



Feeling the Pinch?

A report on how key trends in Ireland and the UK will be affected by the current economic squeeze



The Consumer Lifestyle Trends

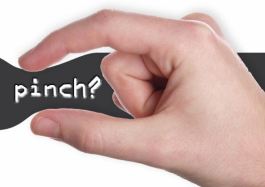


- The purpose of the Consumer Lifestyle Trends programme is to deliver insight into the emerging consumer behaviours that will shape business in the short-to-medium term.
- This report explores in-depth the current reactions and the future stated intent of consumers in response to the harshening economic climate.
- Whilst the six trends identified in the programme remain relevant, the report identifies some of the behavioural changes that may occur and the trade-offs consumers are likely to make. It is worth noting that whilst the climate of concern is bringing out 'The Smart Shopper' in all of us there are facets of life where many consumers are less likely to compromise, such as 'Making a Difference' or still wanting 'The Real Thing'. Equally, many experiences highlighted by the trend 'Living Life to the Full' have become more important as an antidote to the pressure and concerns to today's harshening economic environment.

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Introduction



- As the global credit crunch starts to really bite, Ireland and the UK are feeling its effects. With high profile media coverage of financial problems, such as the run on Northern Rock, the reality of a new economic era is hard to ignore. The aim of this report is to cut through the hype to understand what is really happening as consumers continue to feel their finances being squeezed.
- This report starts by providing an examination of the macroeconomic context in the UK and Ireland and analyses and explores the results of a proprietary research study carried out by Henley Centre HeadlightVision.
 - Initial information was gathered in late July 2008 in the UK from a nationally representative online survey of over 2000 UK adults (aged 18+).
 - Comparative information has been added in August for Ireland with a nationally representative online survey of over 500 adults (aged 18+).
 - Consumers were asked about their attitudes and behaviour with regard to the economy and their personal finances over the past year and the coming 12 months.
- The report concludes by exploring the impact these economic conditions have in shaping marketing messages that respond to these shifts in attitudes.



Executive summary:

Key findings

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Executive summary:

Macroeconomic context:

- The consumer spending boom is over. House prices and discretionary incomes are falling and inflation is on an upward trend. Whether or not the UK and Irish economies technically experience a recession, the impact of this bleaker landscape on consumer confidence and behaviour will be significant.

Anxiety levels:

- Consumers in both markets feel negatively about their personal finances, with high proportions becoming more worried over the past year and many expecting the future to be bleak.
- Any action that a company can undertake to help reassure or support consumers in this climate may be appreciated, so long as it is perceived as genuine and in line with the company's brand.
- It is personal, immediate worries that are causing the most anxiety for consumers. For instance, the possibility of a recession or a decline in the stock market is more removed and therefore less concerning than being able to afford the basics of energy and food.
- We have identified four segments of consumers, ordered by increasing level of anxiety: The Placid, The Perturbed, The Pressured and The Panicked.
- Understanding the anxiety levels of your customer base will help you to develop appropriate positioning, promotional and communications strategies for those consumers.

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Executive summary:

Cutting back and trading off:

- There is a strong correlation between the level of anxiety that consumers feel, the extent of their spending cutbacks in the last 12 months and their expected cutbacks in the next 12 months.
 - The most popular money-saving actions for Irish consumers involve using offers and deals, coupons and vouchers or even switching to a cheaper brand. For the UK, the most popular actions are similar; keeping track of prices and taking advantage of promotions to get products that they are already buying for a lower price. Consumers are prepared to sacrifice convenience if it means that they don't have to compromise the goods and services that they want to consume.
 - Large proportions of the UK and Irish population are prepared to 'trade down' in the sense that they will choose cheaper brands and cheaper retailers in order to save money. Irish consumers are more likely than UK consumers to do this.
 - Consumers are willing to give up luxuries such as shopping for fun, updating goods to keep up with styles and fashions and eating out. However, these trade-offs only tend to be considered after consumers have saved what they can through price checking and trading down.
 - Consumers will look to make other cuts in their spending and consumption ahead of cutting their Fairtrade, environmentally friendly and organic purchasing.
- Products and services that are perceived to be integral to consumers' lifestyles will only be cut as a last resort. It is only really the most anxious who will consider these sacrifices in any significant numbers.
- There is also an opportunity for brands to position themselves as helping consumers to maintain their current lifestyles.

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Executive summary:

Strategic & marketing implications:

- Implications emerging from the Feeling the Pinch study can be distilled into five broad themes:
 - 1. The importance of empathy:** Understanding and monitoring the anxiety levels of your customer base will help you to develop appropriate positioning, promotional and communications strategies going forwards.
 - 2. Protect your differentiation:** While price will clearly be important to consumers in a slowdown, very few consumers make decisions on price alone. Brands need to continue to give consumers multiple reasons to choose their products over the competition.
 - 3. Redefine your competitive set:** During a slowdown, consumers tend to adopt a credit/debit approach to managing their finances - they look to save in some areas so that they can continue to spend in others. The key implication of this is that brands need to understand the broader competitive context in which they are operating.
 - 4. Look, listen and react:** It is important to keep in mind that no two slowdowns or recessions are the same. The contributing factors tend to be different, and in any category the market context will have moved on significantly since the last slowdown. As a result, consumers will not necessarily respond in the same way, so neither should brands.
 - 5. Plan for the recovery:** Organisations shouldn't lose sight of the longer term, and should be planning for this recovery before it has begun. If strategic and innovation planning grind to a halt now, you will inevitably be playing catch up when the recovery begins.



