

Industry White Paper Retail & BNPL*

A series of sector-specific whitepapers,
with in-depth commentary on the challenges
in today's economic environment.

*Buy Now, Pay Later

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Changes in consumption patterns and in the financing needs of consumers requires businesses to adapt quickly



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“With elevated inflation and high interest rates, the cost-of-living crisis is going to affect European consumers in 2023, especially in the first half of the year, before inflationary pressures are expected to show more substantial deceleration. Although consumer sentiment has been recovering from the record lows reached in late 2022, it is still down in the dumps, as an uncertain economic outlook, particularly regarding the impact of the slowdown on the labour market, and a continued squeeze on household budgets weigh on confidence. This has forced changes in consumption patterns and in the financing needs of European consumers and requires businesses to adapt quickly, while catering to the continued emphasis put on sustainability.”

The retail tightrope: Brands strive to cut costs while meeting the needs of a struggling customer base

Europe's retailers are under pressure. Rising inflation has increased their operating costs while creating a cost-of-living crisis that is constraining their customers' spending power. There is also a risk that the situation will become even tougher. The economic slowdown is likely to push up the unemployment rate and this, combined with persistently high prices, will stoke financial uncertainty among already stretched households.

For many retailers, the conditions are more challenging today than they were at the height of the pandemic. Businesses that weathered the crisis with support from government are struggling now that help has been withdrawn. Consumers, meanwhile, are cutting back on nice-to-have purchases in order to cope with the rising cost of feeding their families and heating their homes.

Just 37 per cent of retailers in Intrum's latest European Payment Report research tell us that they are fully confident about their cash flow for the immediate future. They must walk a tightrope: they need to compete for their share of the consumer wallet – which includes meeting growing demand for affordable sustainable products – while creating efficiencies and maintaining liquidity.



Photo by Liza Summer

Three retail themes

Recent business and consumer research from Intrum highlights three themes that retailers should consider as they plan for the months ahead:

1. Retailers are feeling the impact of falling consumer confidence as Europeans cut back on nice-to-haves and seek discounts and payment solutions.

With food and fuel inflation at its highest rate for decades across much of Europe, consumers' real incomes are falling. Inevitably, consumer behaviour is changing as a result, with most Europeans in Intrum's ECPR consumer study saying the cost-of-living crisis has prompted them to rethink their spending habits and eschew discretionary spending. Many consumers are looking for more alternatives for how and when they spend their money.

2. The rising cost of living is having an impact on European parents, who are turning to credit to buy items for their children.

Families are having a particularly difficult time. Parents are of course determined to give children the best-possible quality of life, but many report that doing so is forcing them to borrow more than normal, with more than three in four relying on credit to buy items for their children in recent months.

3. Despite the rising cost of living, consumers' buying choices are influenced by their sensitivity to environmental and social issues.

Consumers recognise that they have the power to encourage better behaviour by the businesses they buy from, and sustainability and social responsibility is now an area of focus for retailers. Brands that show a genuine commitment to the greater good will be rewarded with increased custom. On the flipside, consumers will shun retailers whose values they do not share. Already, almost half of European consumers say they are trying to use their spending power to drive positive social change.

In this report, we discuss these three themes in greater detail, with a view to providing valuable insight to an industry that is changing fast.

As a business, Intrum understands that reliable cash flows, ethical debt collection and sound credit management will be key to business success. We are committed to leading the way to a sound economy.

1. Retailers are feeling the impact of falling consumer confidence as Europeans cut back on nice-to-have purchases and seek discounts and payment solutions

Consumers are in an income crunch. With inflation in the eurozone hitting 10 per cent during 2022¹, their spending power is shrinking. Wage increases are not keeping pace. In Germany and Spain, real incomes fell last year by 4.3 per cent and 5.4 per cent respectively compared with 2021; in the Czech Republic, they fell by 8.9 per cent.²

For retailers, the concern is that things will get worse before they get better. There may be signs that inflation has peaked in some markets, but the threat

of recession looms large. The IMF expects economic growth in the eurozone to bottom out at 0.7 per cent in 2023 – in the wake of tightening monetary policy and the rising cost of imported energy – and to contract by 0.6 per cent in the UK.³

Intrum's research shows that many Europeans are already adapting their shopping behaviour in an effort to make their incomes go further. About two in three consumers tell us they are changing how and where they spend money each

month, and we can expect these adapted habits to stay in place until there is a stronger upturn in economic conditions (see figure 1 for a full breakdown of these habits).

