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New Marketing Imperatives

U.S. Consumer Spending & Shopping Behavior Emerging from the Recession



Booz & Company's second annual consumer survey focuses on shifts in consumer behavior and resulting business imperatives

- In September 2008 Booz & Company conducted a survey to understand how consumers were adapting their spending in the face of greater economic uncertainty
- A year later we refreshed our findings to better understand how the worst recession since World War II is affecting consumers' attitudes and buying behaviors ...

... as well as how more structural, longer-term forces (e.g., media fragmentation, heightened retail format competition, growth in online research and e-commerce) are shaping consumer behavior
- To meet these objectives, we conducted an online survey of more than 2,000 U.S. consumers in October 2009, with a sample representative across demographics, geographies, product categories, and retail formats
- We integrated the survey results with other insights from our extensive client work across the marketing and media ecosystem for a broad set of consumer spending categories
- This report includes our summary findings and perspective on implications for consumer marketers and retailers

Consumers are more frugal as a result of the recession – greater focus on value is likely to stick for the next few years

Key Findings

- Per capita consumption expenditure has declined for 2 straight years – the first time since the Great Depression
- Reductions in spending are most pronounced for lower-income women, but all demographic groups cut back
- Consumers' outlook is modestly conservative – only 32% of households expect to be better off this year
- Frugal behavior is now the norm: two-thirds of consumers frequently use coupons, value price over convenience, and believe saving is more important than spending
- Product categories whose purchase can be postponed or substituted (e.g., durables, entertainment) were hit the hardest, but small indulgences (e.g., health & beauty) continue to be bought
- Switching to lower-priced brands is common among everyday categories (food items, household products) but less common for alcohol, tobacco, consumer electronics
- Share shift to private-label products has accelerated

Implications

- As the economy emerges from a very deep and prolonged recession, high unemployment and income anxiety are likely to cause frugal behaviors to remain persistent
- Given greater focus on value, marketers and retailers need to better align their product assortment:
 - Reassess the number of price points and optimal gap between them by category
 - Review the planned innovation pipeline to ensure that new product launches deliver clear value (not necessarily lowest price) to attractive and growing target segments
- As price-based competition remains fierce, developing deeper insights into shopping behaviors is critical before responding to lower price competitors ...
- ... while ensuring that the operating model is well aligned to the value proposition and pricing strategy – there is a price floor at which you are not profitable for certain segments

Beyond increasing focus on value, there is a clear imperative to develop stronger insights and targeted marketing capabilities

Key Insights

- Consumer marketers' ability to build brands is under strain due to a number of structural trends
- Despite these headwinds for marketers, there remains significant room to further influence shoppers along their path to purchase
- Attitudes toward price, brand, and convenience differ significantly across consumers, as well as across product categories
- Segmenting shoppers based on attitudes and buying behaviors reveals stark differences in their brand and store loyalty and the way they are using the Internet to shop
- This presents an opportunity to better target ads and promotions, particularly as marketers and retailers build more interactive and relationship-based models for engaging shoppers at home, on the go, and in the store

Implications for Consumer Marketers and Retailers

- Marketing strategies and tactics that address how, where, and why consumers shop – rather than traditional demographics tied to advertising buying (e.g., adults 18-49) – are required to build competitive advantage and maximize value
- Shopper marketing insights are needed to better address differences in behavior across product categories, offline vs. online shopping occasions, and specific retailers/e-tailers
- Based on these insights, consumer marketers and retailers need to better differentiate marketing messages and promotional offers to more price conscious consumers vs. those who place greater value on brand or convenience
- As clicks increasingly influence sales at brick and mortar stores, marketers and retailers need to better engage shoppers along the full path to purchase, rather than treating online and in-store interactions as silos

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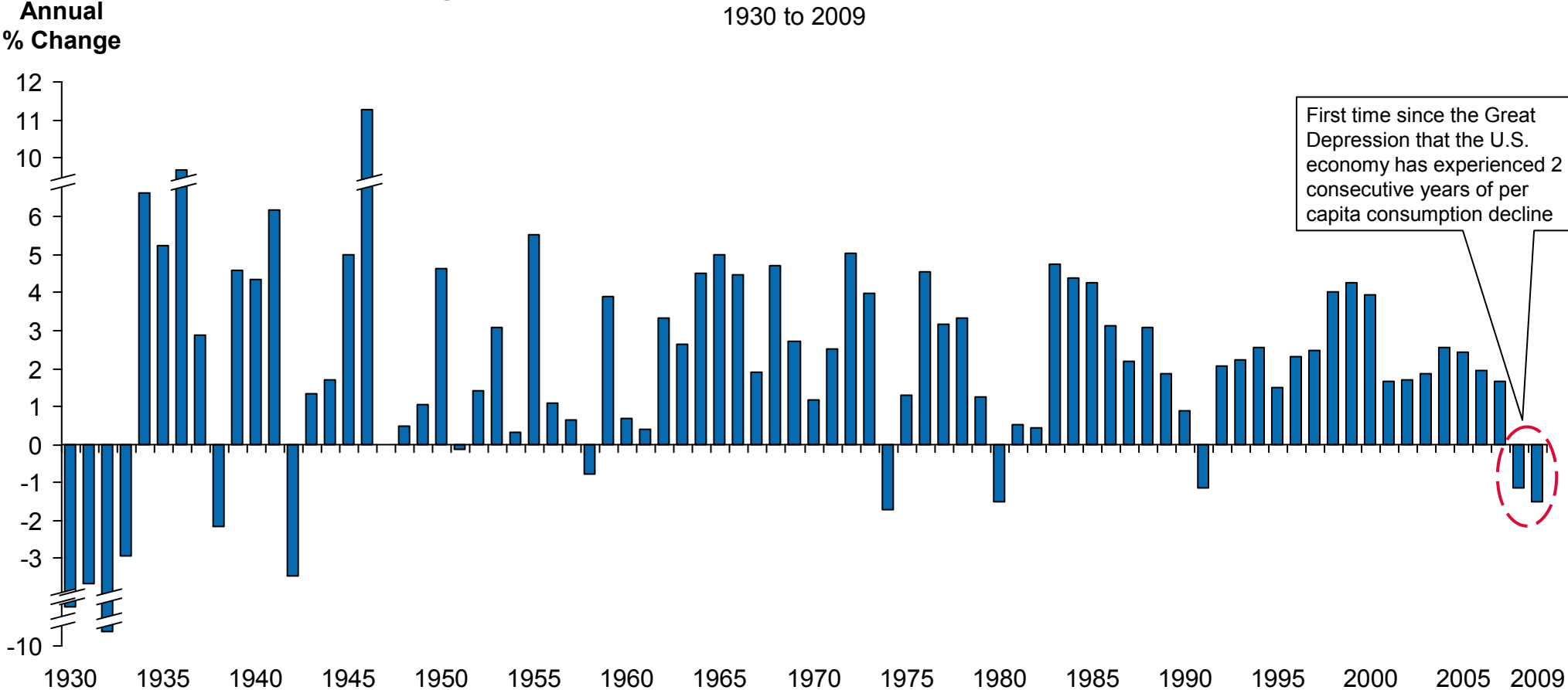
Segmentation Insights

Implications

The "Great Recession" led to a larger and more sustained decline in consumer spending than other recent recessions

Annual Change in Per Capita Real Personal Consumption Expenditures

1930 to 2009

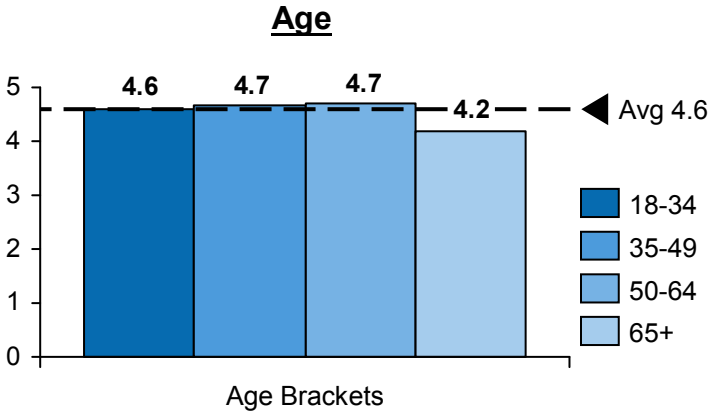
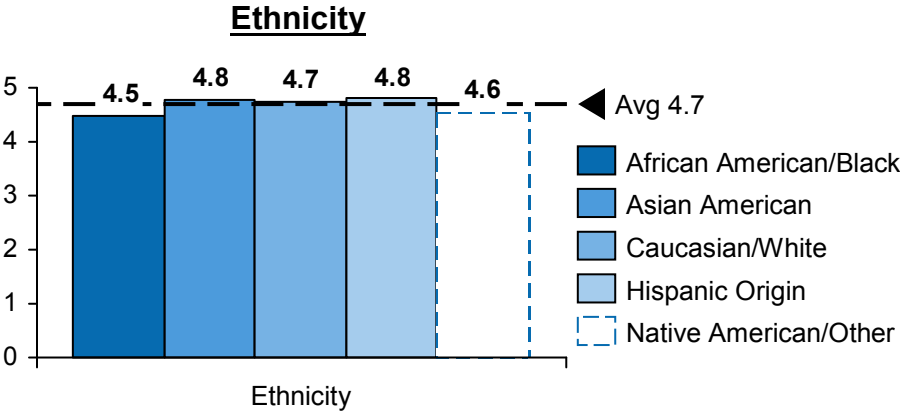
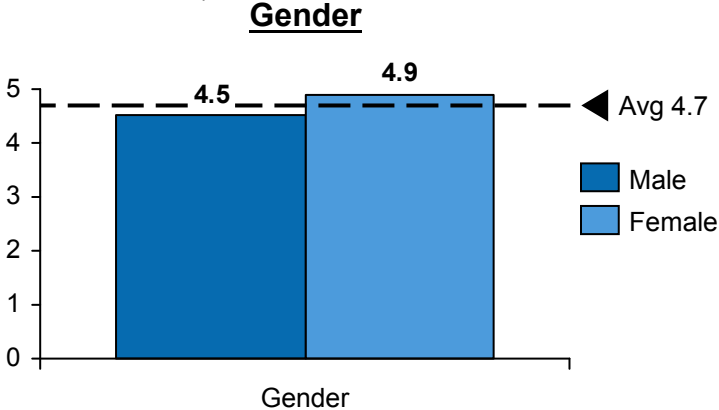
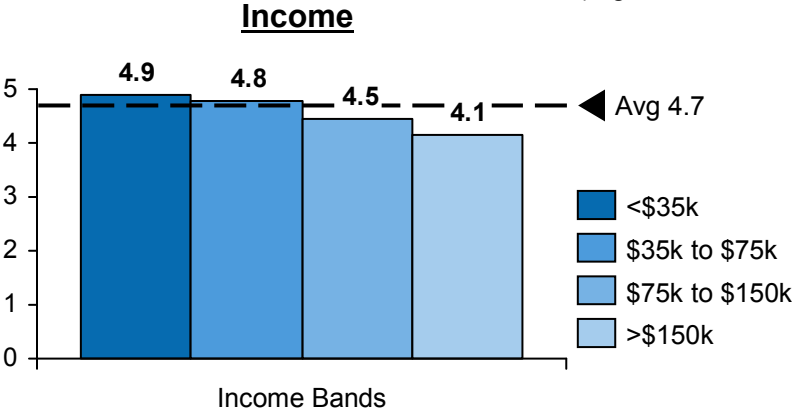


