

Executive Perspective

# The Sum of All Consumer Fears

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Shopper belt tightening during the last recession and more recently has been well documented. Less well covered, however, are shoppers' evolving attitudes and behaviors as economic hard times enter a fourth year and new shocks ripple through the U.S. economy.

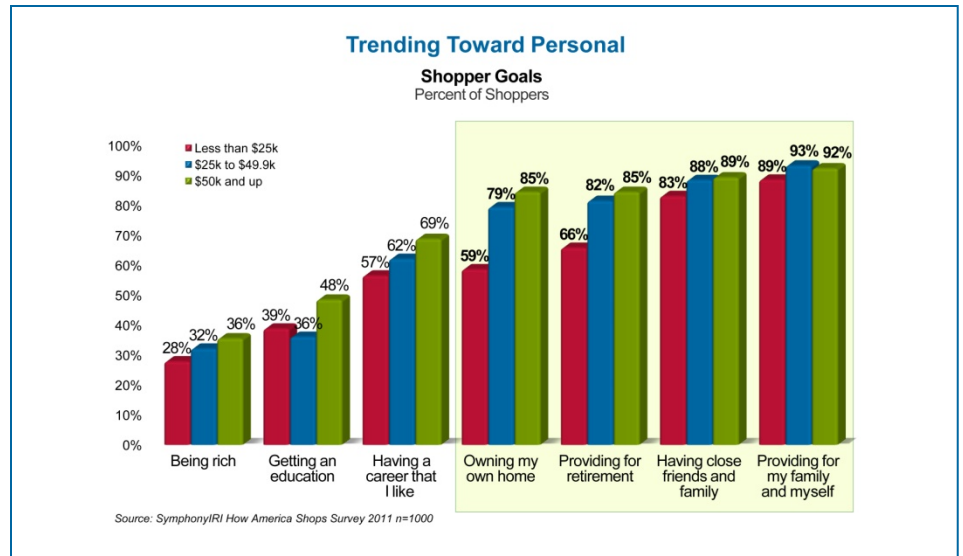
To assist CPG and retailer executives as they evaluate existing product, pricing, store layout, assortment, merchandising and promotion strategies, SymphonyIRI evaluates the effect of recent market shocks on the shopper, presents findings from new research of 1,000 shoppers and offers predictions for future shopper strategies based on current economic conditions.

## New Economic Shocks Result in Few Strategy Shifts among Shoppers

Shoppers are concerned about recent events, including the volatile stock market, S&P's downgrade of the U.S. credit rating, the near default on U.S. debt and the increasingly dire sovereign debt situation throughout much of southern Europe and Ireland. However, until these woes directly impact shoppers, they are unlikely to change existing behavior patterns.

These events have the potential to impact the behavior of some shoppers in indirect ways by eroding shopper confidence and causing them to think twice before opening their wallets.

These events can also impact other shoppers much more directly. Significant reductions in 401(k), savings, pension plans and/or other retirement portfolios



**Surveyed shoppers are focused intensely on providing the basics. Lower-income shoppers have become less aspirational as they worry about putting food on the table every day.**

are a major concern among 54 percent of survey respondents.

The recent survey notes 44 percent of shoppers are increasingly concerned about limited access to credit and 28 percent worry about the inability to use credit.

Increases in commodity prices continue to create upward pressure on the cost of food, while gas prices, subdued at the moment, can spike at any time given the unstable political situation in the Middle East.

To date, however, shoppers by and large are continuing their existing shopping rituals and not making drastic changes. They have learned to bide their time to act only when changing economic conditions affect them directly.

Today's economic woes are fundamentally different than those of 2008, as are the long-term repercussions. A "bottoms-up"

crisis occurred in 2008 when overleveraged homeowners began to default, bringing down a Wall Street securitization machine, resulting in the near collapse of the U.S. banking system.

Today's woes are "top down," stemming from the U.S. government's inability to manage its own debt as well as successfully stimulate the economy. Combined with the time bomb of underfunded Social Security, Medicare and Medicaid programs, today's issues will impact the American shopper for decades.