Chapter 1:

Macroeconomic context

Feeling the pinch?





A cooling climate

Both the Irish and UK economies have grown considerably over recent years. In the UK GDP has grown for each of the last 63 quarters to March 2008 and Ireland's economy has generally outgrown its European counterparts; GDP per capita is some 40% above euro average and GDP grew at a rate of 6% in 2007 Ireland). Growing incomes and escalating house prices have boosted consumer confidence and wealth in both countries in recent times.

However, consumer debt (mortgages and consumer credit) reached astronomical levels and the housing market had become over-valued, as the ratio of house prices to average earnings reached new heights. The unfortunate combination of a surge in oil and food prices and the credit crunch have brought these underlying imbalances in both economies into sharp relief. The weakening UK economy and the gloomy outlook is confirmed by the latest GDP figures – zero growth in Q2 following a 0.3% rise in Q1. In Ireland, GDP declined by -1.5% for the first quarter of 2008 when compared to the same period in the previous year.

(Source: CSO UK & Ireland)

A declining housing market



UK: The latest data from the Halifax shows that house prices fell by 8.8% in the twelve months to July 2008.

IRELAND: Average national prices were down by 9.7% in the 12 months (year on year) to June according to The Economic and Social Research Institute House Price Index.

There are now 250,000 vacant housing units on the market, about 15% of Irish housing stock, compared to 100,000 units five years ago. So builders are responding the only way they can - they've stopped building. As construction has been a major source of the Celtic Tigers' growth, a slowdown in this sector has had major impacts on employment.

(Source: Money Week Oct 2007).

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A cooling climate

Ireland's situation also stems from economic weakness in the United States and the United Kingdom, and the strength of the euro against the dollar. Ireland is particularly sensitive to such developments due to the direction of its trade flows and the important role played by US firms in Foreign Direct Investment (FDI).

In short, the economic climate is becoming very different from that which consumers and businesses have been accustomed to for the past five, ten, even fifteen years. For this reason, and despite the media's obsession with the 'R' word, it is somewhat academic as to whether the UK and Irish economies actually enter a recession in the technical sense of two consecutive quarters of negative growth – the key point is that things are now very different from what we have become used to – the boom is over and the impact of this downturn on consumer confidence and behaviour is already being felt.

The spectre of inflation



Rising fuel and food prices have pushed up consumer price inflation in both the UK and Ireland. In the UK inflation increased to 4.4% in July 2008, the biggest increase for 11 years. As consumer price inflation has exceeded 3.0% in the UK, the Governor of the Bank of England was obliged to write a letter to the Chancellor of the Exchequer explaining why inflation was outside its target range and what he proposes to do about it. The Bank of England has warned that inflation may hit 5.0% later in the year. In Ireland, inflation averaged 4.9 per cent in 2007 compared to 4 per cent in 2006. Shorter-term inflation appears to be under control. However certain sectors have been harder hit; in the year to April 2008 food prices have risen by 8.1%. (Source: CSO UK & Ireland)

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Implications:

- The consumer spending boom is over. House prices and discretionary incomes are falling and inflation is on an upward trend. This is a very different economic landscape from that which consumers and businesses have been used to for the past 15 years. Whether or not the UK and Irish economies technically experience a recession, the impact of this bleaker landscape on consumer confidence and behaviour will be significant.
- The credit crunch and rising inflation have yet to have their full impact on both the UK and Irish economies.
- The outlook for businesses and the economy more broadly will very much depend on the consumer reaction to this downturn and how they modify their behaviour. This report gives insight into the likely changes that they will make.





Chapter 2:

Anxiety levels

Feeling the pinch?



Anxiety levels



The state of play

It is not surprising that the media focus on food and energy prices, the credit crunch, and a possible recession have taken their toll on consumers' perceptions of both the UK and Irish economies. In the UK, 89% of consumers feel that it is going badly or very badly. In Ireland the situation is similar, although Irish consumers appear to be slightly more positive as 25% of Irish consumers still feel that the economy is going fairly well, compared to just 7% of UK consumers.

The changing economic situation over the last year, and public perceptions of it, has also led to growing concerns over personal financial security. Chart 2 shows that a substantial proportion of the population have become more worried about their personal financial situation over the past 12 months. Around 1 in 4 people in both the UK and Ireland are a lot more worried and similar proportions feel somewhat more worried. Only around 1 in 5 people have not become worried about their financial situation in the past 12 months.

CHART 1: How do you think things are going for the economy these days?