Source: Commerce Department Bureau of Economic Analysis, National Income and Product Accounts, Table 2.1. Personal Income and Its Disposition; Booz & Company analysis

Changes are most pronounced for lower-income women, but reductions in spending occurred across demographic groups

Average Expenditure Reduction on Discretionary¹⁾ Categories

1 = Strongly disagree 4 = Neither agree nor disagree 7 = Strongly agree
(Higher value indicates greater expenditure reduction)

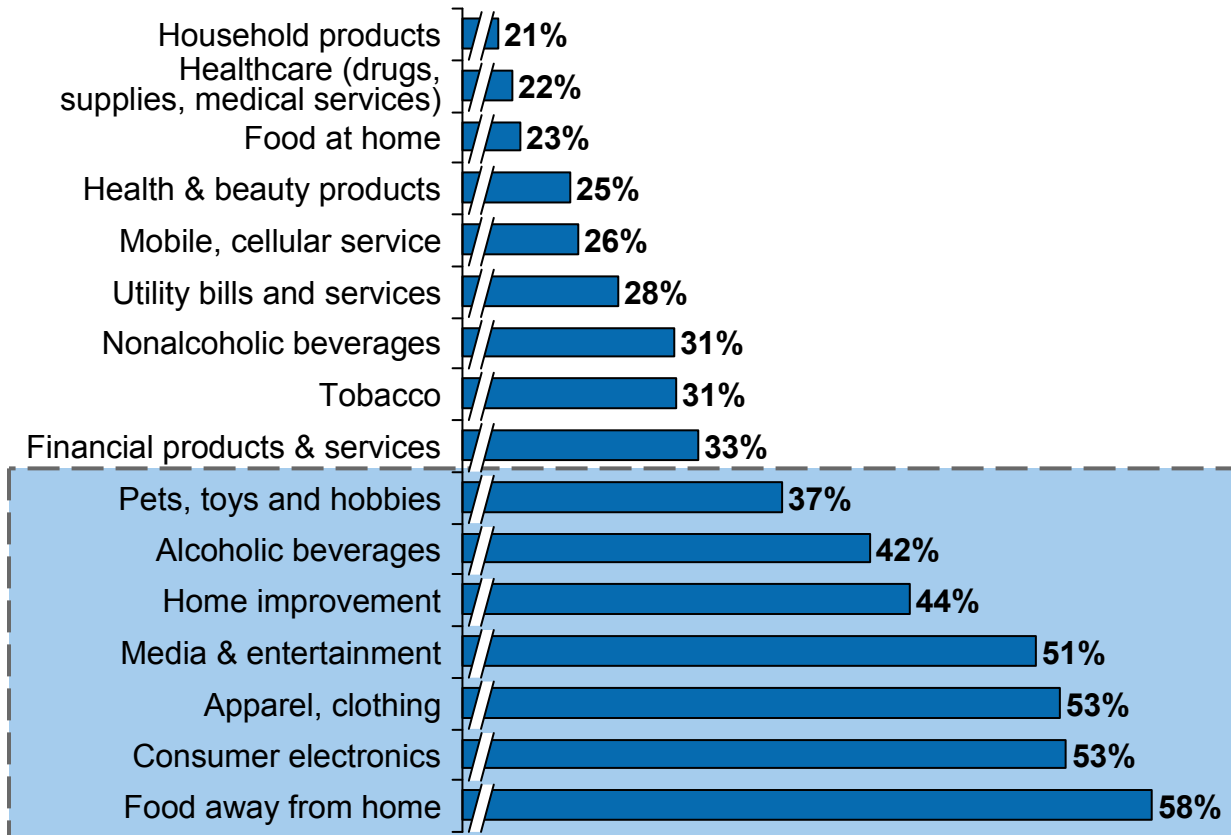


1) Discretionary categories include: Financial products and services; Pets, toys and hobbies; Alcoholic beverages; Home improvement; Apparel, clothing, shoes; Media and entertainment; Consumer electronics; Food away from home (eating out)

As consumers cut back, discretionary goods were hit the hardest

Over the past 12 months, I reduced my expenditure in this category

Percentage of respondents who agreed or strongly agreed



Consistent Themes with Last Year

- In last year's consumer spending survey, we identified a number of changes consumers were making in response to the recession, such as:
 - Entertaining more at home, eating out less, taking less expensive vacations
 - Being more frugal in their shopping habits, buying items on sale, using coupons more, shopping at less expensive stores
 - Cutting down on driving to save money spent on gas
- This year's survey found comparable efforts to cut back on discretionary categories like durables, entertainment, and experiences that can be postponed ...
... while continuing to spend on small indulgences for themselves on occasion

Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

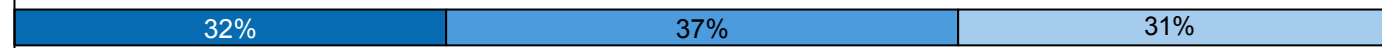
Shoppers exhibit little tendency to revert back quickly

How do you expect your household's financial status to change over the next year?

Percentage of respondents who expect to feel better off or worse off

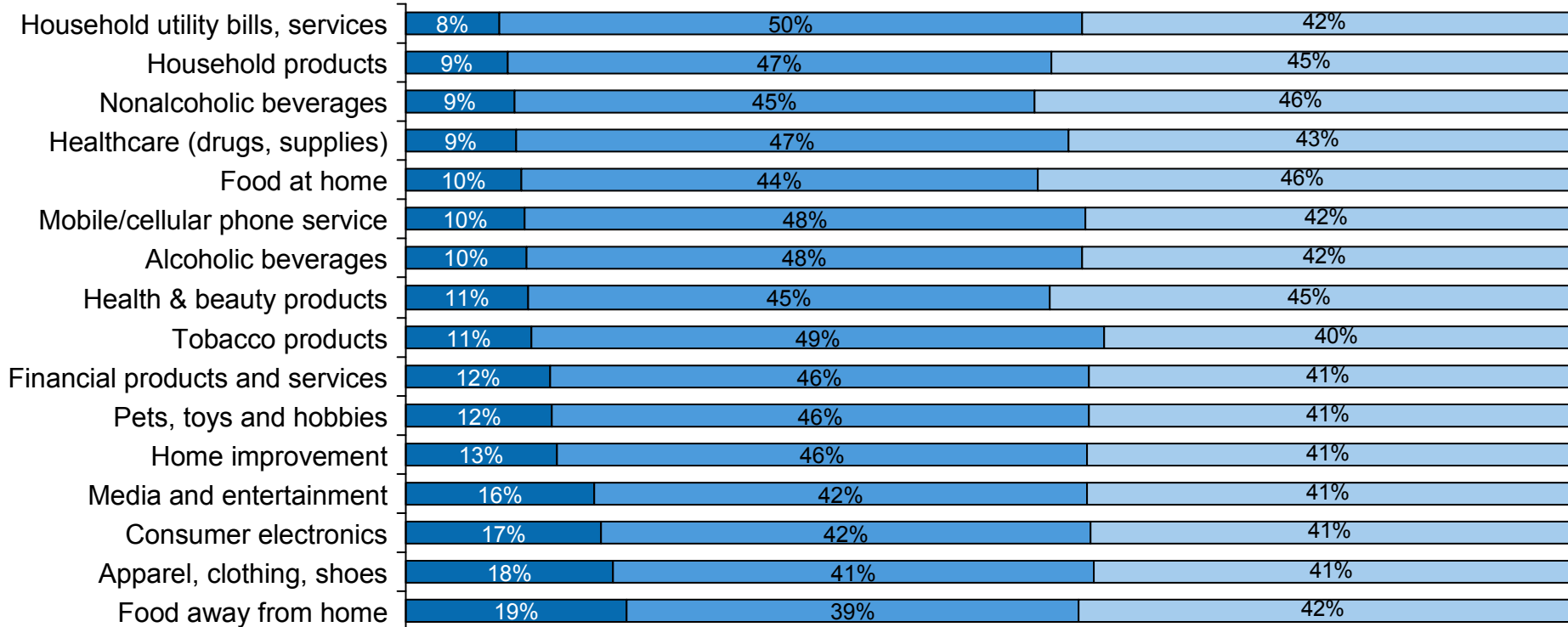
Worse off
Better off

How do you expect your household's financial status to change over the next year?



