Business: From buy, buy to bye-bye; Consumer psychology

Anonymous. **The Economist**. London: Apr 4, 2009. Vol. 391, Iss. 8625; pg. 67

Abstract (Summary)
"Want it!" screamed the words plastered on the walls, counters and shopping bags in the flagship emporium of Saks, a big American retailer, on Fifth Avenue in New York. The same exhortation was emblazoned in huge letters on a giant red and white ball that revolved slowly in the middle of the main sales floor. Saks's spring **marketing** campaign, which came to an end on April 1st, made its brazen appeal to greed in a bid to drum up sales in a dire market. But the exclamation mark in its "Want It!" tagline should perhaps have been a question mark instead. Asked whether they want more stuff, consumers in rich countries have responded with an emphatic "No". The breathtaking speed with which retail sales have plummeted in both America and Europe (see chart on the next page) has caught retailers and manufacturers by surprise. In response, companies have tried desperately to prop up revenues using a variety of promotions, advertising and other **marketing** ploys, often to no avail. But as they battle with these immediate problems, marketers are also pondering what longer-term changes in consumer behaviour have been triggered by the recession. It is tempting to conclude that, once **economies** rebound, customers will start spending again as they did before. Yet there are good reasons to think that what promises to be the worst downturn since the Depression will spark profound shifts in shoppers' psychology.

Full Text (1123 words)

The recession will have a lasting impact on the way people shop

"WANT IT!" screamed the words plastered on the walls, counters and shopping bags in the flagship emporium of Saks, a big American retailer, on Fifth Avenue in New York. The same exhortation was emblazoned in huge letters on a giant red and white ball that revolved slowly in the middle of the main sales floor. Saks's spring marketing campaign, which came to an end on April 1st, made its brazen appeal to greed in a bid to drum up sales in a dire market. But the exclamation mark in its "Want It!" tagline should perhaps have been a question mark instead.

Asked whether they want more stuff, consumers in rich countries have responded with an emphatic "No". The breathtaking speed with which retail sales have plummeted in both America and Europe (see chart on the next page) has caught retailers and manufacturers by surprise. In response, companies have tried desperately to prop up revenues using a variety of promotions, advertising and other marketing ploys, often to no avail.

But as they battle with these immediate problems, marketers are also pondering what longer-term changes in consumer behaviour have been triggered by the recession. It is tempting to conclude that, once economies rebound, customers will start spending again as they did before. Yet there are good reasons to think that what promises to be the worst downturn since the Depression will spark profound shifts in shoppers' psychology.

The biggest changes will take place in America and parts of Europe, where housing and stockmarket bubbles have imploded and unemployment has soared. As well as seeing their incomes fall as employers cut wages and jobs, households have also seen the value of their homes and retirement savings shrink dramatically. Although the threat to wages will fade as growth picks up, the damage done to housing and other assets will linger.

This has already led to a swift tightening of purse strings by shoppers and a wave of discounting by companies. Inmar, an American firm that processes discount coupons, says that redemptions in America were 17% higher in the first quarter of 2009 than in the same period last year, as consumers hunted for bargains. Many companies have launched lower-priced products in order to avoid losing customers as they trade down. Danone, a French food group, has created a line of low-cost yogurts in

Europe, called "EUR co Packs", that come in smaller tubs and fewer flavours than its standard products.

The trend towards thrift will not disappear when the economy picks up. For one thing, those banks left standing after the bust will be far more parsimonious with consumer credit. For another, many people will still be intent on rebuilding their nest-eggs, which is reflected in sharply rising rates of saving. Sociologists also detect a distinct change in people's behaviour. Until the downturn, folk had come to assume that "affluence" was the norm, even if they had to go deeply into debt to pay for gadgets and baubles. Now many people no longer seem consumed by the desire to consume; instead, they are planning to live within their means, and there has been a backlash against bling.

So for years to come, many more households will be firmly focused on saving, splashing out only occasionally on a big-ticket item. Some firms are already trying to capitalise on this new mood. Sears, another American retailer, recently revived a savings plan it used many years ago, known as the "Layaway programme", under which a consumer can make a down payment on an item that is then held for him for a fixed period while he saves the rest of the cash needed to buy it.

A second shift in consumer psychology has been prompted by fallout from the global banking crisis and the furore over huge bonuses paid by firms rescued with public money; by a wave of financial scandals, such as the Madoff affair in America; and by multibillion-dollar bail-outs of carmakers in many countries. All this seems to be denting trust in business more generally. The Boston Consulting Group recently completed a global survey of consumer sentiment involving 15,000 consumers. The results, to be published this month, show that over half of respondents from America and Europe say the crisis has intensified their distrust of big business.

Past downturns have also stoked anti-business feeling, which dissipated as growth returned. But the sheer scale of the failings that have come to light recently mean that suspicion and wariness will not vanish so easily this time around. In response, firms will need to be even more transparent in their dealings with customers, who will punish them severely if they fail to keep their promises. Bain, another consulting firm, says it has seen several firms appoint executives recently with a specific brief to ensure that price adjustments and service cuts do not damage loyal customers' experience of brands.

Companies will also need to show they empathise with consumers' new concerns. "There will need to be a move from passion to compassion in marketing," reckons John Gerzema of Young & Rubicam, a marketing-services firm. Hyundai, a South Korean carmaker, has taken the hint. In January it said that for a 12-month period it would allow car buyers to return vehicles without incurring a penalty if they lose their jobs. On March 31st Ford and General Motors followed Hyundai's example, saying they would make payments on car loans and leases for a limited period on behalf of buyers who are laid off.

Both the shift towards greater thrift and greater scepticism about brands will influence other consumer trends, too. Interest in things such as green products and healthy foods will continue to grow in a post-crisis world, but customers will be less willing to pay a premium for them, and will demand more value for money when they do.

The downturn will also accelerate the use of social media, such as blogs and social-networking sites, by consumers looking for intelligence on firms and their products. As trust in brands is eroded, people will place more value on recommendations from friends. Social media make it harder for brands to pull the wool over consumers' eyes, but they also offer canny companies a powerful new channel through which to promote their wares and test new products and pricing strategies.

Marketers ignore the messages that emanate from these groups at their peril. For one thing is clear: this recession has triggered a wholesale reappraisal by shoppers of the value that their habitual brands deliver. The winners will be those that adapt intelligently to the new reality. The losers will be those who think they can win simply by telling consumers to "Want It!"