## Shoppers Focus More on Value and Less on Price

At a 10,000 foot level, shoppers SymphonyIRI surveyed earning less than \$25,000 face growing difficulties in affording day-to-day items. They tend to remain loyal to specific brands and retailers since they cannot afford to make

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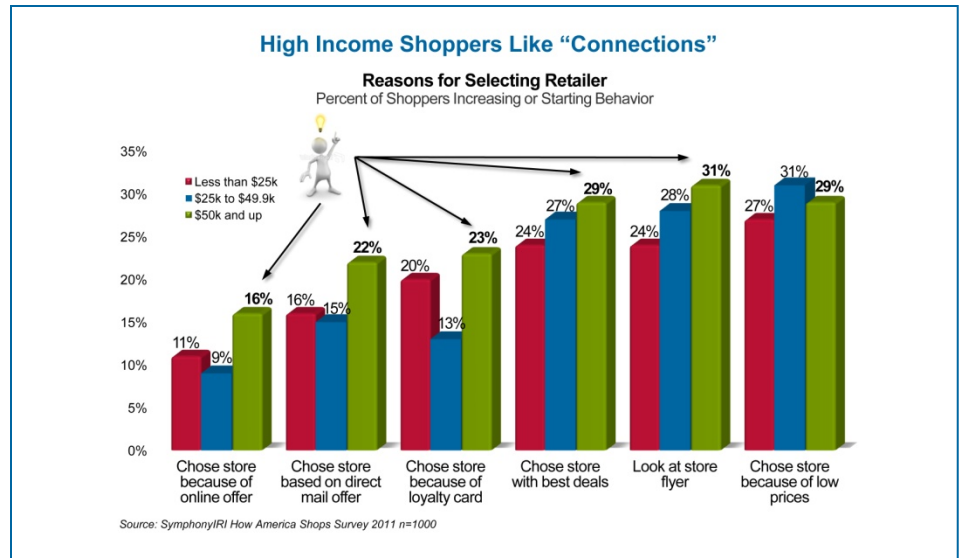
mistakes. This loyalty is focused on retailers that feature the lowest prices. They also value one-stop shopping.

Those earning \$25,000 – \$50,000 continue to make their purchases closer to payday, tend to shop at a few stores and are rabid fans of store brands. Their focus is based on a combination of price and value.

Shoppers earning more than \$50,000 per year are somewhat more optimistic and willing to purchase “affordable indulgences.” These shoppers are more likely to increase deal hunting and couponing activity as well as participate in loyalty programs.

**Shoppers’ goals** are laser focused on the basics: “providing for myself and my family,” “having close friends and family,” “providing for retirement,” and “owning my own home.” There is a significant drop in focus between these tangible goals and more aspirational ones, such as “having a career that I like.”

**Eating and meal preparation coping strategies** are surprisingly similar among each income group in many categories. For example, 32 percent of shoppers in all three income categories are starting to or increasing “cutting back on edibles that increased in price.” There is just a one percent difference among income groups when asked about starting or increasing to “prepare meals at home” (28 percent for the lower two income categories and 29 percent for those earning \$50,000+).



**Whether it’s an online offer or reading a store flyer, high-income shoppers are most likely to select a retailer based on some form of “connection.”**

**Shoppers are cutting back on SKU diversity and making fewer trips.** Among surveyed shoppers, today’s pantry contains an average of 467 items, versus 511 items in 2007. Only healthcare products have remained constant, with an average of 17 items in the home. Shoppers are also making fewer trips, once again with healthcare being the only category where trips have remained constant between 2007 and 2011.

**Middle- and upper-income shoppers visit multiple retailers.** Shoppers in the \$25,000 – \$50,000 range and those earning more than \$50,000 tend to shop at more than one retailer, either favoring one retailer and turning to others on occasion, or regularly shopping at multiple stores.