In the next 12 months, I intend to revert back to my pre-recession buying habits in this category.

Percentage of respondents who agreed or disagreed

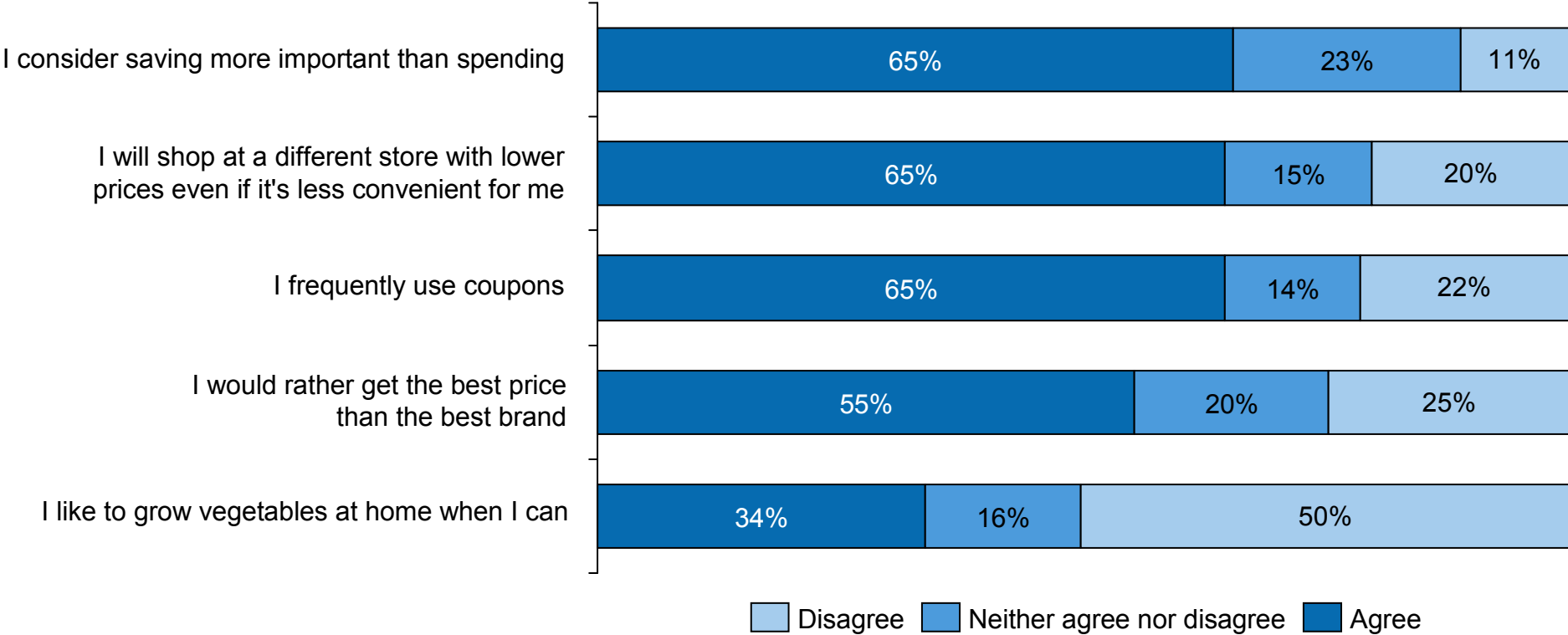


Disagree (i.e. will NOT revert back) Neither agree nor disagree Agree (i.e., will revert back)

Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Given the size of the recession and consumer anxiety, it has likely hardened “frugal” behaviors

Consumer Responses to Buying Styles and Attitudinal Questions
Percentage of respondents who agreed or disagreed

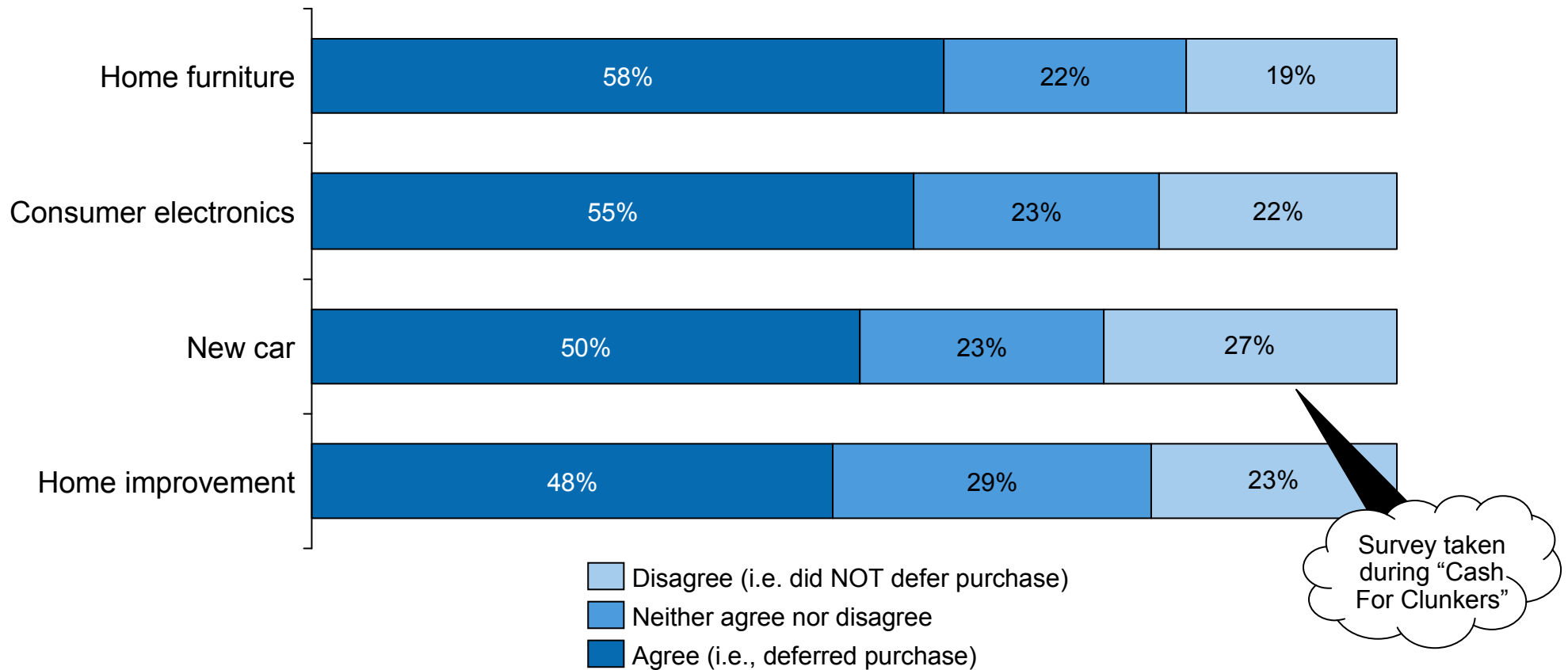


Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Consumers often chose to defer some major expenditures

