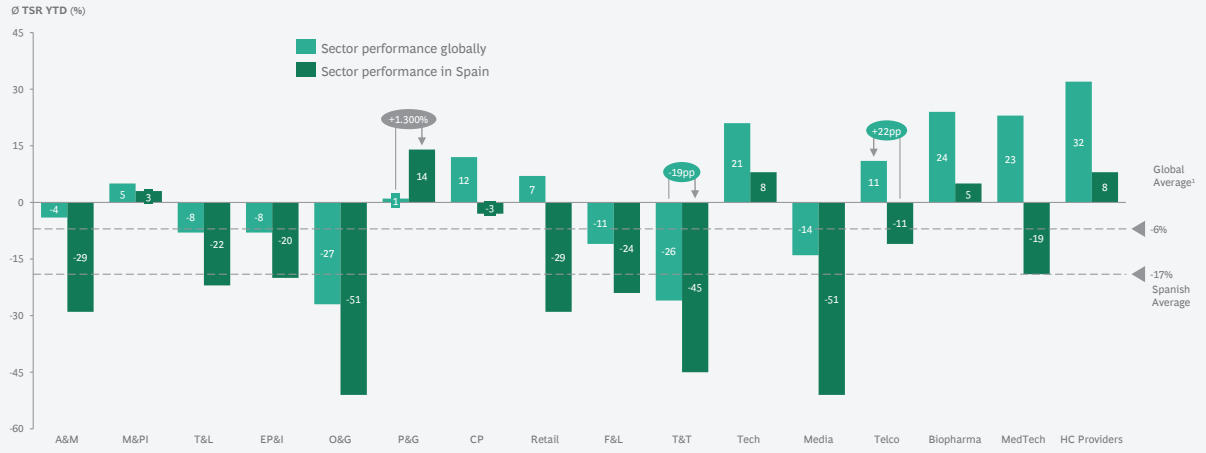
Exhibit 1 | Power & Gas Led in TSR—All Other Sectors Underperformed, with Iberia's Travel & Tourism Being the Most Damaged



1. Non-weighted average
Note: TSR YTD analysis, period: 01.01.20 to 01.01.2021; Population: 2,845 global, 85 companies from Iberia; sample excludes financial institutions. A&M= Automotive & Mobility; M&PI= Materials & Process Industries; T&L= Transportation & Logistics; EP&I= Engineered Products & Infrastructure; P&G= Power & Gas Utilities; CP= Consumer Products; F&L= Fashion & Luxury; T&T= Travel & Tourism.
Sources: S&P Capital IQ; BCG analysis.

Despite growth in the power and gas sector, weakness in underperforming sectors is too pronounced to offset selective sector gains in TSR. As mentioned, sectors such as biopharma and health care, which, along with technology, have driven global growth during the COVID-19 crisis, have fared less well in Spain. Spain's biopharma sector TSR is up by 18% compared with 17% worldwide.

However, the industry represents a much smaller percentage of the overall national GDP. Similarly, medtech has been strikingly bad—while the global TRS benchmark has risen by 11%, in Spain it has fallen by 20%, a difference of minus 33 percentage points.

On the more negative side of the ledger, Spain is heavily dependent on travel and tourism, which accounts for more than 12% of the GDP. Tourism has been devastated by COVID-19 globally, and even more so in Spain, where the infection rate was severe and the lockdown was stringent and prolonged. Over the summer, there was an increase in cases, leading to several countries reimposing restrictions on travel to Spain. As we move through the winter, these restrictions are returning, delivering another blow to the recovery. As a result, the Spanish travel and tourism sector delivered a negative 29% TSR in 2020. Other sectors reliant on mass gatherings or high physical interaction, such as sports and entertainment, are also facing prolonged and severe headwinds. Once again, all eyes are on summer 2021 but the uncertainty still remains high. What we can be sure about is that demand will be far away from pre-crisis levels, with likely higher operational cost to meet health and safety standards as companies learn to operate under the new normal.

