

The Recession

We have been working on a major study of the recession, which uses a combination of qual and quant to map out how different groups are reacting to the recession, and economic forecasting to forecast how these groups will change over time (and thus crucially does not rely on consumers trying to predict for themselves how they may change).

Our study covers a nationwide sample of over 2,000 UK citizens and highlights just how complex the effects of the recession are and how it has led to a reassessment in fundamental principles of consumption.

The current recession does not have one cause, instead it is a 'syndrome'. The country is being hit by a combination of:

- Rising prices (food, petrol and utility prices) which are still causing concern. Despite the normalising of key indicators, such as petrol and the heavy discounting of food, people are learning what things cost and how much they spend. This is driving behaviour change that will last.
- Declining income (overtime, bonuses and unemployment) which is impacting on spending power
- Fear (of redundancy, retirement and falling house prices) which is impacting on confidence to spend
- And a credit crunch (i.e. people's inability to get credit, either as a form of mortgage or personal credit e.g. credit cards) – much discussed, but affecting relatively few consumers. However, this has the potential to force a reassessment about our reliance on credit among a wider audience

Nor does the recession have one universal effect:

These four different forces hit different groups in different ways - and this may explain some of the unusual and unpredictable market results we are seeing:

- Why are we seeing somewhat better than expected retail figures?
- Why are some 'quality' lines still performing well, when we are all supposed to be 'trading down'?

Caught in a Perfect Storm?

Our research shows that for some, the climate is a 'perfect storm' where falling house-prices, a shrinking supply of credit AND job losses have all conspired to create a devastating scenario. For this group the headlines are true and cutting back and trading down are the only option – this is a time of short-term (but drastic) retrenchment.

But the class divide remains...

For others, largely the middle classes, it is more likely to be experience (or fear) of ONE of these issues that is damaging confidence and changing behaviour. That stimulus is encouraging a reassessment of expenditure, a move to quality not quantity, switching suppliers and eliminating waste. This isn't just about seeking out discounts and cutting back – this is a wake-up call that some are finding quite liberating.

Six clear groups emerged from our study:

- 'Doing Fine'** - Generally more affluent and unaffected economically, and feel that the chickens are coming home to roost for the rest of society. This group is prudent, secure and unlikely to change their behaviour in the short or long term. They will carry on spending as usual - however, this is relatively prudently. It is harder to flush out their spending compared with the other groups, as they tend to let bargains fall into their lap, rather than chase them. Thus if they are already your loyal customers, you need to take care not to unnecessarily give away margin to them.
- 'Worried Well'** - High earners who have wobbled a little, and are fearful of greater impact, and so are holding back on spending. This group are taking stock and learning where they are exposed. Although this group can still afford to spend, they are deliberately thinking twice and asking themselves, 'do I really need this?' Their spending can be flushed out **if** you can convince them that they are making a sensible purchase and not just frittering their money away. Many have found that 'cutting out the crap' has been a liberating experience and coincides with 'green' desires to be less wasteful and materialistic. We predict that this is likely to be a long-term shift in behaviour – not a knee-jerk reaction.
- 'Wising Up'** - Who have had a scare (such as redundancy, or lost overtime/bonuses, or struggled with credit) and wobbled a lot and now realise they have to more actively manage their finances. They are sobering up to just how much money they have wasted without really thinking and now are really scrutinising their spending. They are realising that just by paying attention and shopping around, they can make significant savings. Moreover, they are still spending on things that are really important to them (e.g. they won't necessarily sacrifice their cleaner, gym membership or Summer holiday)
- 'Hunkering Down'** - Who, although they have had low incomes all their lives, have seen some smaller luxury come into their lives over the past few years, which has now been taken away by the rising cost of living. They are particularly risk-averse when buying larger ticket items and seek the reassurance of reputable brands and guarantees.
- 'Fighting Back'** - Hard working families, who resent wealthy bankers and property developers (and blame them for the mess the economy is in) and feel hard done by that they live in 'rip-off Britain', so are 'Fighting Back' against the system. Although they are feeling the pinch from the higher cost of living, they haven't been directly affected by the recession yet, so still have money to spend. Generally they are price conscious and shop around to ensure that they get the best available deal. Some are quite vulture like, circling the high street on the look out for an ailing retailer in the hope of a bargain.
- 'Perfect Storm'** - Hit by a combination of lowered income, rising cost of living and the credit crunch, they are forced to drastically to cut back on everything. However, this group are still surprisingly responsive to deals and offers of interest free credit.

Please contact us if you would like more details on these groups, such as:

- *The size and demographic shape of each group*
- *The projected future size of each group*
- *Shopping behaviour and key hooks to attract them*

Or categories and product types where spending is holding up (or even increasing)