Over the past 12 months, I deferred purchasing products in this category

Percentage of respondents who agreed or disagreed

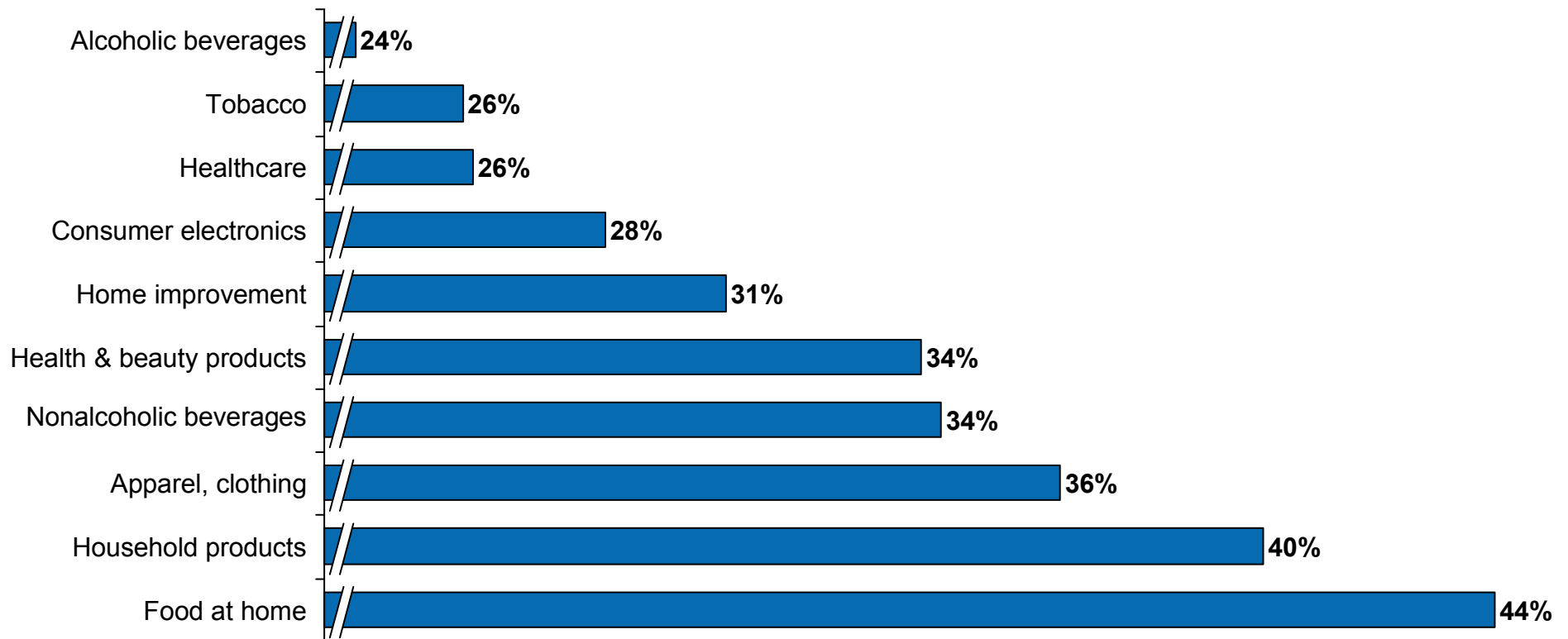


Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Price sensitivity has increased for most categories

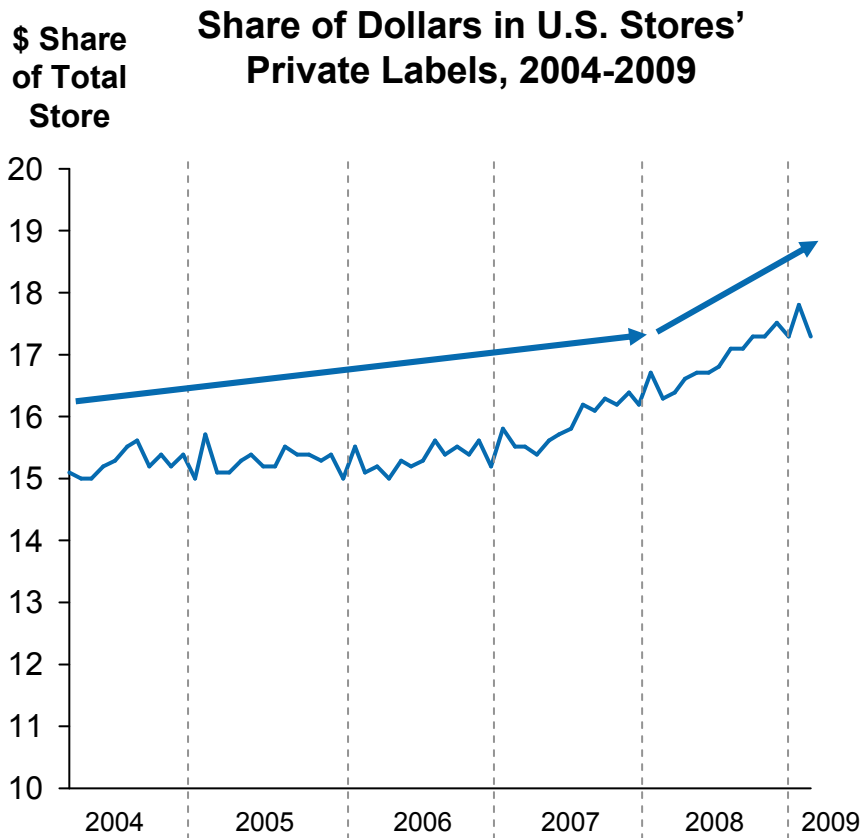
Over the past 12 months, I switched to less expensive brands in this category.

Percentage of respondents who agreed or strongly agreed



Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

The shift to private label also accelerated during the downturn



- Shift to private label started before the recession, but has accelerated and shows no immediate signs of slowing down
- Retailers will resist any bounce back from this trend
 - Retailers make greater profit on private label, so they give it more on-shelf and off-shelf display space
 - Private label includes part of retailer differentiation, with broader assortment than opening price points
- Many consumers are having a good experience with private label and would need a reason to switch back.
- Significant room for shift to continue
 - Remains well below European average
 - May not continue to rise at same rate and may actually revert partially before resuming upward trajectory (i.e., corrected in '70s after spike)
- As a result, medium-term outlook for private label is likely to continue to take share, given high unemployment and slow growth in consumer incomes

Note: Total US FDMxWM, Private Label 4-week Dollar Share of Store
Source: Nielsen Strategic Planner; Booz & Company Analysis

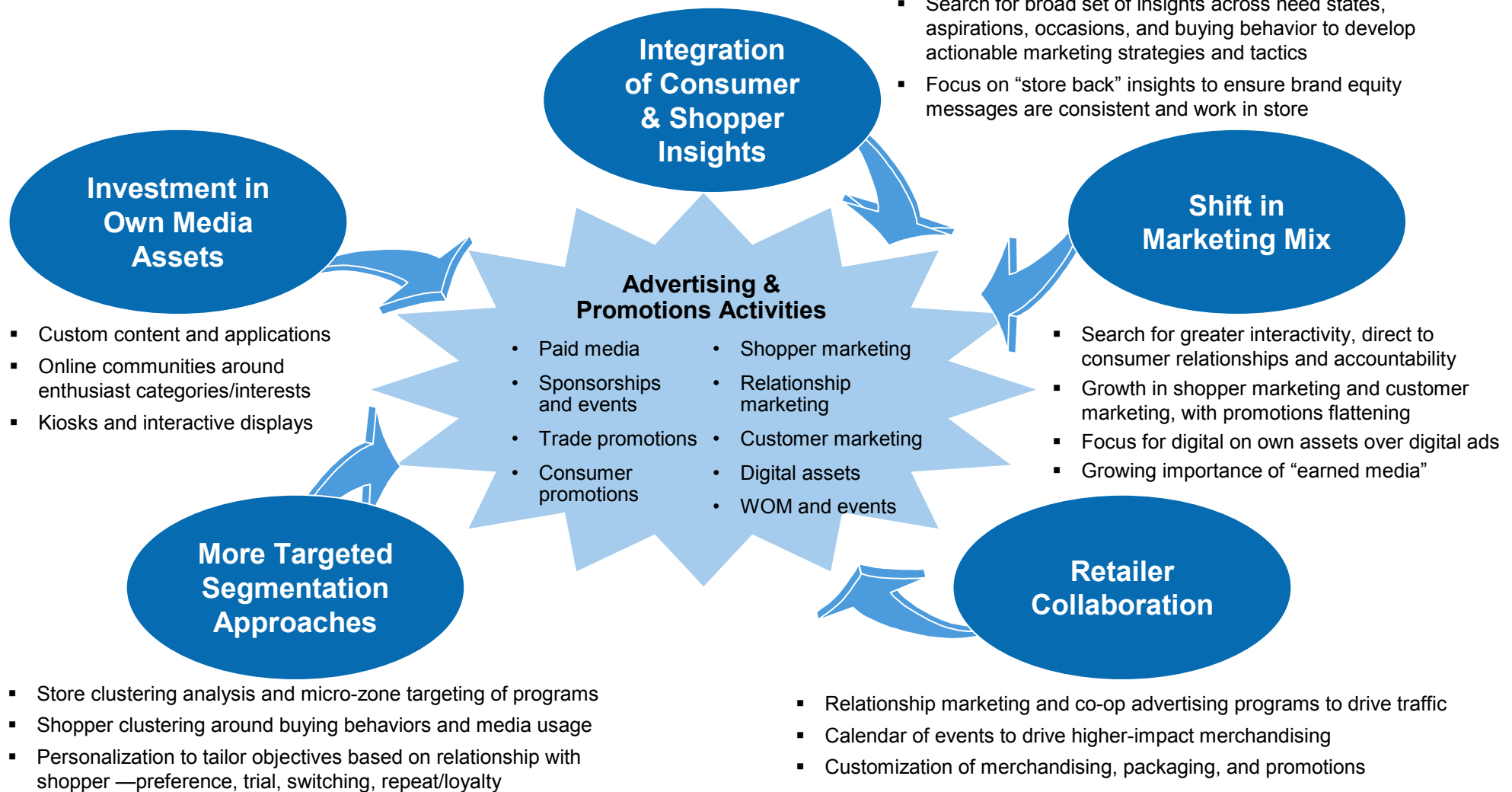
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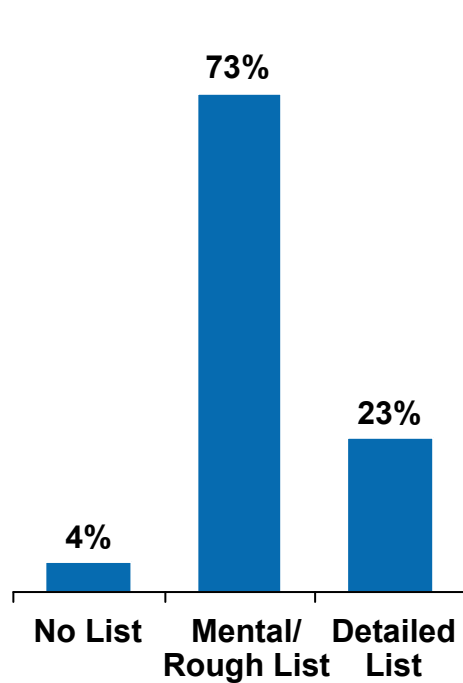
Implications