¹ <https://ec.europa.eu/eurostat/documents/2995521/15725146/2-06012023-AP-EN.pdf/885ac2bb-b676-0f0d-b8b1-dc78f2b34735>

² <https://www.weforum.org/agenda/2022/12/oecd-countries-real-wages-fall-money>

³ <https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023>

Europeans are cutting social activity and high-end brands to save money

"You said you were making or planning to make some changes to how you spend money each month, to manage the impact of inflation on your personal finances. Which of the following are you doing?"



Source: Intrum European Consumer Payment Report 2022. n=15,212 consumers in 24 countries in Europe (those making plans to manage impact of inflation/interest rates on finance")

The impact on retailers

Shifts in consumer behaviour ring alarm bells for retailers. Consumers tell us they are focused on value and discounts, both from the retailers where they currently shop and with alternative providers. Of those making changes to their shopping behaviour, more than half say they will now be more likely to shop in discount stores, for example, rather than with the major retail brands.

What consumers buy is also changing. The price of food in the EU rose by about 3.3 per cent a year between 1997 and

the start of 2022, but by 18.2 per cent in December 2022. With food accounting for so much more of consumers' budgets, spending on discretionary items is falling. In turn, more than six in 10 Europeans are now thinking more carefully about buying 'nice-to-have' items.

The high cost of energy is compounding the problem, with inflation hitting rates of almost 40 per cent in Europe last year. This represents a huge problem for low-income families in particular, because food and heating accounts for a disproportionately large percentage of

their household spending.

Against this backdrop, retailers will continue to notice that shoppers are struggling to make discretionary purchases. Almost three-quarters of consumers tell us they are buying less than they used to, and women (76 per cent) are more likely than men (67 per cent) to be cutting back.

⁴ <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/wdn-20230125-1>

⁵ <https://www.statista.com/statistics/1328128/eu-energy-inflation-rate-by-commodity/>

Spreading the cost

Some consumers are seeking to balance their budgets by spreading the cost of their purchases. Almost one-fifth tell us that their use of buy-now-pay-later (BNPL) payment solutions is increasing, and this figure rises among both consumers with young children and younger age groups.

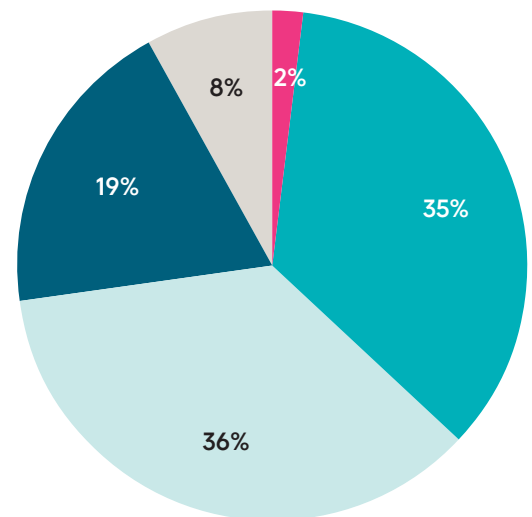
Many retailers have been enthusiastic adopters of BNPL solutions, recognising the opportunity to support customers struggling with the upfront cost of purchases – particularly for larger items. Intrum's research reveals that 55 per cent of retailers either already offer BNPL or plan to introduce it in the near future (see figure 2 for a breakdown of these results).

Most retailers are offering – or considering offering – BNPL

What is your approach, as a retailer, towards buy-now/pay-later (BNPL) solutions?

- We have never offered, and will never offer BNPL
- We have never offered BNPL, but are considering it
- We currently offer BNPL
- We used to offer BNPL, but stopped as it was not profitable
- Not applicable

Source: Intrum European Payment Report 2022. n=7,427 respondents



Our advice to retailers is that it is prudent to proceed carefully, because regulators and policymakers are keen to ensure that consumers can manage debt. New rules governing short-term credit are due to be introduced in the European Union.⁶

Nevertheless, retailers recognise that BNPL provides a way for consumers to access products that might otherwise be out of reach in today's economy. For the small number that used to offer BNPL services but have since discontinued them, the risk is of losing customers to competitors that do offer it.

