Retail & Consumer **insights**

The New Consumer Behavior Paradigm: Permanent or Fleeting?

Post-Recession Shopping Behavior

Highlights

- As a result of the shifts in shopping behavior emerging from this recession, shoppers will take a more thoughtful approach to buying, leaning toward more pragmatic and practical purchases vs. rampant deal-seeking behaviors.
- Up-market Gen X and Gen Y shoppers will take the lead in the recovery. Gen X is in the middle of a high-spending life stage and Gen Y has a greater willingness to spend, especially on new technologies.
- Companies need to recognize that there will not be a wholesale return to a pre-recession shopping mode and will need to adapt to the changed behaviors and patterns to win in today's changed marketplace.

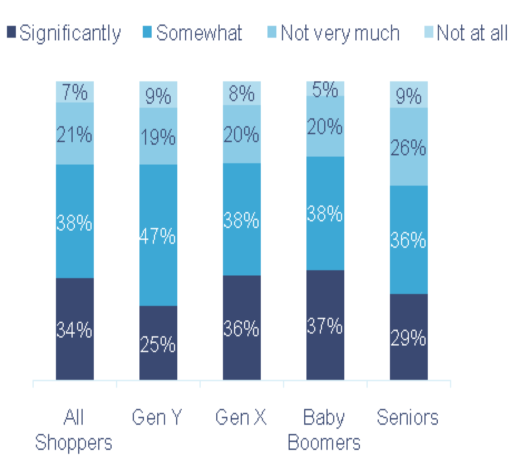
An enduring shift

The economic shocks of the past two years have created greater urgency for retailers and their suppliers to understand and respond to the new marketplace realities—not the least of which is the fact that the recession has changed shopping behavior: seventy-two percent of all shoppers recently indicated that their shopping behavior has changed significantly or somewhat as a result of the economic environment, and only 7% have made no changes at all (*Figure 1)*.

The shopping behavior data coupled with the demographic trends suggest that an enduring shift has taken place as a result of the Great Recession. Going forward, purchases will be more deliberate and purposeful. Conspicuous consumption will give way to more conscious or practical consumerism. Rampant deal-seeking will be replaced by more purchase selectivity and the use of shopping techniques and tools discovered during the recession.

The source of consumer spending also will radically change. Baby Boomers, who have fueled consumer consumption over the years and who also have helped lead us out of the most recent previous recessions, will not be in position to lead the way out of this recession as they near retirement and conserve savings. Instead, the up-market segment of Generation X (aged 29–45) and the leading edge of the young Generation Y (aged 10–28) will lead the recovery. Retailers will have to adapt their plans and approaches to appeal to this new generation of consumers.

Fig. 1: How Much Shopping Behavior Has Changed Due to the Economy



Gen Y: Shoppers born 1982 to 2000; Gen Y shoppers included in this report are 18–27 years old
Gen X: Shoppers born 1965 to 1981
Baby Boomers: Shoppers born 1946 to 1964
Seniors: Shoppers born prior to 1946

Source: Retail Forward ShopperScape™, October 2009

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The New Shopping Environment

The new shopper ROI: “Return on Involvement”

Throughout the recession, shoppers sought out and were exposed to a growing array of tools, techniques and programs—many facilitated by emerging technologies—to help manage spending and maximize savings, including list-making and meal-planning tools, online and mobile coupons, "opt-in" e-mails, comparison shopping sites and stepped-up loyalty/rewards programs. Shoppers’ experience with these tools and techniques taught them that the time invested in incorporating the tools into the shopping experience, i.e., more involvement in the process, yielded a significant return (ROI) in terms of both dollar and time savings.

Retailers that want to capitalize on this trend of shoppers looking to maximize this return on involvement need to make promotion and savings-related information more easily accessible across all shopper touchpoints. They need to make savings explicit—no small print or jumping through hoops to get savings—and they need to make promotion redemptions an easy, seamless experience across all purchase channels.

“Search-engine shopping” will be more prevalent

During the recovery, purposeful shoppers will increasingly start the shopping process with specific products in mind—as opposed to browsing retail stores and online shopping sites looking for items of potential interest. This shopping strategy is enabled by today’s “Google world” in which an explosion of online resources and new mobile phone shopping apps make finding a specific item easier than ever before. Some resources, such as Microsoft’s recently launched online search engine “Bing”, effectively collapse the information search and evaluation steps and make the shopping experience easier for consumers, but more challenging for advertisers.