Even as the recession focuses consumers more on price, longer-term trends are further impacting the way marketers build brands



There is a lot of room to better influence shoppers along the path to purchase, fueling growing investment in shopper marketing

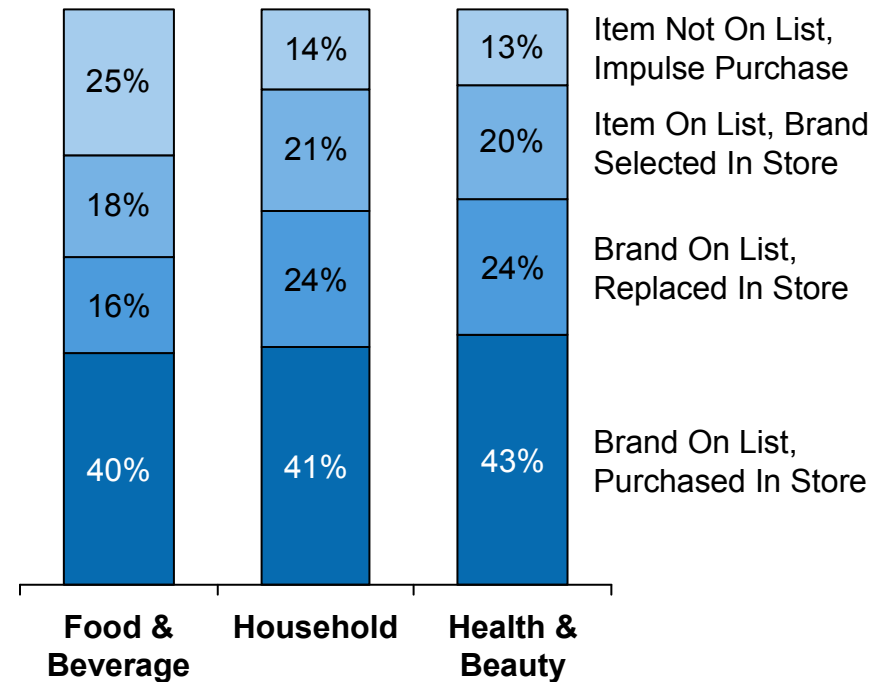
% Shoppers Making Lists
(% of total respondents)



% Shoppers Doing Research Before Going to Store
(% of respondents by category)



Timing of Brand Selection
(% of total items purchased)



Shopper Marketing

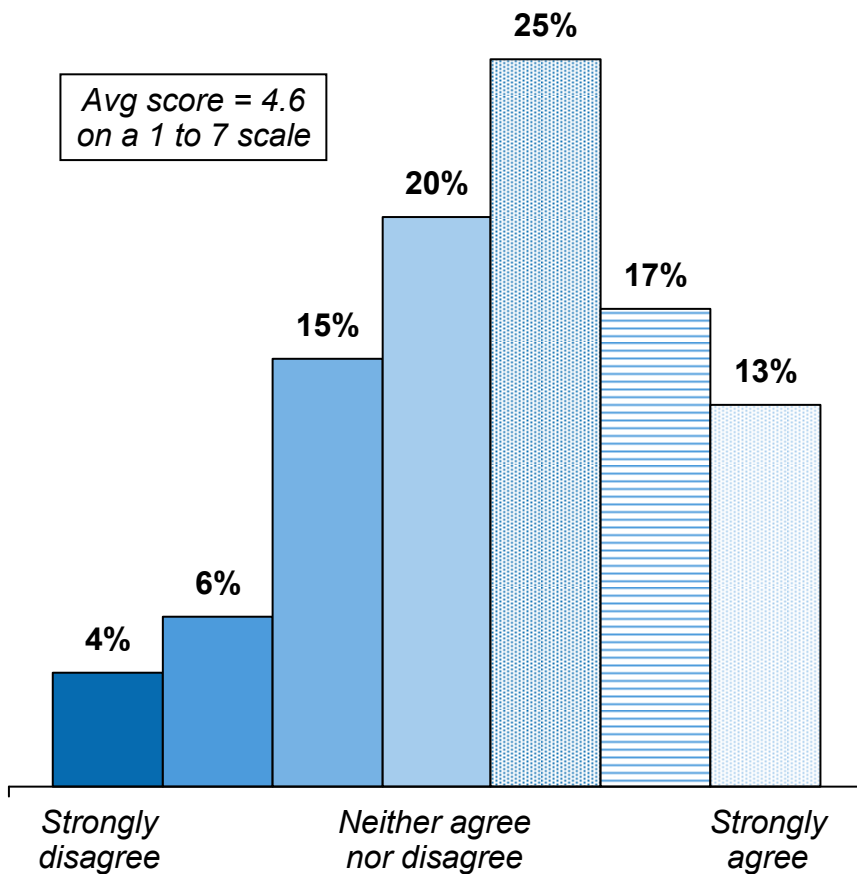
Building insights about consumers when they are in shopping mode and applying them to influence behavior along the full path to purchase (at home, on the go, in the store) through targeted programs across shopping occasions and consumer segments, often working in collaboration with retailers

Source: Survey of 3,600 shoppers for Shopper Marketing 3.0 study conducted Fall 2009 by Booz & Company in collaboration with Grocery Manufacturers Association

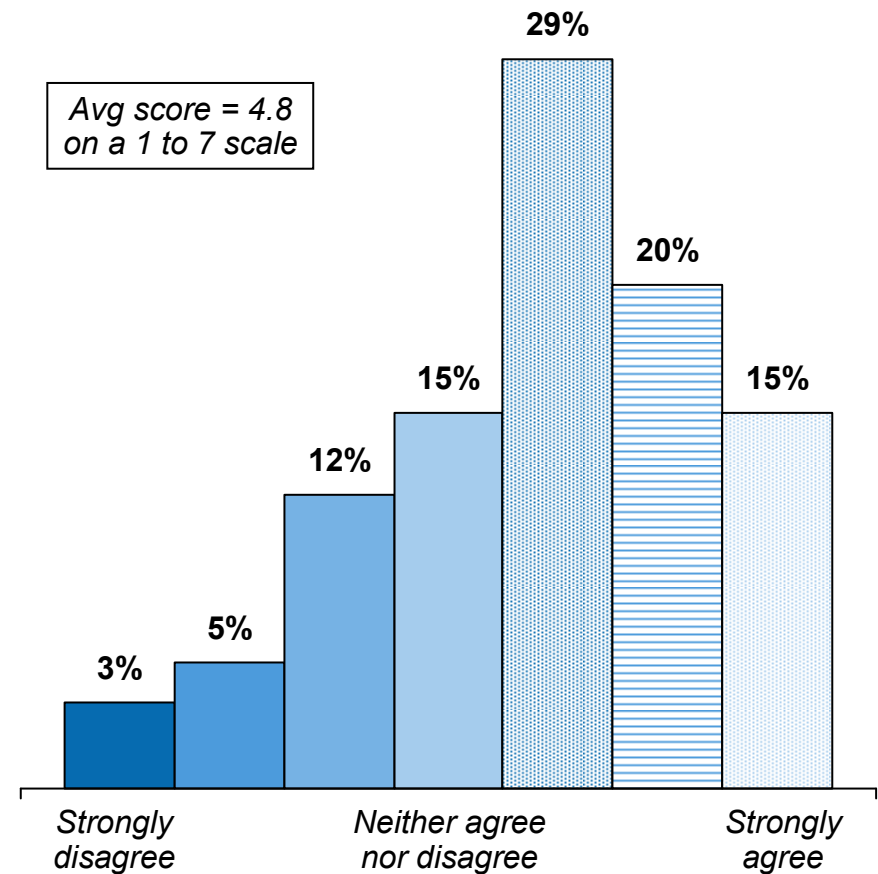
Consumers differ in terms of how much they emphasize getting the best price, brand loyalty, and convenience

I would rather get the best price than the best brand.

(Total sample)



I will shop at a different store with lower prices even if it's less convenient for me.