⁶ <https://www.finextra.com/newsarticle/41432/eu-agrees-new-rules-on-online-credit>

2. The rising cost of living is having an impact on European parents, who are turning to credit to buy items for their children

Parents of young children have traditionally been a reliable market segment for retailers. But families today are struggling to adapt to the cost-of-living crisis. In the UK, the typical family with young children is expected to spend about a quarter of its household income on energy bills over the 2022/23 financial year – and that could rise to above a third in 2023/24.⁷

For some households, savings built up during the Covid years have provided a safety buffer in recent months. Nonetheless, the European Central Bank warns that consumers were already becoming “reluctant to dip into savings” by the end of 2022.⁸ Many families will have worked through their safety buffers; others may be looking to preserve at least some cash for future emergencies.

⁷ <https://www.theguardian.com/business/2022/sep/01/uk-households-spending-power-drop-resolution-foundation-energy-bills-warning-poverty>

⁸ <https://www.ecb.europa.eu/press/accounts/2023/html/ecb.mg230119~e522ad4e37.en.html>



Photo by Liza Summer

“During 2022, we have helped our customers resolve their financial challenges in a fair and ethical manner, with circa 4 million customers becoming debt free with Intrum. This highlights the contribution we make to the functioning of the financial ecosystem and is only possible due to our highly competent and dedicated workforce, evidenced by a strong Employee Engagement Index of 80 out of 100 and Culture Index of 85 out of 100.”

Andrés Rubio President & CEO, Intrum

The option of credit

Data from the ECB suggests that household savings peaked during the summer of 2022 and have been falling back ever since.⁹ For many hard-pressed families, the drop in spending power appears to be behind a growing reliance on credit. There is also no shortage of families that potentially find themselves in this situation: 63 per cent of parents say they are worse off today than they were 12 months ago.

More than three-quarters of parents with young children say they have been forced to borrow money, or have maxed out their credit cards, in order to buy products for their children over the past 12 months. A third have had to do so more than once.

Against this backdrop, consumer borrowing looks set to rise, and this is problematic at a time of tightening monetary policy. Central banks across Europe have hiked interest rates to tackle inflation,

and the cost of credit will remain high in the near future. Borrowing may help parents with a short-term need, but debt will become more difficult for growing numbers. In our research, most parents already say they are concerned about high interest rates.

Waste not, want not

An important question for retailers is about the extent to which the challenges facing consumers will accelerate other behavioural trends. In particular, it seems likely that consumers will become ever more conscious of waste. When money is short, it makes sense to make full use of all purchases.

In that context, retailers may start to see families cut back on promotions. For example, approaching half of Europeans with young children say they feel increasingly uncomfortable about the unnecessary waste that follows seasonal discount events such as Black Friday. They may become less inclined to buy during these

promotions, even though they are currently very popular with cost-conscious consumers.

Retailers should also note that social media is increasingly influential on parents' buying choices. Today, 45 per cent of parents with young children say that social media puts pressure on them to consume more than they should, although there is also evidence that social media is helping families share information on how to save money and reduce costs.¹⁰ At the same time, 40 per cent of parents say that social media has increased their awareness of ethical and sustainable goods.



Photo by Tirachard Kumtanom

⁹ <https://www.euro-area-statistics.org/banks-balance-sheet-deposits?cr=eur&lg=en>

¹⁰ <https://www.thesun.co.uk/money/20196525/struggling-families-money-saving-tips-tik-tok/>

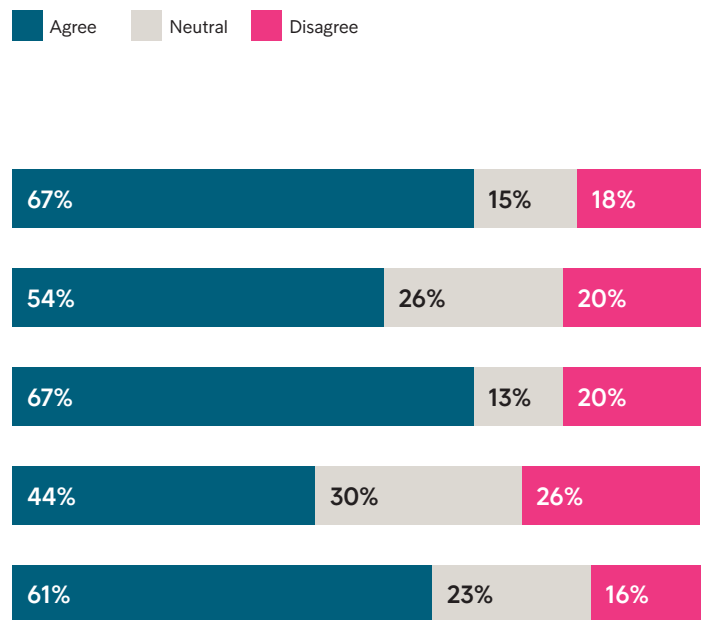
3. Despite the rising cost of living, consumers' buying choices are influenced by their sensitivity to environmental and social issues

Although consumers are responding to the cost-of-living crisis, retailers should not underestimate the public's determination to focus on environmental and social issues. Even in today's difficult economic climate, large numbers of consumers are using their purchasing power in ways that reflect their own values and priorities.