For retailers and manufacturers, the rise of “search-engine shopping” can potentially reduce their chances of being included in the array of product considerations and make it harder to up-sell, impulse sell and cross-sell due to a reduced presence in these targeted searches. This makes it imperative that retailers and manufacturers optimize their search engine and paid search vehicle decisions.

Shopping behavior: purposeful, not panicked

Many of the shopping behaviors adopted during the recession will have a lingering impact into the recovery, but to a lesser degree than shoppers anticipated in the throes of the recession (*Figure 2*). Even as shoppers retain some of their recession behaviors, the difference is that post-recession shopping behavior will more appropriately be characterized as purposeful, rather than panicked as it seemed in recent months.

The recession has tempered both the rampant excesses and overzealous idealism extremes of consumption. Severe limiting—of spending, shopping and store sets—will give way to more mindful choices. Rampant deal-seeking will give way to more selective deal-seeking that leverages the tools and techniques

Fig. 2: Shopping Behaviors Likely to Continue as Economy Improves

	Deal-seeking Behaviors: Taking advantage of good sales/deals	Limiting Behaviors: Buying only things I truly need	Trading-down Behaviors: Buying more store brands instead of national or high-end brands
All shoppers — Aug 2008	43%	38%	23%
All shoppers — Oct 2009	35%	32%	17%
Gen Y— Oct 2009	23%	21%	12%
Gen X— Oct 2009	33%	29%	15%
Baby Boomers— Oct 2009	39%	35%	18%
Seniors — Oct 2009	36%	34%	19%

Source: Retail Forward ShopperScape™, August 2008 and October 2009 shoppers have discovered in the recession. Broad-scale trading down—across products, brands, and retailers—will give way to more reasoned and rational trading down of purchases.

- Deal-seeking behaviors, e.g., taking advantage of sales, using coupons, comparison shopping, will not be completely abandoned post-recession. However, Boomers and Seniors are significantly more likely than their younger counterparts to be in bargain-hunting mode as the recovery gains traction.

- Even though many shoppers will keep spending on “wants” in check, “wants” are steadily being reintroduced into the equation. Overall, limiting behaviors—e.g., buying only things truly needed, postponing purchases, buying fewer things—will level off. Even so, nearly a third of shoppers will only buy things they truly need and about one-fourth will buy fewer things and shop less often. Expect these behaviors to be more widespread among older shoppers, especially Boomers.

- Trading-down behaviors related to the choice of retailer, product, or brand will lose some traction in the recovery, but private label brands (especially in Fast Moving Consumer Goods categories) will remain a significant factor due to their high quality at lower prices.

What Will Shoppers Be Buying?

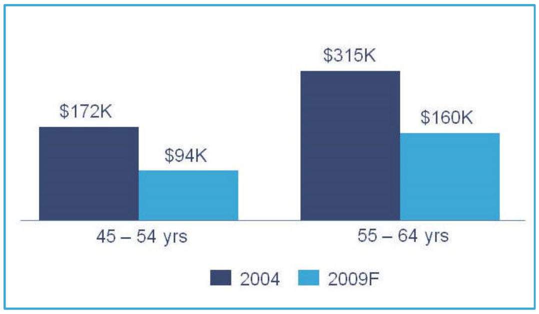
Pragmatic consumption

The recession has ushered in a cultural shift away from extravagance and toward more restraint in consumption, exacerbated by “fire sales” last fall that made shoppers question whether full-priced merchandise was ever really worth the price. There will be a stigma associated with wasteful, impulsive spending, while thoughtful, responsible spending will be more socially acceptable. From grocery to apparel shopping, about one-fifth of consumers will continue to forgo buying items that seem “just too expensive.”

As a result, markets for luxury and gourmet goods will contract. Luxury providers will need to reengage their core customer bases—i.e., the truly wealthy. Business models that rely on growth through appealing to shoppers who aspire to, but cannot afford, a luxury lifestyle will need rework.