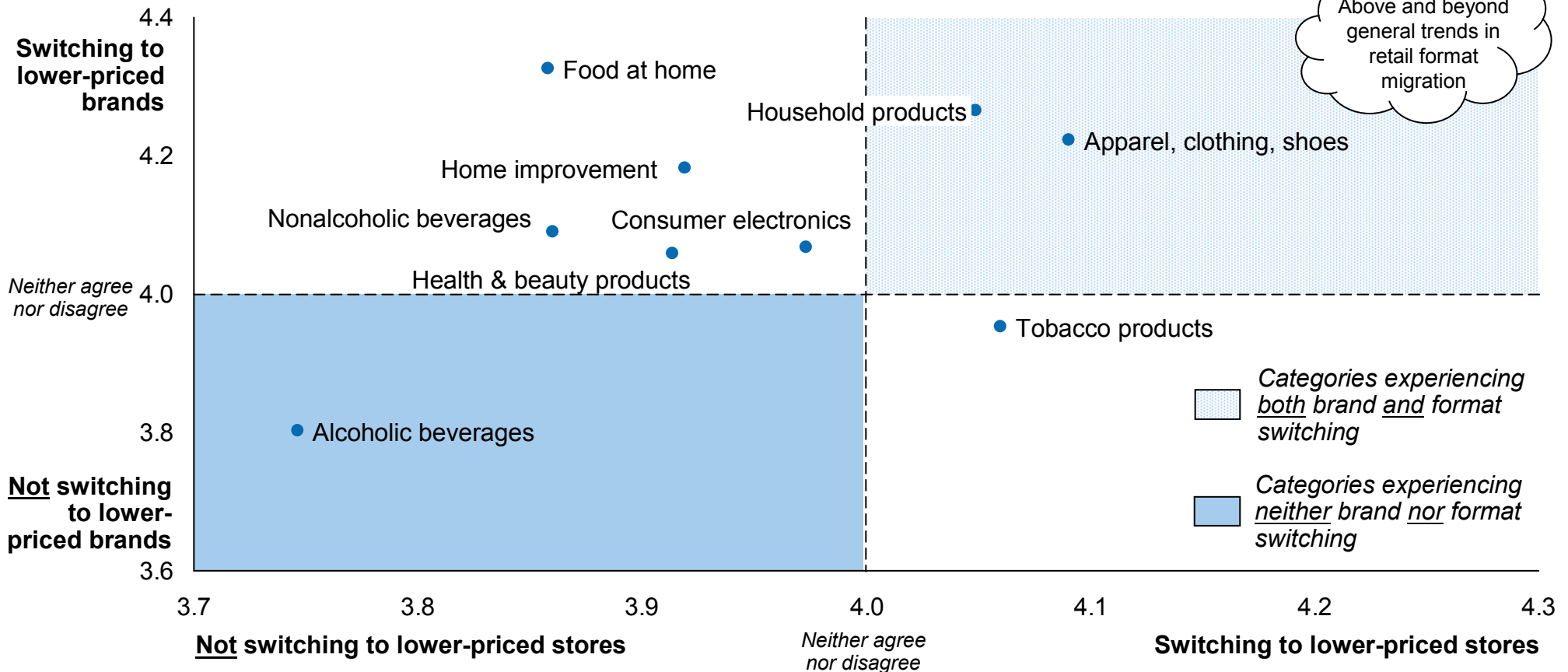


Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Differences in consumer sensitivity toward price, brand, and retail preference also vary considerably across product categories

Category Price Sensitivity: Brand Loyalty and Store Loyalty Average Response Across All Consumer Segments

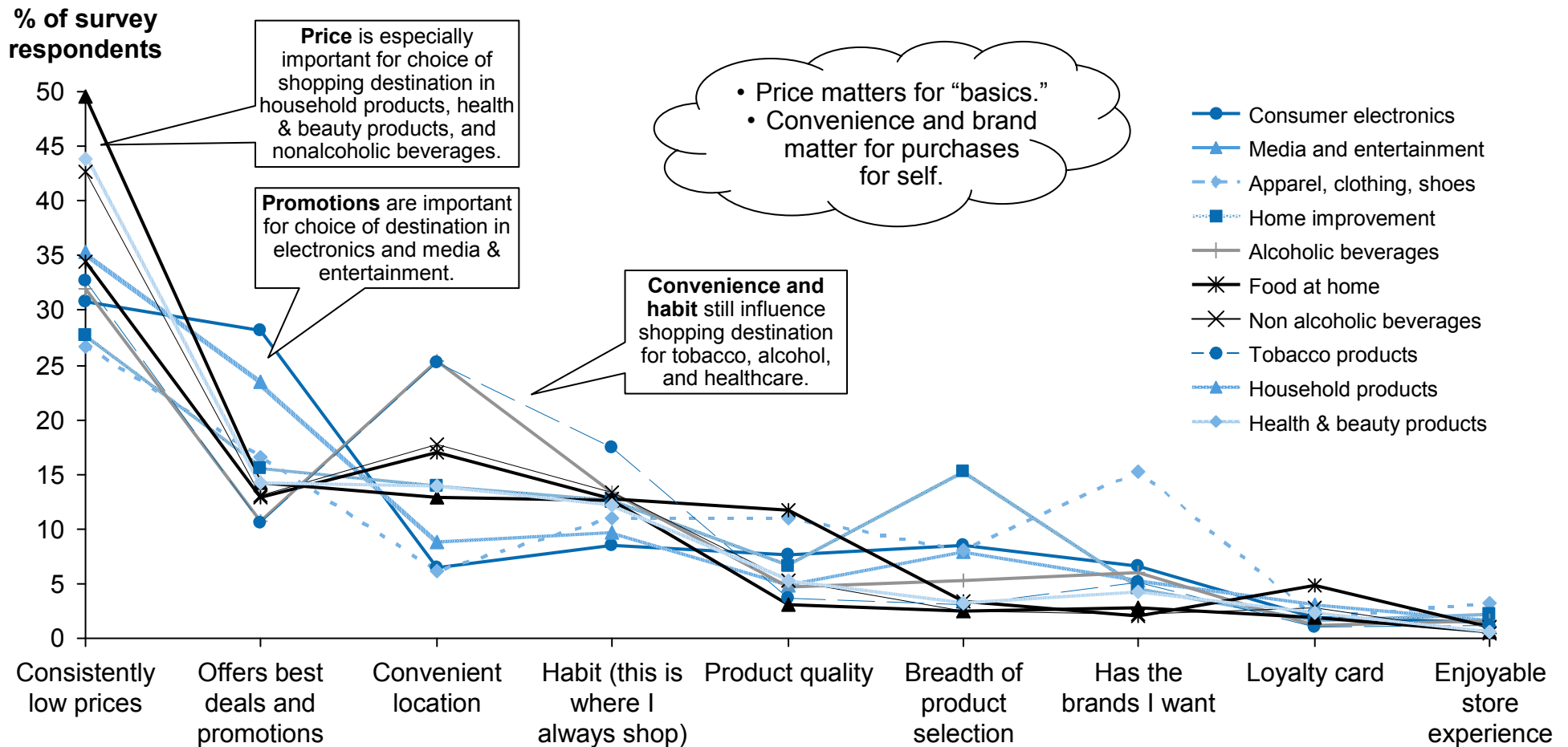
{x axis} Over the past 12 months, I switched to lower priced stores in this category
{y axis} Over the past 12 months, I switched to less expensive brands in this category



Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

As a result, there are notable variations in the key drivers of consumers' decisions for where to shop

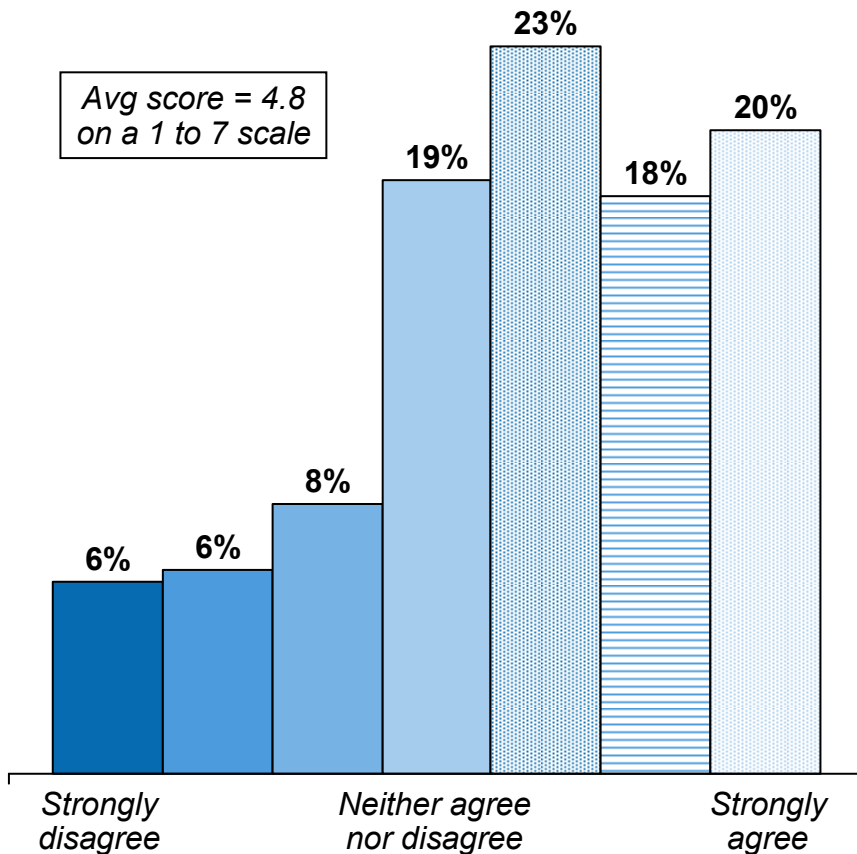
What is your primary reason for selecting your shopping destination in each category?