The fact that some sectors are growing—both in Spain and globally—is a contrast to the 2008–2009 financial crisis, when no sector showed TSR growth during its first six months. This helps confirm that some existing trends—such

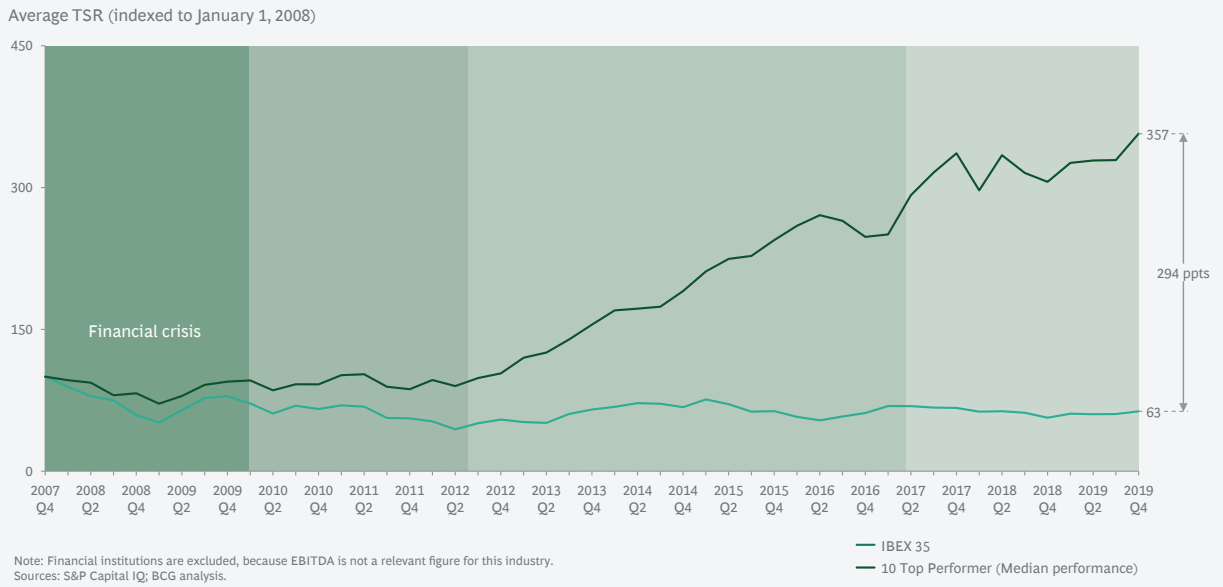
as increased digitization, e-commerce growth, and consumer focus on health and wellness—were accelerated by the COVID-19 crisis. These trends are likely to support growth during the crisis and may play an outsized role in the recovery.

Those Who Seize the Opportunities and Transform, Thrive

Given all the negatives in Spain's performance and the long-lasting impact on Spanish companies, is there a reason for hope? Indeed, there is. In every crisis, there are companies and industries that pull away from the pack. And there are lessons to be drawn from them—lessons that Spanish business leaders can immediately apply to navigate the COVID-19 crisis and realign, transform, and emerge stronger.

To determine best practices for transformation and recovery, BCG set out to identify the ten Spanish companies that succeeded in overcoming the previous recession, the financial crisis of 2008–2009. These ten companies emerged nearly three times stronger than their peers. The project was part of our global effort to discover why these companies succeeded and whether there were lessons that companies could apply in the next crisis.

Exhibit 2 | Spanish Top Performers Have Outperformed the Major IBEX 35 Index Since 2008 by More Than 294 Percentage Points



Note: Financial institutions are excluded, because EBITDA is not a relevant figure for this industry.
Sources: S&P Capital IQ; BCG analysis.

We evaluated companies on two performance dimensions—TSR and EBITDA margin expansion—from the first quarter of 2008 until the fourth quarter of 2019. We tracked them across the four phases of the last downturn: the initial turbulence; the stabilization phase (2011–2012), which in Spain coincided with a protracted downturn; the four-year rev up (2012–2016); and the continued acceleration that followed. We started with a list of 109 Spanish companies, all public before 2008, and with a market capitalization greater than $50 million.

Of that group, the top ten companies outperformed the IBEX 35 Index by more than 294 percentage points. That's a fantastic result—one that's both inspiring and instructive.Of that group, the top ten companies outperformed the IBEX 35 Index by more than 294 percentage points. That's a fantastic result—one that's both inspiring and instructive.

FIVE LESSONS FROM SPAIN'S TOP PERFORMERS

Just as in other countries, Spain's top performers took an identifiable series of actions that enabled them to rapidly and holistically transform during a period of profound crisis and in the face of a rapidly changing market environment and set themselves on a firm path to growth.