**Higher-income shoppers react well to “connections.”** Interestingly, shoppers earning \$50,000+ are most sensitive to promotions. In every category listed,

higher-income shoppers were most likely to select a retailer based on some type of promotion. As an aside, it was those shoppers in the \$25,000 – \$50,000 income level who were most likely to select a retailer exclusively based on low prices.

**Anomalies abound once in the store,** with a wide range of counterintuitive results, survey results revealed. Lower-income shoppers were just as likely to make additional unplanned purchases as high-income shoppers (22 percent for each). High-income shoppers are most likely to stock up on sales (36 percent versus 33 percent for low-income and 29 percent for middle-income shoppers).

## Vision for the Future

Based on this new research, SymphonyIRI projects:

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- **2011 holiday season sales will slightly surpass last year**, with shoppers somewhat more amenable to gift giving. Gifts will tend to be functional and family oriented. Favorite items will include personal electronics, semi-fashion clothing, and items that contribute to “better for you,” and/or are multipurpose.
- **The economy will continue to impact spending**, but unless economic woes impact them personally, shoppers will continue to spend at current levels. They will “spend where they need to spend and save where they need to save.”
- **It’s no longer about just price**; the new shopper decision lens will continue to be “quality received per dollar spent.”
- **Shoppers will continue to visit the same number of retailers**, with the average shopper visiting 2.3 stores per week. The new trip is the “trip route.” Successful retailers must understand the current and evolving trip routes of high-value shoppers.
- **Channel shifting will remain an important strategy** to shoppers, with the greatest opportunities occurring in Dollar, Value, Supercenters and Club. Grocery and Convenience will grow most slowly.
- **Store brands will continue to proliferate throughout the household**, including in the pantry, and medicine and beauty cabinets. Today, store brands

account for one in every five CPG products sold; by 2015 this will grow to two in five.

- **The home cooking ritual will continue throughout 2011 and 2012** and innovation will be in great demand as meal planners look for “newness and excitement.” The fastest-growing “new” grocery category will continue to be “meal ingredients and components,” which will grow at double digit rates for the near future.
- **Healthcare and wellness shopping will soar**, with wellness estimated to become a \$300 billion segment by 2015. More than 75 percent of Americans believe better food and nutrition can prevent illness.
- **Online comparative shopping will become the new norm**, an integral part of the “shopping ritual.” Online will surpass traditional comparative shopping over the next three years, through both computers and mobile devices. For non-grocery (appliances, clothing, apparel, sporting goods, electronics and entertainment), online will rapidly become the primary “shopper assistant.”

**Shoppers will continue to defer large purchases** such as cars and televisions. They will also defer non-mandatory home, appliance and car maintenance. Other shoppers who previously hired outside assistance for maintenance projects will complete these themselves.

The most deferred purchases will include vacations, cars and electronics, with more than four in 10 shoppers planning to defer purchases.

With aggressive, innovative thinking and skillful execution, today’s CPG manufacturers and retailers enjoy an outstanding opportunity to benefit from today’s economic climate. Critical to success, as always, is a highly-detailed understanding of high-value shopper segments, the ability to accurately predict future behaviors based on past activity and economic conditions, and executive teams who are willing to innovate.

## About SymphonyIRI Group

SymphonyIRI group, formerly named Information Resources, Inc. (“IRI”), is the global leader in innovative solutions and services for driving revenue and profit growth in CPG, retail and healthcare companies. SymphonyIRI offers two families of solutions: core IRI solutions for market measurement and symphony advantage solutions for enabling new growth opportunities in marketing, sales, shopper marketing and category management. SymphonyIRI solutions uniquely combine content, analytics and technology to deliver maximum impact. SymphonyIRI helps companies create, plan and execute forward-looking, shopper-centric strategies across every level of the organization. For more information, visit [www.SymphonyIRI.com](http://www.SymphonyIRI.com).

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The logo for SymphonyIRI Group features a red curved line above the text. The word "Symphony" is in a serif font, "IRI" is in a bold sans-serif font, and "Group" is in a serif font.

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