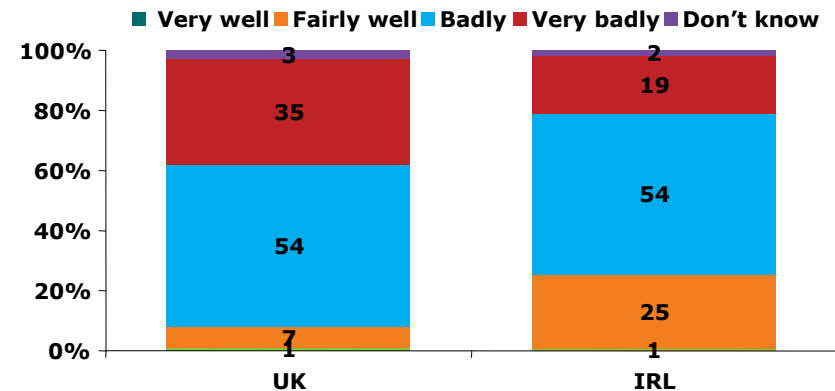
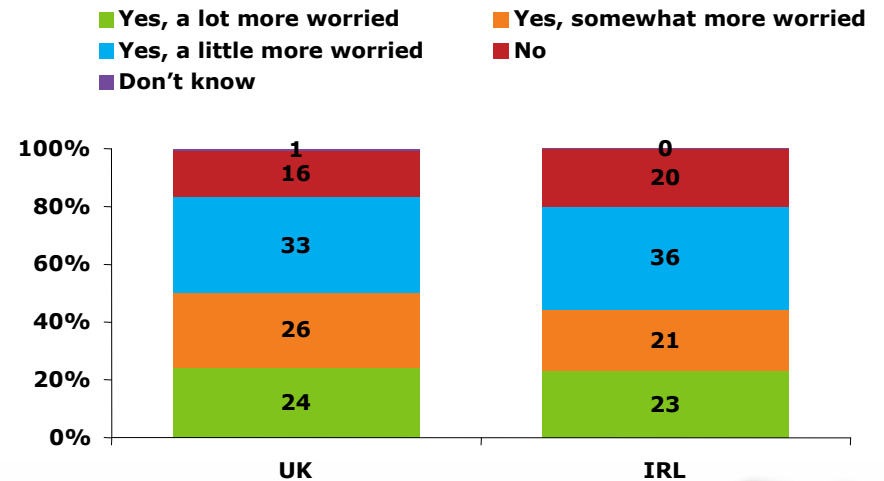
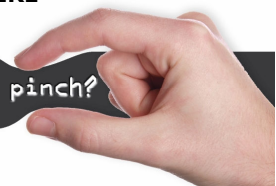


CHART 2: Have you become more worried about your financial situation over the past 12 months?



Feeling the pinch?



Anxiety levels



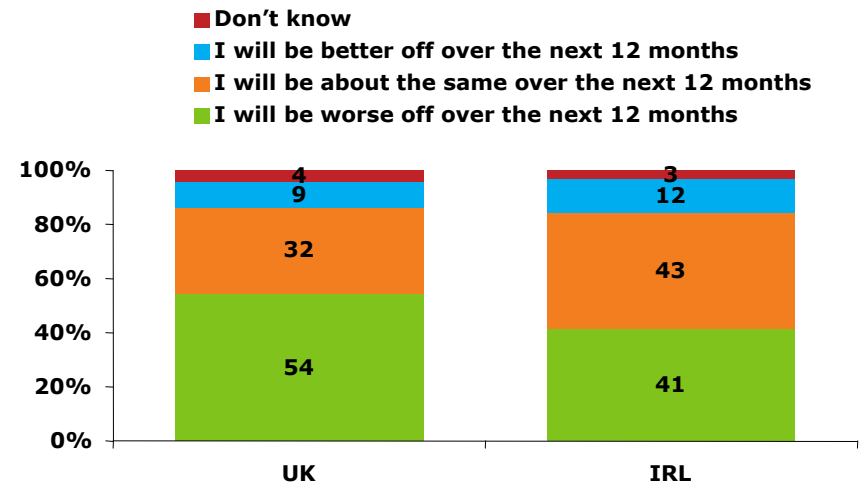
The state of play

As well as worries growing over the past year, many people believe that they will become less well off over the coming 12 months. Chart 3 shows that 54% of people in the UK and 41% in Ireland feel that they will become worse off in the next 12 months.

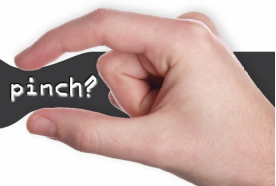
In both countries very few people feel that they will become better off in the next 12 months.

This growing feeling of anxiety is likely to shape the spending habits of a large proportion of consumers in both countries.

CHART 3: How do you feel about your personal financial situation over the next 12 months compared with the last year?



Feeling the pinch?





The state of play

Findings:

- The public perception of both the UK and Irish economies is negative – the vast majority feel that the economy is going badly.
- This negativity is impacting on how consumers feel about their personal finances, with high proportions becoming more worried over the past year and many expecting the future to be bleak.

Implications:

- Any action that a company can undertake to help reassure or support consumers in this climate may be appreciated, so long as it is perceived as genuine and in line with the company's brand.
- Consumers will also be looking for small treats and other distractions from their financial worries. Cadbury's profits were up by 46% in the first half of 2008 and their chief executive, Todd Stitzer, added that *'no matter how bleak economies look, people always go for treats and that's why we have seen no real slowdown'* (Source: The Guardian, July 2008). Another illustration of this is the steady growth of premium lager's share of total lager sales throughout the recession of the early 1990s (Source: BMS/Whitbread).

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Specific concerns and worries

In addition to exploring broad concerns about the economy and personal financial security, the *Feeling the Pinch* study also explored levels of concern relating to 22 specific issues. This enabled the assessment in detail of the anxieties of UK and Irish consumers. The issues cover financial worries, but also other concerns that consumers may have, in order to provide some benchmarks. The issues fall broadly into three categories:

External factors over which consumers have no control

- The possibility of a terrorist attack in Ireland / the UK
- The war in Iraq
- The possibility of a recession
- Global warming
- Rising interest rates
- A decline in the stock market

Personal financial concerns that have the potential to affect most consumers

- The cost of food
- The cost of petrol
- The level of debt I have
- Having enough money to retire on
- Keeping up with the cost of living
- Having enough money to put food on the table
- The cost of electricity and gas in the home





Specific concerns and worries

Personal financial concerns that affect only some consumers

- Caring for a parent financially
- Finding a job
- Losing job
- Keeping up with mortgage payments
- Paying rent
- Rising mortgage rates
- Paying for child care
- Paying for children's education
- A decline in house value

Consumers were asked to assess each of these potential concerns on a four-point scale from 'not at all worried' to 'very worried'.