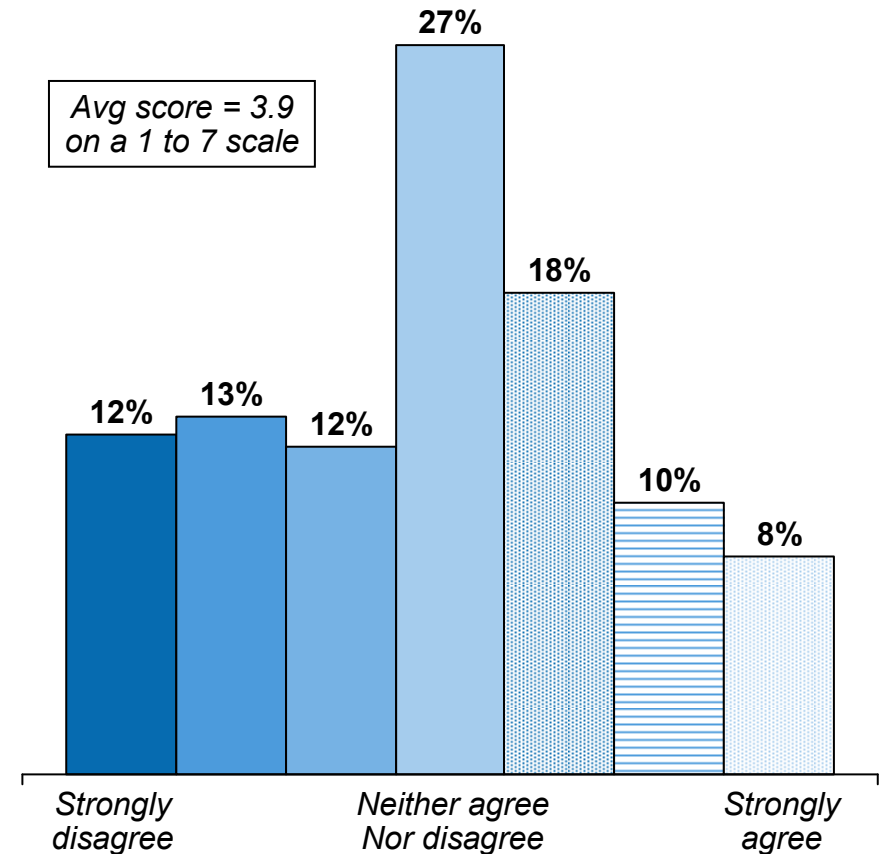
Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Differences in online research and buying behavior are also key to understand in developing a more segmented view of shoppers

I spend a lot of time researching, comparing products online before buying.



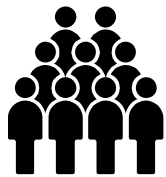
I buy products online whenever possible.



Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Taking these varied attitudes and behaviors into account, six statistically significant consumer segments emerge

Cluster Profiles



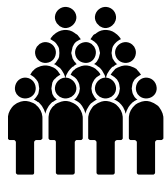
Shopper 2.0
16.4% of sample

- Greatest tendency to buy online across categories
- Price sensitive, with little brand or format loyalty
- High coupon usage
- Youngest average age
- Highest proportion of renters



Channel surfers
19.8% of sample

- Hunt for brands they love
- Likely to switch retail destination to find desired brands at best prices
- Highest household income and educational attainment
- Greatest proportion with full-time job



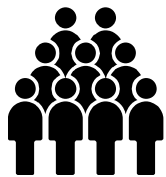
Deal hunters
20.6% of sample

- Highly price sensitive and heavy coupon users
- Low brand or format loyalty
- Lowest household income
- Greatest proportion unemployed



Laggards
17.2% of sample

- Very little online research or purchase
- Lowest coupon usage
- Not particularly motivated to switch brands or format
- Highly skewed to women
- Oldest average age
- Least educated



Online window shoppers
10.6% of sample

- High research online, but less likely to purchase online
- Modest degree of price sensitivity and brand switching
- Highest proportion of home owners



Loyalists
15.5% of sample

- Least likely to change brands or retail format
- Conducts both online research and purchase
- Highly skewed to men

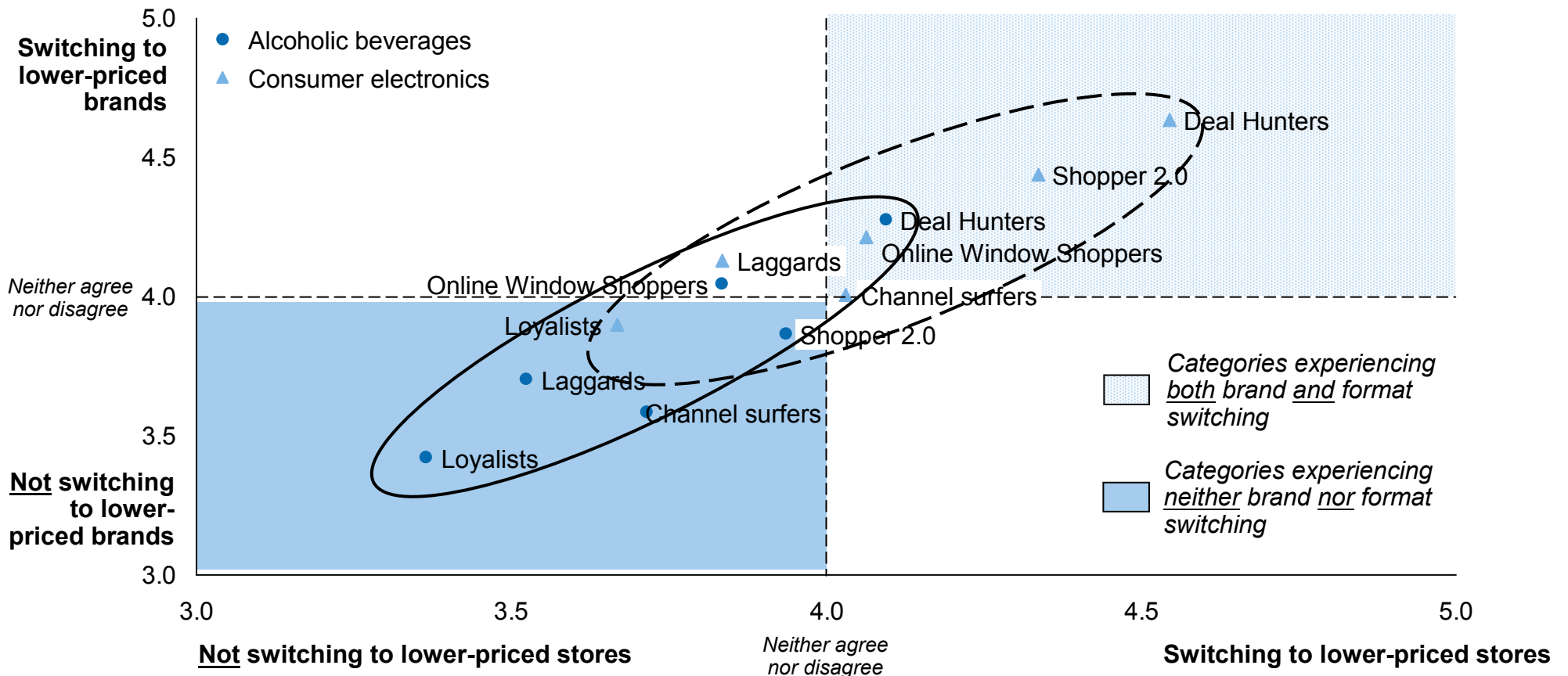
Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

Differences across segments are as meaningful as those across product categories in explaining attitudes and buying behavior

Category Price Sensitivity: Brand Loyalty and Store Loyalty Showing "Alcoholic beverages" and "Consumer electronics" Categories

{x axis} Over the past 12 months, I switched to lower-priced stores in this category

{y axis} Over the past 12 months, I switched to less expensive brands in this category

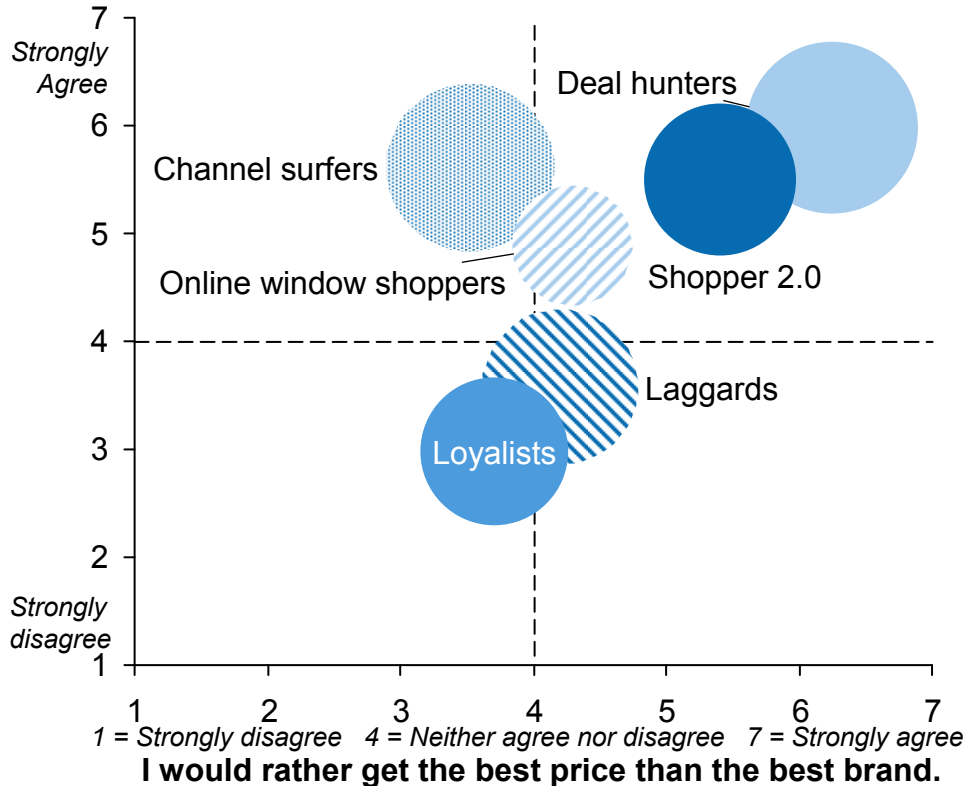


Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

To maximize their marketing ROI, companies need to better target their advertising and promotions spending by segment

