An ill wind

For all the hardship it is inflicting, the crisis is helping many firms sharpen up

Baking biscuits round the clock

IN A windswept Castilian town 300km (190 miles) north of Madrid, Europe's largest biscuit plant is churning out digestives, wafers and crackers around the clock. The economic crisis has not really hurt Galletas Gullón, a family-owned firm that dates back to the 19th century: its products are staples in Spanish households and its newer range of "healthy" biscuits created the market sector they dominate.

In fact, the crisis may even have helped, by forcing Gullón to look harder for growing markets outside Spain. Sales rose by 10% to around €216m ($277m) in 2012, says Juan Miguel Martínez Gabaldón, Gullón's boss, but exports grew by 15%. More than a third of its biscuits are sold outside the country now, and the share will rise when new capacity comes on stream this year. A decades-long policy of reinvesting profits in mechanisation and product innovation allowed Gullón easily to increase and diversify its output.

Clemente González Soler, founder of Alibérico, an aluminium-products group, is not complaining either. A former boss of Alcan Spain, he set up his own firm in 1997, buying a few clapped-out factories and gradually investing in high-tech manufacturing and research. With products from food packaging to composite building panels to bits for lifts and vehicles and more, the group grew smartly until the crisis hit. By 2010, Mr González says, he realised that no one was going to solve the crisis for him. All the group's manufacturing and 95% of its sales were in slowing Europe.

In 2010 Alibérico opened a plant in Morocco; in 2011 it bought one in the United States; and in 2012 it signed a deal in India—a dud, as it turned out. An Alibérico plant will start up in Brazil in July; and a joint venture in Australia should be up and running by the end of the year. The group's annual sales are about €200m, still mostly in Europe. But by 2015 Mr

González expects the figure to be €800m, over half of it from products made and sold elsewhere.

The first venture of Marc Diaz Williams, a young business-school graduate, was a marketing firm that helped companies sell to Spain's 5m or so recent immigrants. Dubbed the best Madrid start-up of 2006, its business evaporated when migrants were among the first to lose their jobs in the downturn. But his next one, Katapult—which provides clients, including the Mahou-San Miguel brewery and Barcelona Football Club, with unconventional, low-cost, high-impact publicity—has doubled its billing each year, to €1.5m in 2012. "It's a good time to be an entrepreneur," Mr Diaz says. "Companies still need to spend money on advertising but they are more concerned now about spending it well. They're more attentive to creative ideas."

Hunger sharpens the wits, a Spanish saying goes. The difference between Spain and Italy or France, where the economic situation is less dire, is that Spaniards have accepted the need to change fundamentally, according to a Spanish businessman. Even smaller firms know they must export and innovate, says Jordi Sevilla, a professor at IE Business School in Madrid and a minister in the previous government.

Not all wine and roses

No one could call Spain a cheery place these days. The IMF expects its economy to carry on shrinking this year, by 1.6%. The jobless rate in March was over 27%. Though the government is trimming the deficit, its debt has more than doubled as a proportion of GDP since before the crisis. Private companies, meanwhile, are concentrating on cutting debt. With the popping of the property bubble, Spain must reinvent itself as an export-oriented, high-value-added economy, says Fernando Casado, director of the Business Council for Competitiveness, a group of big companies. The pain is palpable.

There are signs that this wrenching reinvention may be working. Spain's balance of trade swung into surplus in March for the first time in at least half a century. Labour-market reform, wage moderation and apparent productivity gains have helped reduce unit labour costs by around 8% since the beginning of 2009. New-business creation began to turn up last year; new measures to help entrepreneurs should encourage more of this.

But success is partial and precarious, and it depends on growth returning to reduce unemployment and shore up bank lending. Banks hold the key in peripheral countries such as Spain, where smaller firms, especially, have limited access to other forms of financing. And bank credit to the domestic private sector is shrinking.

Bailed out less than a year ago by Europe, Spain's banks are raising capital and shedding assets to strengthen their balance-sheets. The central bank moved to commission stiff stress-tests, sweep duff property loans into a new "bad bank", inject capital and restructure the sector; but the banks are not out of the woods. New rules on accounting for rescheduled loans may mean an extra €10 billion in provisions. Investors worry that continuing recession will erode loan quality further, especially loans to small firms and residential mortgages, says José Manuel Campa, a professor at IESE, another business school, and a former secretary of state in the finance ministry. There is even talk that banks may need more bailing out, though most analysts agree with bankers who swear they will not.

Against this uncertain background Galletas Gullón, Alibérico and Katapult have strategies that seem to be working. Gullón will keep investing in domestic production and overseas sales, whereas Alibérico is betting on the Americas and Australasia. Katapult, meanwhile, is beginning to let itself be chatted up by potential buyers. No one asked for the worst recession in most people's memory, but firms like these should emerge the stronger for it.

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