The following section explores the proportions of the total population who are fairly or very worried about each of the issues.

Feeling the pinch?

Anxiety levels



Table 1: Percentage of consumers very worried or fairly worried about the following issues

Rank	UK		Ireland	
	Anxiety	%	Anxiety	%
1	The cost of petrol	65	The cost of petrol	63
2	The cost of gas & electricity in the home	63	The cost of gas & electricity in the home	61
3	The cost of food	60	Keeping up with the cost of living	52
4	Keeping up with the cost of living	55	The cost of food	51
5	The possibility of a recession	49	The possibility of a recession	48
6	Rising interest rates	41	Global warming	47
7	Global warming	41	Rising interest rates	42
8	Having enough money to retire on	38	Having enough money to retire on	38
9	The war in Iraq	35	Rising mortgage rates	33
10	Having enough money to put food on the table	31	The war in Iraq	29

Feeling the pinch?



Anxiety levels



Specific concerns and worries

A number of themes emerge from this:

First, consumers are worried not just at a general level, but also about very specific issues facing them. 34% of Irish consumers are very worried about the cost of petrol, with a further 28% fairly worried. This is a similar figure to the number of UK consumers worried about the cost of petrol – showing that fuel is a common cause for concern. 61% of the Irish population are fairly or very worried about the cost of electricity and gas in the home.

Secondly, it is personal, immediate worries that are causing the most anxiety for consumers. For instance, the possibility of a recession seems to be more removed and less concerning than being able to afford the basics of energy and food.

Finally, worries about finances and the economy seem to trump non-financial issues such as global warming and the war in Iraq. A comparatively lower proportion, 41% in the UK and 47% in Ireland, are worried about global warming and even fewer are worried about the war in Iraq in both countries.

Feeling the pinch?





Specific concerns and worries

Findings:

- Consumers are very worried about a number of specific issues they face. In particular, it is personal, immediate worries that are causing the most anxiety for consumers. For instance, the possibility of a recession or a decline in the stock market is more removed and therefore less concerning than being able to afford the basics of energy and food.
- Worries about finances and the economy seem to trump non-financial issues such as global warming and the war in Iraq.

Implications:

- As specific issues start to create anxiety there are opportunities for brands to alleviate these worries.
- For instance, in the UK, Tesco is promoting itself as '*Helping you spend less*' in order to alleviate fears over the cost of food and more broadly, the cost of living.
- Similarly, Chrysler is offering to meet 50% of its new customers' petrol costs until the end of the year.





Assessing anxiety

The Feeling the Pinch findings have been used to create an Anxiety Index that aggregates the specific concerns that consumers have into a broader measure of anxiety. This index allocates each consumer a score based on their concerns about some of the specific issues detailed above. As anxiety increases, consumers begin to change their consumption behaviour, so it is important to be able to understand and quantify the overall anxiety that consumers feel. The purpose of this index is two-fold:

First, to understand if there are any significant distinguishing characteristics of those with different levels of worry, in particular with regard to socio-demographics.

Second, to enable the prediction of future behaviour as anxiety levels change and build in the coming months. This is possible by exploring the correlation between levels of anxiety and willingness to make sacrifices in order to save money, as explored in the next chapter.

The Anxiety Index was created from eight of the issues in the survey about which consumers were asked their degree of worry. The eight issues were chosen on the basis that they are potentially applicable to the majority of UK and Irish consumers. In combination they provide a universally applicable measure of consumer anxiety. For each of the eight issues, respondents rated their level of concern on a four-point scale ranging from 'not at all worried' to 'very worried'. Selecting the lowest rating on all eight issues would yield a total score of eight; selecting the highest rating on all eight items would yield a total score of 32. Thus, the Anxiety Index scale ranges from eight to 32.





Assessing anxiety

Based on these scores consumers have been classified into one of four anxiety segments. The cut-off points for each segment were selected to yield the greatest differentiation and are thus the most predictive of consumer behaviour. The segments identified are as follows:

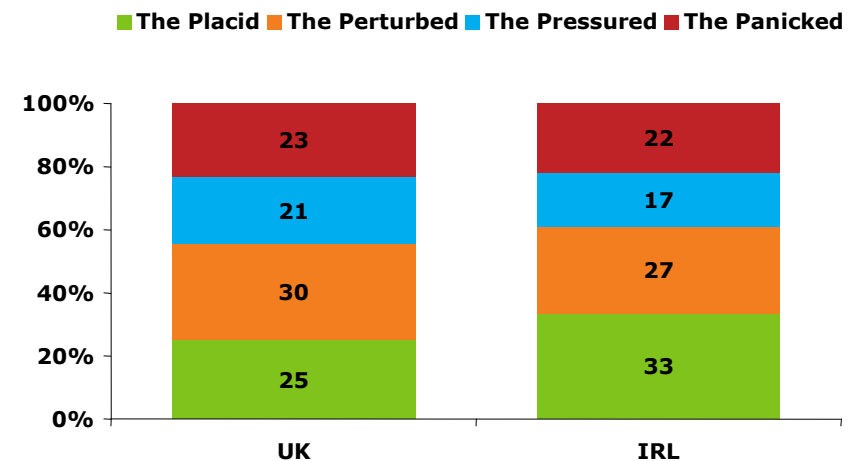
The Placid score less than 17 on the Anxiety Index, meaning that they are on average at most slightly worried about the eight issues.