These ten outstanding performers show what's possible. The question in the current crisis is: can more Spanish companies replicate their success? What can these top performers teach Spain about the path to recovery?

Quite a lot, as it turns out. The top performers took five actions that their peers did not. The result is a playbook for transformation and growth in the face of massive adversity.

***Fix it before it breaks*, the preemptive philosophy applied by 10 top performers.**

Five-Action Playbook for Leaders

1. Act Proactively
During the aforementioned financial crisis, 80% of the S&P Global 1200 companies tended to act reactively rather than proactively, waiting until their business was directly affected by the downturn before taking mitigating actions. In the same period, our ten top performers raised liquidity and proactively invested in strategic acquisitions. They applied the preemptive philosophy, *"Fix it before it breaks."*

Soon after the 2008–2009 crisis hit, a Spanish energy company launched a new strategic plan for rapid expansion in its main markets and other high growth markets. It made strategic acquisitions and acquired standalone assets to support the expansion. The goal was to leverage immediate market opportunities and take advantage of macro trends driving the energy transition. In the years that followed, the company reinforced its domestic position while also growing its global footprint, buying infrastructure assets via partnerships with local market leaders, combining its expertise with the local experience. The company is now a well-established leader in its chosen markets, delivering sustainable growth that is the direct result of the actions it took during uncertain times.

2. Increase Vitality
The top performers that had a successful business model in place avoided the temptation to rest on their laurels. Given business volatility, especially in a time of crisis, no winning approach lasts long. Instead, these companies increased their vitality, which we define as their ability to innovate, explore new ideas, and renew their strategy in order to achieve sustainable long-term growth.

A leading Spanish glass manufacturer launched a strategic innovation and R&D plan just prior to the 2008 collapse of the financial markets. Although demand for its products plummeted, the company decided to maintain—and even increase—its R&D bet, gathering ideas from employees and partners at all levels. As part of its innovation strategy, the company also made prototypes available to customers to test before launch and validate demand. It also undertook process innovation initiatives, including improved technology, increased automation, and the creation

of a new design and innovation team. The result was 37 new products launched in the first year, 47 launched in the second year, and 48 launched in the third year. Separately, the company identified an opportunity for more demand for sustainable products. Drawing on both initiatives, the company launched a new product range made with environmentally friendly materials and processes. The innovation strategy was so successful that the company expanded it to other areas, including customer experience, cost reduction, and product quality.

3. Build Resilience
Leaders of top-performing companies know that they can't avoid future disruptions. Instead, they build the organizational resilience to withstand those shocks and even anticipate them. For example, most have a well-developed scenario planning function, which allows them to scan the horizon for emerging trends and potential disruptions. And they hire talent with a wide range of backgrounds, giving them access to diverse skills and ideas.

A Spanish retailer that manages an extensive global supply chain, including in low-cost geographies, launched a stable and sustainable initiative as part of its strategic plans. To achieve its goals, the initiative introduced monitoring, training, continual improvement, and a public commitment to all stakeholders. Its ultimate goal was to optimize the supply chain while at the same time achieving mature, reliable, and holistic relationships with all value chain participants. To make this happen, the company established a sustainability team that included system and process engineers, technologists, data analysts, and experts in procurement and sustainability. The team was responsible not only for sustainability, health and safety, and social impact programs, but also for ensuring the reliability and resilience of the global supply chain and distribution network. The final result was a supply and distribution network that served the company better while also engaging and supporting each stakeholder.

4. Streamline the Organization
Top performers prepare their organizations by streamlining core operations, redesigning processes to capitalize on digital, and generating efficiencies to be as lean as possible before tough times come. This is a more forward-looking approach than many organizations take. Too many companies rely instead on budget cuts and headcount reductions.

A Spanish meat products manufacturer had gone through an intensive period of acquisition and expansion. The company then realized it had to simplify and integrate to drive efficiencies and economies of scale—in essence, to deliver the synergies expected. It first focused on centralizing key functions such as procurement and logistics. The centralized procurement team rapidly achieved substantial cost savings and secured a continuous supply of raw material in a market made highly competitive by supply shortages. On the logistics side, the company rationalized its processes and achieved better operational performance and an improved working capital, thanks to large inventory reductions. IT integration realized another set of cost savings, which also led to faster financial decision-making. Operational improvements included better technology and reduced labor costs, resulting in sustainable savings—centers of excellence were created within plants to focus on specific challenges such as process improvements, then scaling them to other plants once tested. Once the

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company had hit its performance and efficiency goals, it switched its strategy from streamlining to renewed growth, capitalizing on the global recovery and increased worldwide demand for its products.