A more thoughtful approach to spending on luxury and non-discretionary goods is emerging. Shoppers are placing a premium on goods that exhibit qualities of timeliness, usefulness and versatility. Items that make shoppers feel like they are getting something that will hold its value for the money (rather than something that is going to go out of style next season or has limited, narrow usefulness) will be judged worth the investment. Shoppers also continue to look for goods that are "green" or sustainable and appear to be willing to pay a slight premium for green goods that also deliver a personal economic benefit—e.g., energy-saving light bulbs and appliances.

Fig 3: Median Household Wealth of Boomers



Source: Center for Economic and Policy Research

Fig. 4: Characteristics of Gen X and Gen Y

Gen X	
Positive	• Entering peak spending years • Big spending life stage: kids and homes
Negative	• With Boomers staying in workforce longer, harder for Gen X to advance • Paying down debt • Serious about saving
Gen Y	
Positive	• Younger = more discretionary income • Tech lifestyle is a need not a want; i.e., will spend on technology • Leading edge entering household-formation years
Negative	• Less recession falloff = less recovery rebound • Spending shaped by tighter credit • A fragmented and difficult segment to reach with conventional marketing approaches

Source: Retail Forward

Practical pleasures

Shoppers are beginning to show signs of being sick and tired of sacrificing, even if not yet exhibiting a full-blown case of "frugal fatigue." However, shoppers have to balance budget realities with the desire to give themselves a reward.

Retailers and suppliers that give shoppers an affordable "do-it-yourself" alternative to more expensive products and services can help shoppers combat this frugal fatigue. Examples of offers that will resonate with shoppers include at-home alternatives to pricey spa and salon treatments for the budget-minded beauty lover, restaurant-quality meal takeout options that replace dining out, and home entertainment options that substitute for pricier leisure time activities.

The recession also exacerbated a trend away from premium, highest-quality products to those that are "good enough" quality for the price vs. the very best. The trend has been fueled by the democratization of design—i.e., the extension of designer offerings into mass retail channels—and the evolution of private brands that match (and quite often exceed) the quality and functionality of branded goods. Shoppers have even more reason to respond favorably to these good-enough products in the recovery.

Who Will Be Shopping in the Recovery?

Boomers will not lead shoppers into the recovery

Hit hard by the effects of the recession at a point of in life when financial commitments loom large and retirement is on the horizon, the huge Baby Boomer generation (82 million, 37% of all households) will not be able to quickly lead the way out of the recession as it did after the past two recessions. In the early 1990s, the Baby Boomers were at a life stage characterized by high spending, and their appetite for material goods seemed insatiable. During the post-dot.com bust at the start of this decade, many Baby Boomers were in prime earning years and able to resume pre-recession spending behaviors relatively quickly after that less severe downturn. At the edge of this recovery, the median household wealth of Boomer households has shrunk considerably, hampering their continued ability to lead the way out of this recession (*Figure 3).* With significant wealth losses to recoup, the need to save and invest for the future will compete with spending at retail in a way it never has before for this generation.

With near-term Boomer spending handcuffed by current circumstances, marketers will need to look to the smaller Gen X generation and large Gen Y population to fuel growth in the initial stages of the post-recession recovery (*Figure 4)*.

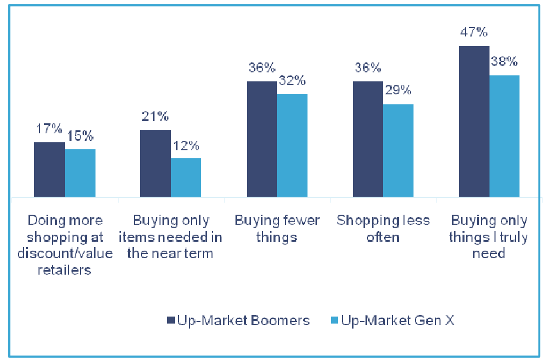
Gen X fuels growth in initial stage of recovery

Even though Gen X—those aged 29 to 45—is only about three-fourths the size of the Boomer generation—it is in a big spending life stage. Many have spent the past few years establishing a household and starting a family: seventy-one percent have children younger than 18. Plus, this generation is at the point when it should be entering its peak earning years—another net positive for its spending outlook.