The Perturbed show greater but still relatively low levels of anxiety, scoring between 17 and 21 on the Anxiety Index.

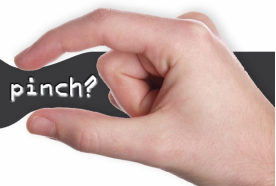
The Pressured index between 22 and 25.

The Panicked score over 26, showing that they are on average fairly or very worried about the issues and are very worried about at least two of the issues.

CHART 4: The % of consumers in each of the anxiety segments



Feeling the pinch?





Assessing anxiety

For both the UK and Ireland around 1 in 4 people fall into the Panicked group; this is a significant section of the population for whom the current economic situation is very worrying. Notably, for both countries the characteristics of these population groups is very similar and both the level of income and housing tenure strongly influences people's likelihood to belong to this group.

Income levels: In both countries the proportion of people belonging to the Panicked groups rises as their income is reduced. The higher the income the greater likelihood that they belong to the Placid group.

House tenure: Anxiety is highest amongst those who own their home with a mortgage – 28% of the UK population who own their home with a mortgage fall into the Panicked segment and 30% for Ireland for the same population group. Equally, those in rented accommodation have high anxiety levels with 30% in the UK and 25% in Ireland belonging to the Panicked segment.

It is important to note that many people can still be defined as Placid – generally those with higher incomes. In the UK this represents 25% of the population and 33% in Ireland. The need to consider ways to alleviate or address their concerns is limited - more price or promotion-based activities may not be needed to prevent these consumers from trading down or reducing consumption.





Assessing anxiety

Findings:

- We have identified four segments of consumers, ordered by increasing levels of anxiety: The Placid, The Perturbed, The Pressured and The Panicked.
- Anxiety levels also show a strong association with income and household tenure, with those owning their home without a mortgage most likely to be Placid.

Implications:

- Anxiety and worry are powerful emotions – helping consumers to alleviate these emotions offers the potential to build powerful and enduring brand connections.
- Understanding the anxiety levels of your customer base will help you to develop appropriate positioning, and promotional and communications strategies for those consumers. It will also help you to predict the value trade-offs that they are likely to make in the face of financial pressures, as we will explore in the following chapter.



Chapter 3:

Cutting back and trading off

Feeling the pinch?

Cutting back and trading off



Inclination to cut back

This chapter explores how consumer spending behaviour is changing and is likely to change going forwards. There is a strong correlation between levels of anxiety and cutting back on spending.

Charts 5&6 show that the most anxious consumers are more likely to have cut back on spending over the past year, with nearly half of The Panicked having cut back a lot in both the UK and Ireland. Even the Placid groups in both countries have made some changes to their spending behaviours with 43% in each country saying that they have cut back a little.

CHART 5: Have to cut back in the last 12 months (UK)

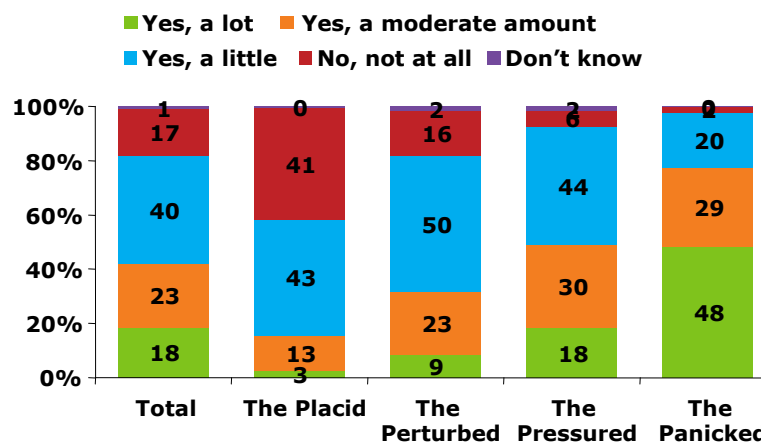
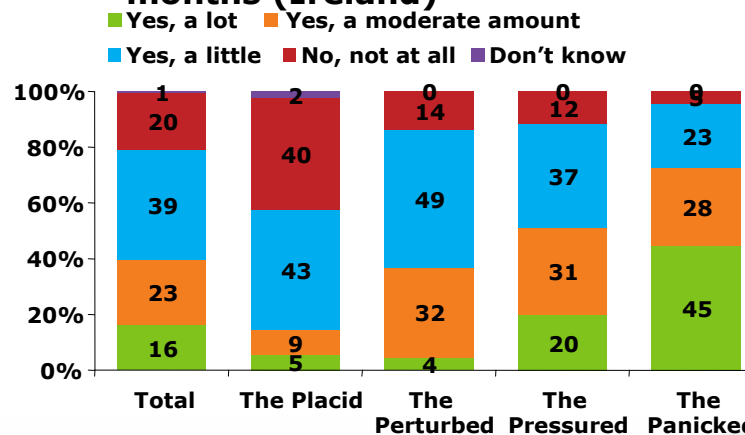


CHART 6: Have to cut back in the last 12 months (Ireland)



Feeling the pinch?



Cutting back and trading off



Inclination to cut back

There is also a strong statistical correlation between levels of anxiety and the likelihood of cutting back on spending in the coming year. This is demonstrated in Charts 7 and 8. It is worth noting that for all four anxiety groups in both the UK and Ireland future cutback behaviour is likely to be stronger than past cutback behaviour.