This creates risks and opportunities for retailers. With 44 per cent of consumers already using their influence to drive positive social change, those firms that practice and articulate high ethical standards can expect to benefit; the reverse may be true for those that fall short of expectations. (See figure 3 for further consumer sentiments around this area.)

Sustainability is increasingly important to consumers

To what extent do you agree or disagree with these statements about sustainable shopping?



Source: Intrum European Consumer Payment Report 2022. n=24,011 consumers in 24 countries in Europe.

It is important to be realistic here – especially at a time of high inflation and economic uncertainty. Despite their ideals, price-conscious consumers will inevitably make compromises. In clothing, for example, the fast-fashion brands that are often criticised for social and environment standards continue to grow.¹¹

That said, growing numbers of consumers are making permanent changes to their behaviour. Elsewhere in the fashion sector, second-hand marketplaces are performing strongly, with customers attracted by the opportunity to buy at more affordable prices while embracing recycling and re-use.¹² In Intrum's research, two-thirds of consumers (67 per cent) say they are increasingly fixing and recycling old items rather than buying new.

Can retailers respond?

Not all European retailers are taking consumers' sustainability concerns as seriously as they should. Just 53 per cent of retail businesses believe they will lose customers rapidly if they are not seen to be taking their environmental responsibilities seriously.

The experience of the fast-fashion sector might suggest that such complacency is not entirely unjustified, but the trajectory is clear: growing numbers of consumers want to buy from retailers that reflect their values.

The cost-of-living crisis may represent an opportunity for retailers to secure competitive advantage. Two-thirds of consumers say that they would like to buy more sustainable good and services, but the rising cost of living makes it difficult to do so. Retailers that can offer sustainable products at more affordable price points could therefore win customer loyalty.

Say no to discrimination

There is one area of ethical shopping where the message from consumers is very clear. More than six in 10 say they would immediately stop spending money with any company they believe discriminates against customers based on their social or ethnic backgrounds.

That represents an important warning signal to retailers to reject this kind of prejudice at every opportunity. Right now, however, 45 per cent of retailers say that they cannot be completely sure their sales teams are not discriminating against customers.

¹¹ <https://vogue.sg/shein-fashion-brand/>

¹² <https://www.just-style.com/features/fashion-re-sale-market-grows-as-cost-conscious-consumer-emerges/>

The way forward for retailers

Retailers face a challenging year ahead as their customers make difficult choices about how to spend their squeezed budgets. However, Intrum's research provides retailers with three clear priorities:

Value is more important than ever

As European consumers – and particularly parents – try to stretch budgets further, the search for value intensifies. Retailers that can offer lower-cost products in key areas and demographics will be a natural destination for such consumers. And quality matters as much as price, with shoppers increasingly looking for products that last beyond the next discount season.

Flexible payment solutions are in high demand

Many consumers are keen to spread the cost of purchases, and growing numbers are borrowing in order to fund their spending. Retailers that can offer flexible solutions at the point of sale can play a vital role here, but services such as BNPL must be affordable and prudent.

Sustainability is here to stay

Consumers are not going back on their commitment to sustainability and higher ethical standards simply because they are less well off: they recognise that climate change is not going away. Retailers ignore these views at their peril, and the ones that can offer products that are affordable as well as sustainable will outperform the rest.



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“For over 100 years, Intrum has been the foremost name in credit management and debt collection across Europe. Our close relationships with the retail, e-commerce and buy-now-pay-later industries have enabled us to witness the increasing financial struggles that many of their customers face in today's rising cost of living. With this in mind, Intrum has strived to provide tailor-made solutions for each of our clients, offering local solutions or centralised solutions through our multinational hub. We are able to handle any local or international situation, regardless of complexity. Ultimately, it is through our commitment to caring for customers that we are able to help companies prosper.”

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