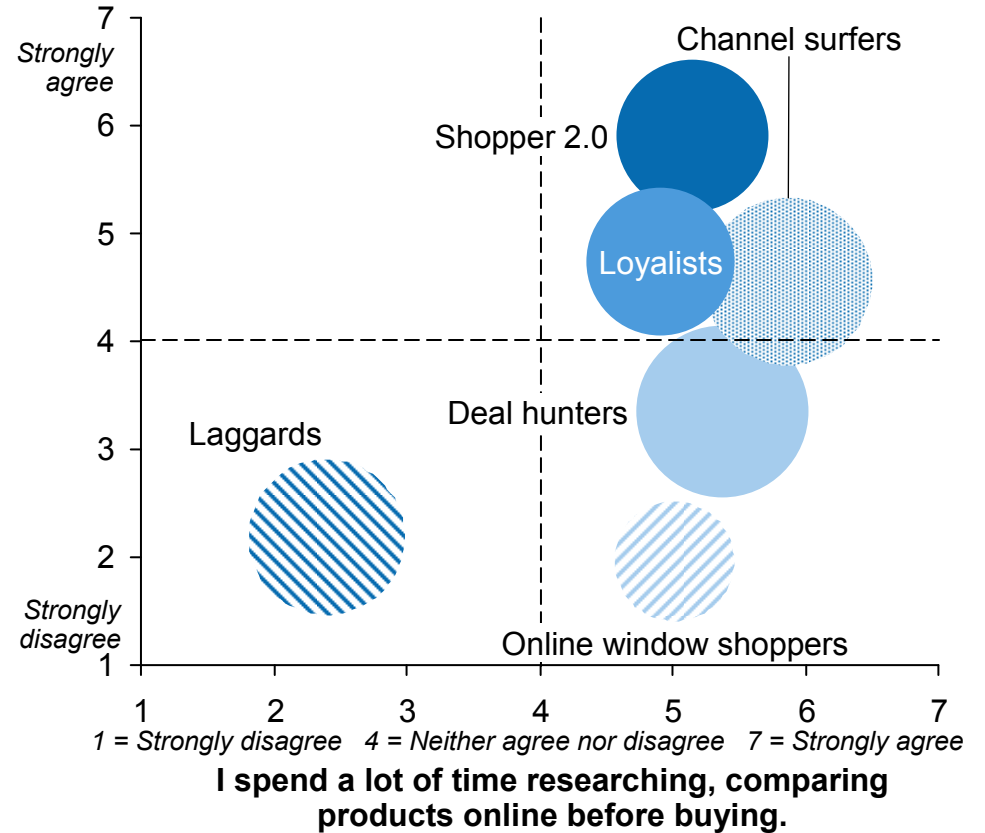
**Price Sensitivity:
Brand Loyalty and Store Loyalty**

I will shop at a different store with lower prices even if it's less convenient for me.



**Online Behavior:
Online Research and Online Purchasing**

I buy products online whenever possible.



Source: Booz & Company Fall 2009 Survey of Consumer Spending. Sample size n = 2,010

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Retailers and marketers need to address a number of key issues to maximize growth and profitability coming out of the downturn

Critical Questions for Marketers and Retailers Following the Recession

- What will industry profitability look like when demand picks up but likely at lower price points?
- Which retail formats – with lower-cost operating models, selling more at lower prices – will continue to gain share?
- How should manufacturers and retailers respond to avoid “overshooting” and, instead, maintain their long-term profitability?

$$(P \times Q) - \text{Cost to Serve} = \pi \text{ (profitability)}$$

- Will consumers continue to trade down to lower-priced goods?
- Will migration to digital search make it harder to increase prices in the face of increased transparency?

- As demand bounces back post-recession, how much quantity will be satisfied at lower price points?
- What retail mix shifts will persist?
- How should assortment be managed to optimize return on investment (ROI)?

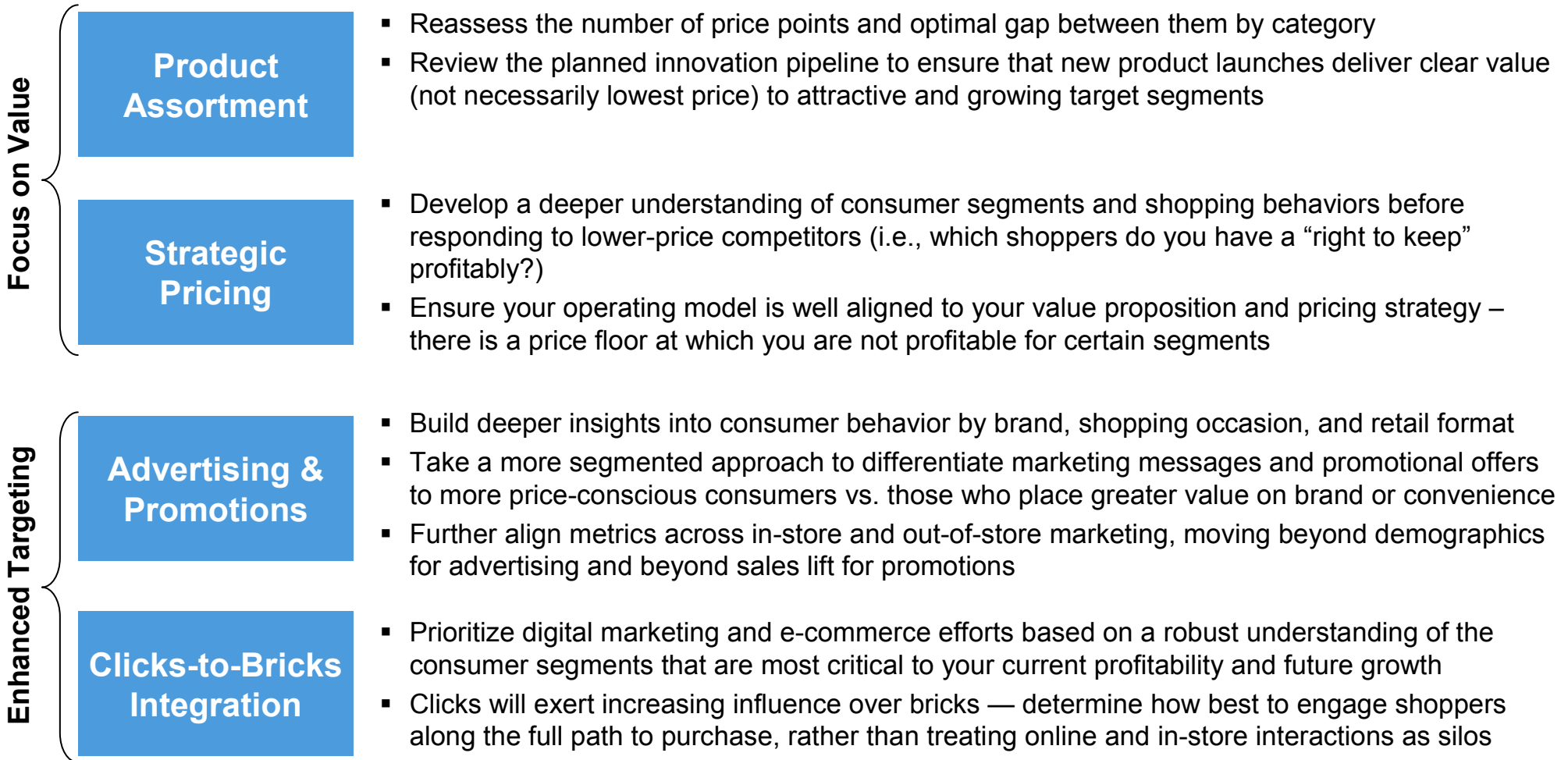
- What new retail formats will emerge with lower cost models?
- What is the most efficient and effective way of reaching consumers in this new environment?
- How can costs best be leveraged to drive the highest ROI?

Our view is that the recession has accelerated trends that have already been underway for a while ...

- Many of the observed changes in consumer behavior were present before the recession began
- This recession, and companies' response to it, has further sharpened consumers' focus on price – manufacturers increased consumer and trade promotions, consumers traded down and liked the experience, and online search (not a factor in other recessions) amplified price-driven behavior
- A slow recovery is likely to make these behavioral shifts in consumer spending “stickier”
 - Consumer have learned behaviors and adapted their attitudes
 - There is no evidence to suggest that consumers' attitudes toward price, brand, convenience, or retail format will reset fully to pre-recession levels
- Successful strategies need to address consumers' more value-conscious attitudes and behaviors, as well as the increasing trend of digital to retail integration
- Taking a more segmented approach targeted to shopper behaviors (as opposed to mass market approaches targeted to broad demographics like advertising has traditionally been) is required to avoid driving excessive discounting or destroying brand value

... and that these trends are independent of economic cycles or consumer demographics

Therefore, we suggest focusing on a number of key business imperatives as we emerge from the downturn



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