These observations are critical in understanding both the explanatory and predictive power of the Anxiety Index with regard to consumer spending behaviour. Consumers have acted upon, and will continue to act upon, their concerns by altering their consumption behaviour and, in particular, by reducing spending. In the remainder of this chapter we explore, with more granularity, where and how consumers are willing and likely to cut back on their consumption in order to save money.

CHART 7: Are you planning to cut back? (UK)

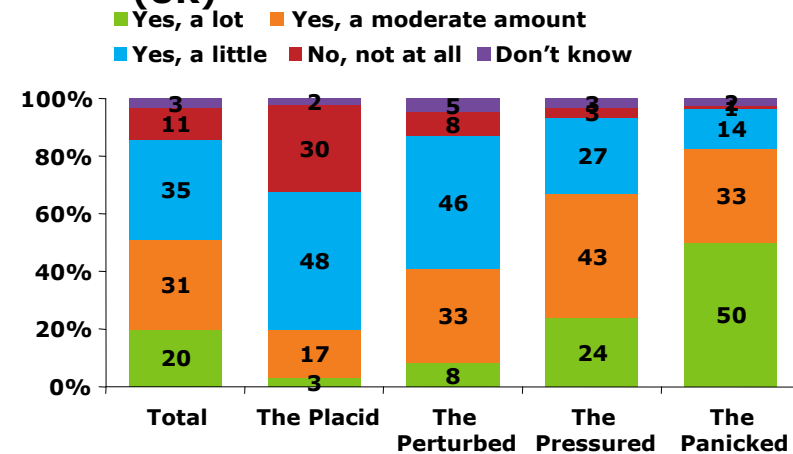
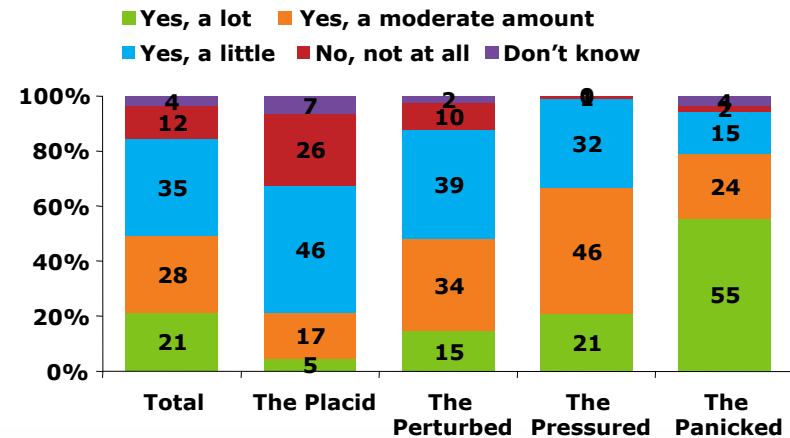


CHART 8: Are you planning to cut back? (Ireland)



Feeling the pinch?





Assessing anxiety

Findings:

- There is a strong correlation between the level of anxiety that consumers feel and the extent of their spending cutbacks in the *last 12 months* and their expected cutbacks in the *next 12 months*. Anxiety therefore provides a good predictor of consumption behaviour.

Implications:

- Understanding anxiety levels, and how they are likely to change, is a key tool in predicting changes in consumption behaviour.

Cutting back and trading off



Value trade-offs

In order to understand precisely how consumption behaviour is likely to change in the coming year, respondents in the survey were asked to rate how much more or less likely they are to carry out approximately 60 specific actions in the following year compared to the past 12 months, given their personal financial situation. These cover a range of behaviours, some of which are category-neutral and others that explore consumption behaviour in certain sectors and circumstances. By understanding the trade-offs and sacrifices that consumers are prepared, and likely, to make in order to save money, we can predict how consumer behaviour is likely to change going forwards as anxiety levels grow.

A large proportion of consumers consider themselves somewhat or much more likely to adopt certain strategies in order to cut back on their spending over the next year.

Feeling the pinch?

Cutting back and trading off



Value trade-offs overview

There are two main observations pertinent to Table 2. First, large proportions of the UK population are prepared to 'trade down' in the sense that they will choose cheaper brands and cheaper retailers in order to save money.

The second key point is that luxuries such as shopping for fun or purchasing indulgences or treats are trade-offs that seem to come down the pecking order behind price/promotion checking and trading down.

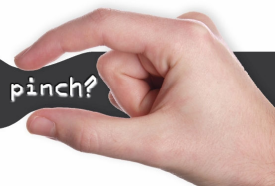
UK consumers appear to be less willing to change their leisure habits or go to too much inconvenience to save money and find products and experiences at a lower price.

Table 2: Likelihood to do each of the following things in the next 12 months, compared with the last 12 months

UNITED KINGDOM		%
Top 10:		
Use coupons and vouchers that offer money off in shops		70
Choose products on the basis of special offers or deals		70
Switch to a cheaper brand if your usual brand goes up in price		62
Actively look for cheaper brands than I usually buy		62
Take advantage of offers from loyalty cards that you have		59
Regularly update the things you own*		57
Buy the latest technology products*		56
Cook from scratch rather than purchasing ready meals		54
Find new ways to spend your leisure time that involve spending less money		54
Shop at several stores to get the best prices		51
Bottom 5:		
Redecorate or update your furnishings in the home*		40
Holiday in UK instead of travelling abroad		36
Do chores or projects yourself		34
Buy Fairtrade products*		30
Buy environmentally friendly products*		28

***Percentage not likely**

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Cutting back and trading off



Value trade-offs overview

For Irish consumers likely actions involve utilising measures offered by brands or retailers such as money-off coupons and special deals, to allow them to continue buying the things they want to at a lower price. This is very similar to UK consumers, who also show a willingness to sacrifice convenience by doing more of the work themselves in order to maintain their current shopping habits.