5. Set a Clear Vision
Even as they looked for new sources of growth, the top performers had a clear vision based on a small number of long-term themes. For example, most invested heavily to expand into new countries and to digitize their processes and customer interactions. The actual projects to support those objectives changed—some succeeded, some failed—but the objectives themselves remained fixed, giving the organization clear points of focus.

A noted Spanish retailer had set itself the goal of achieving global leadership. Rather than slowing down in the face of the financial crisis, it pressed forward, expanding into 46 countries immediately after the worst of the crisis had passed. The company also invested heavily in developing its own logistics infrastructure and global logistics footprint to drive future growth focused on two geographies that were priorities for the new international strategy. In addition to its international expansion, the company's business model required intensive management of its inventories and customer demands, which then informed procurement and supply chain. Building on its vision for the future, the company invested heavily in data and analytics to track the demand of its products in real-time, on a localized basis, allowing it to push new inventory in response to customer pull. The company not only achieved its vision of being a global leader but also achieved it with technology becoming enablement and a competitive advantage.

THREE ADDITIONAL PRIORITIES FOR A POST-COVID-19 WORLD

In partnership with Círculo de Empresarios, BCG has launched a report aimed at providing a guide to essential economic transformation of Spain. The report outlines 14 priorities. We believe three of these, in addition to the five lessons from the previous crisis, are fundamental for Spanish companies to rapidly and holistically transform their businesses:

1. Gain Scale Through Mergers and Acquisitions
Many Spanish companies operate in highly fragmented markets, making it challenging to compete with global players, to invest in innovation, and to cover the cost for much-needed transformations. Increased scale as a result of mergers and acquisitions can allow further investment while providing cost reduction, economies of scale, and enhanced resilience. Mergers and acquisitions can also facilitate entry into new growth markets locally and internationally.

2. Invest in the Future: New Products, Business Models, Processes, and Talent Capabilities
Spanish investment in R&D (1.1% of GDP) lags that of European peers (1.9% of GDP) and global innovation leaders, such as Israel (about 4% of GDP). But investment should not be confined to research and development. Business model innovation, and process innovation, also requires attention and resources. The result will be increased efficiency, agility, customer loyalty, and, imminently, more competitiveness in local and global markets.

Three additional priorities will enable Spanish companies to rapidly and holistically transform for the future.

3. Adopt Digital and Disruptive Technologies
E-commerce, cloud computing, AI, and advanced analytics are a must nowadays. However, only 18% of companies in Spain are prepared for e-commerce, 13% of them are utilizing cloud computing, and 11% of them have AI capabilities. These technologies—and the business models that support them—have the potential to accelerate productivity and improve processes immediately, with a direct impact on both internal operations and go-to-market strategies.

Every crisis is unpredictable, and the largely external nature of the COVID-19 shock is likely to demand an even higher degree of flexibility than companies demonstrated during the 2008–2009 financial crisis. But the approach we are describing is focused on flexibility. And there is a dramatic difference in performance between the companies that took these approaches and those that stayed the course or waited to act. Spain has lagged the continent and the world in speed, scale, and urgency. Facing COVID-19, Spain's businesses would do well to consider what worked for leaders during the last crisis and apply those lessons to this pandemic era.

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About the Authors

Miguel Sánchez Arbeo is a Managing Director and Partner in BCG's Madrid office. He leads BCG TURN and Private Equity practice areas in the Iberia region. You may contact him by email at sanchez.miguel@bcg.com.

José Miguel Gómez Rivas is an Associate Director in BCG's Madrid office and a core member of BCG TURN and Private Equity practice areas. You may contact him by email at gomez.josemiguel@bcg.com.

Ignacio Serra is an Associate Director in BCG's Madrid office and a core member of BCG TURN and Private Equity practice areas. You may contact him by email at serra.ignacio@bcg.com.

Jose Flores is a Lead Knowledge Analyst in BCG TURN. You may contact him by email at flores.jose@bcg.com.