In particular, one segment of the Gen X population will have a meaningfully positive impact on post-recession spending: up-market affluents. Among all shopper segments, this group of Gen X'ers can be thought of the "LIFO" segment vis-à-vis the recession—they were the "last in" group to be hit hard by the recession and they will also likely represent the key "first out" segment given their life stage needs and above-average spending potential. Compared with their up-market Boomer counterparts, up-market Gen X shoppers are less likely to continue recession-induced shopping behaviors (*Figure 5*).

Beyond the initial stages of the recovery, the longer-term effect of Gen X on retail spending will be dampened by circumstances. This is the second time in the careers of Gen X'ers that they've faced a recession and possibly experienced an economy-dictated career-change. Although still young enough to change career paths (compared with Boomers), Gen X'ers are still likely paying down hefty student loans and credit card debt while trying to save for their children's education as well as for their own retirement. This generation has no safety net—pensions are non-existent and the future of social security is questionable. Also, with Baby Boomers poised to stay in the workplace longer, Gen X'ers may find it harder to advance. These circumstances will counterbalance the spending power this generation would have had in more "normal" times.

Fig. 5: Shopping Behaviors Likely to Continue Post-Recession: Up-Market Gen X vs. Up-Market Boomers



Source: Retail Forward ShopperScape™, May 2009

Gen Y more resilient in recession, more important in recovery

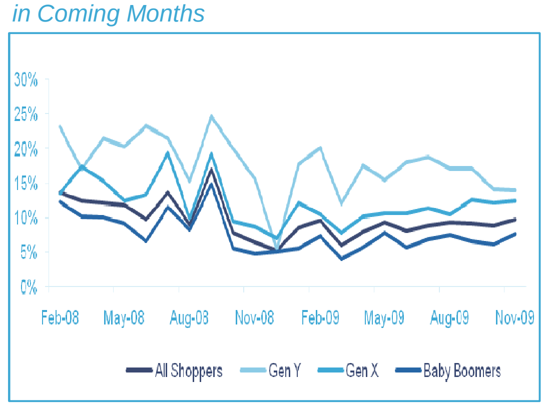
Spending by the young Gen Y population (aged 10 to 28) has been less impacted by the recession. They have plenty of earning and saving runway ahead of them and as a result are seemingly less reactive to economic events.

Since the beginning of the recession, Gen Y'ers have consistently indicated a greater willingness to spend more in the coming months vis-à-vis older shoppers (*Figure 6*). They also are significantly less likely than their older counterparts to indicate plans to continue recession-induced shopping behaviors in the recovery.

Gen Y, at 85 million strong, actually outnumbers the Boomers, but currently only accounts for 6% of all households and 4% of household spending—primarily because most in this generation are not yet heads of households. Gen Y'ers may spend the next few years leaving home, "boomeranging" back and leaving home again, before finally establishing their own homes. This would delay the maximum impact this generation could have on spending for big-ticket items such as furniture, appliances and home improvement goods. However, with fewer debts and a less-urgent need to accumulate wealth in the immediate term relative to older shoppers, a higher proportion of this generation's income is discretionary. As a result, until they establish their own households, most of the income earned by this generation is highly likely to be spent.

Additionally, Gen Y is accustomed to instant gratification and demands the latest and greatest gadgetry; a tech lifestyle is a need, not a want. For Gen Y'ers, spending on the technology staples of this generation—iPods and MP3 players, smart phones, laptop computers, video games, etc.—will remain a priority and will continue to create unique opportunities for tech-oriented retailers.

Fig. 6: Intention to Spend Much/Somewhat More in Coming Months



Source: Retail Forward ShopperScape™, January 2008 – October 2009

Winning in the Recovery

Responding to altered consumer behaviors

As much as retailers and suppliers hope that shopping behavior will return to “normal” as the economic environment starts to improve, the changed circumstances of key shopper segments and the individual behaviors of shoppers themselves are indicating that there will not be a wholesale return to previous shopping patterns and behaviors.

To win in the recovery, retailers and suppliers will need to:

- Recognize that even in the recovery, some shopper segments will still be in “recession” shopping mode.
- Make sure customer targets are aligned with the marketplace—which means that many companies need to tune up their understanding of Gen X shoppers and tune in, perhaps for the first time, to Gen Y.
- Leverage all components of their offerings that are “need to haves” and create more “must haves” by building the case—through marketing, positioning and merchandising—that their offer is responsive and relevant to shoppers’ needs.

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