Across all categories, Irish consumers are more likely than their UK counterparts to make trade-offs, suggesting that when it comes to the practicalities of dealing with tougher economic times Irish consumers are more likely than UK consumers to make changes to their shopping habits.

It is also note-worthy that buying Fairtrade or environmentally friendly products are both actions that Irish consumers will feel less likely to do in the next 12 months.

Table 2: Likelihood to do each of the following things in the next 12 months, compared with the last 12 months

IRELAND		%
Top 10:		
Choose products on the basis of special offers or deals		78
Use coupons and vouchers that offer money off in shops		71
Switch to a cheaper brand if your usual brand goes up in price		68
Actively look for cheaper brands than I usually buy		67
Regularly update the things you own*		66
Cook from scratch rather than purchasing ready meals		64
Switch to a cheaper supermarket for your main shop		63
Take advantage of offers from loyalty cards that you have		62
Find new ways to spend your leisure time that involve spending less money		62
Shop at several stores to get the best prices		62
Bottom 5:		
Purchase or use second hand products		42
Buy organic products*		36
Holiday in Ireland instead of travelling abroad		35
Buy Fairtrade products*		21
Buy environmentally friendly products*		20

***Percentage not likely**

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Cutting back and trading off



Value trade-offs

Findings:

- The most popular money-saving actions for Irish consumers involve using offers and deals, coupons and vouchers or even switching to a cheaper brand. For the UK, the most popular actions are similar; keeping track of prices and taking advantage of promotions to get products that they are already buying for a lower price. Consumers are prepared to sacrifice convenience if it means that they don't have to compromise the goods and services that they want to consume.
- Large proportions of the UK and Irish population are prepared to 'trade down' in the sense that they will choose cheaper brands and cheaper retailers in order to save money. Comparatively Irish consumers are more likely than UK consumers to do this. They are also much more likely to do chores or projects themselves, suggesting perhaps a greater willingness to actively engage in money-saving activities.
- Consumers are willing to give up luxuries such as shopping for fun, updating goods to keep up with styles and fashions and eating out. However, these trade-offs only tend to be considered after consumers have saved what they can through price checking and trading down.
- Consumers will look to make other cuts in their spending and consumption ahead of cutting their Fairtrade, environmentally friendly and organic purchasing.

Feeling the pinch?



Cutting back and trading off



Value trade-offs

Implications:

- Brands need to position themselves as being on the consumers' side – supporting consumers' desire to spend wisely, rather than impeding them. Promotions and coupons are one approach to doing this.
- The level of scrutiny that consumers will apply to price means that brands need to be open and up-front with consumers. Attempts to mask price rises run the risk of back-firing, as evidenced by the recent press attention on Kraft's decision to reduce the thickness of Dairylea slices instead of increasing their price.
- Brands will also need to ensure that any premium they are charging over their competition is clearly justified in the minds of consumers. Focusing communications purely on price risks devaluing any price differential.
- Behaviour around consuming less is already being practiced by many. The key implication of this is that brands need to understand the broader competitive context in which they are operating. Consumers tend to approach spending in a credit/debit way – they look to save in some areas so that they can continue to spend in others – and this is particularly the case when times are tough. If yours is a category in which consumers are prepared to consume less, what are they spending on instead, and how do you need to shift value perceptions of your category in light of this?

Feeling the pinch?



Cutting back and trading off



Value trade-offs

Implications:

- Consumers have begun trading down, with over half of UK and Irish consumers saying that they have bought own label products in the past year in order to save money. In this market, premium brands are at risk of losing out.
- Products and services that are perceived to be integral to consumers' lifestyles will only be cut as a last resort. It is only really the most anxious who will consider these sacrifices in any significant numbers. Brands will therefore benefit if they are able to play a more integral role in consumers' lives.
- There is also an opportunity for brands to position themselves as helping consumers to maintain their current lifestyles, as Aldi is currently promising to do with its 'Spend a little; live a lot' campaign.

Feeling the pinch?





Chapter 4:

Strategic & marketing implications

Feeling the pinch?



Strategic & marketing implications



In the first chapter of this report we highlighted that the consumer spending boom is over and the economic landscape we now face is very different from that which consumers and businesses have been used to for the past 15 years. The impact of this downturn on consumer confidence and on consumption behaviour is already being felt, and it is sure to get worse before it gets better. Many consumers have begun to make spending cutbacks and many say that they will continue to cut back in the coming year. Businesses need to plan for at least another 18 months of challenging trading conditions.

This chapter identifies the key strategic and marketing implications emerging from the Feeling the Pinch study. These have been distilled into five broad themes:

1. The importance of empathy
2. Protect your differentiation
3. Redefine your competitive set
4. Look, listen and react
5. Plan for the recovery





1. The importance of empathy

It may sound obvious, but it is critical in difficult times for brands to position themselves as being on the consumers' side. Levels of anxiety about personal finances are already high, and are likely to rise. Anxiety and worry are powerful emotions and helping consumers to alleviate them offers the potential to build powerful and enduring brand connections.

Understanding and monitoring the anxiety levels of your customer base will help you to develop appropriate positioning, promotional and communications strategies going forwards. This report is hopefully the first step in that process.

Brands will need to support consumers' desire to spend wisely, rather than impeding them. And it is important to be open and up-front with consumers – their antennae are particularly well tuned in during difficult times and any attempts to mask price rises or short-change consumers are likely to backfire.

It is important to note that such strategies should not be seen as purely defensive. Slowdowns represent an opportunity to introduce new consumers to your brand at a time when past loyalties and habits may be open to challenge.





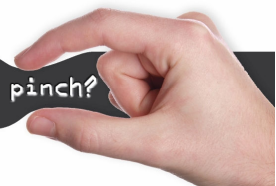
2. Protect your differentiation

While price will clearly be important to consumers in a slowdown, very few consumers make decisions on price alone. Brands need to continue to give consumers multiple reasons to choose their products over the competition and it will be important to keep reminding consumers of the broader value you add to their everyday lives.

While it is not necessarily the case that consumers will cut the most expensive things first, you can be sure that they will always look to cut or trade down in the least engaging areas of expenditure.

Continuing to invest in the brand will not only help to drive engagement, differentiation and sales in the short term, it will also build brand health for the long term. Of course this doesn't mean that investment should just continue unchecked. Now is a good time to thoroughly evaluate investment and cost-effectiveness, and re-direct spending where appropriate. If, for instance, consumers in your category are spending more time shopping online for deals, digital marketing should be given greater emphasis.

Ethical and environmental values will continue to provide an opportunity for differentiation, particularly with those consumers who will be trying to reconcile their desire to live a more sustainable lifestyle and their need to economise. On the whole, people don't jettison their values easily or, if they do, it is with a heavy heart. There will be opportunities for brands to help consumers to find the right compromise between their values and their wallet.





3. Redefine your competitive set

During a slowdown, consumers tend to adopt a credit/debit approach to managing their finances - they look to save in some areas so that they can continue to spend in others.

The key implication of this is that brands need to understand the broader competitive context in which they are operating – encompassing not just direct competitors, but also direct and indirect substitutes from other categories. If yours is a category in which consumers are prepared to consume less, what are they spending on instead, and how do you need to shift value perceptions of your category and brand in light of this?

Past research from Henley Centre HeadlightVision has identified that consumers tend to manage their monthly income through a series of 'mental wallets'. For some these mental wallets actually translate into a number of bank accounts that are ring-fenced for specific purposes.



Feeling the pinch?



3. Redefine your competitive set

The research identified four types of expenditure:

- **Vital** expenditure is on those items that are essential, and seen as necessary, in order to live, including housing expenditure, basic food and heating in the home.
- **Sanity** purchases are those that, while strictly non-essential, are seen by consumers as essential little treats that make their days a little brighter. They tend to be low cost, but highly valued. It could be a Sunday paper or a daily take-away coffee.
- **Lifestyle** expenditure is acknowledged by consumers to be less essential, but is such a core part of their identity and lifestyle that they are reluctant to give it up. It tends to involve a higher level of expenditure than Sanity costs. This could include gym membership, a pay-TV subscription or the annual summer holiday.
- **Fun** purchases are those that are seen as frivolous or expendable, and may include things like clothing, frequent meals out or video game purchases.



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3. Redefine your competitive set

What tends to happen in a slowdown is that consumers will look to reduce their expenditure in the Vital and Fun buckets in order to protect their Sanity and Lifestyle spending. So a consumer may switch to Tesco Value bread in their Vital bucket in order to make room for their double cream yoghurt in the Sanity bucket. Or they will cut down on eating out in their Fun bucket, so that they can afford that summer holiday in their Lifestyle bucket.

The key point about these classifications is that while there are some patterns, different consumers will assign different categories of expenditure to each of the four buckets. For some, clothing or eating out will be seen as Fun expenditure, while for others they will be Lifestyle or even Sanity costs.

The challenge for brands is to understand how consumers currently perceive you, and how you can better position yourself as Sanity or Lifestyle expenditure.

Adopting a broader consideration of your competitive set ensures a more rigorous assessment of the challenges the brand faces, and is more likely to lead to creative positioning and promotional opportunities that can help to stem falling sales.





4. Look, listen and react

It is important to keep in mind that no two slowdowns or recessions are the same. The contributing factors tend to be different, and in any category the market context will have moved on significantly since the last slowdown. As a result, consumers will not necessarily respond in the same way, so neither should brands.

Things move quickly in a slowdown, and developments are often hard to predict. It is therefore critical to continuously monitor what your consumers are doing, and how they are feeling. The emphasis should be on monitoring your consumers, not the economy. By the time most economic data is published, consumers have moved on. Monitoring consumers is the key to unlocking opportunities in a slowdown.

Speed of response will then be crucial, whether it be to how consumer sentiment is changing, or to how competitors are reacting. Organisations need agility, and efficient decision-making if they are to take advantage of the rapidly changing landscape.

5. Plan for the recovery

Despite what we have got used to over the past 15 years, economies are cyclical and just as a slowdown was inevitable, there will be a recovery. Organisations shouldn't lose sight of the longer term, and should be planning for this recovery before it has begun. If strategic and innovation planning grind to a halt now, you will inevitably be playing catch up when the recovery begins.

Feeling the pinch?





For further information

- For further information about Bord Bia's Consumer Lifestyle Trends Programme and this report, please contact Helen King, Senior Business Analyst:
 - Tel: +353 1 668 5155
 - Email: Helen.King@bordbia.ie
- More in-depth content for all the trends and a copy of this report is available at the Bord Bia portal. This can be accessed with log-in details at www.bordbia.ie