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CHAMPIONS AMIDST CRISIS

10 WAYS CONSUMERS RESPOND TO ECONOMIC PRESSURES - AND WHAT BRANDS SHOULD DO ABOUT IT

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RISING COSTS, CHANGE AND ERODING CONSUMER CONFIDENCE. ITS NOT EASY OUT THERE!

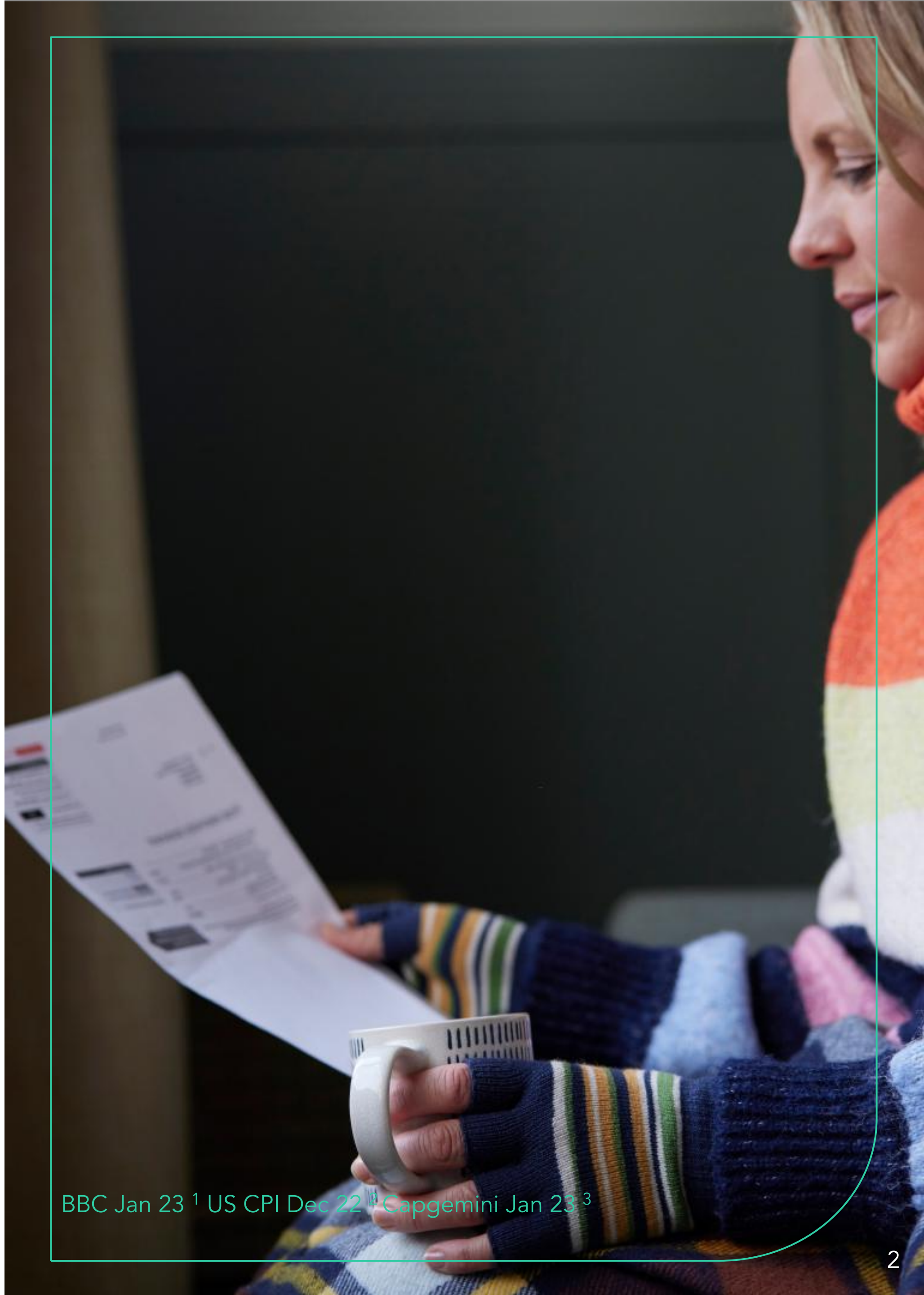
The global pandemic rattled the world, and the economic aftermath continues to batter consumers.

Combined with a year of strikes, shortages and war, many countries are facing a **cost of living crisis**.

Energy bills and food prices have been the key drivers behind record-breaking rates of inflation. In 2022 **UK gas prices rose by 128%**, whilst the **US fuel oil index rose by 106%.**[1,2]

Therefore, it's no surprise that **61% of consumers globally are extremely concerned about their personal financial situations.**[3]

Consumers are looking for brands to support in these times of need. Ultimately, how businesses and brands navigate this period will be a defining factor in market dynamics and ongoing success.



BBC Jan 23 [1] US CPI Dec 22 [2] Capgemini Jan 23 [3]

CONTENTS

Whilst there's much we still don't know about the long-term impact of the current shocks on consumers, we do know more about the predictable and lasting impact of economic shocks on consumer behaviour. **So here are ten consumer behaviours that you are likely to see more of in 2022 and beyond.**

CAUTIOUS CONSUMERISM

During economic slowdowns, many consumers become more more cautious, considered and careful with how they spend their money.

First and foremost, economic downturns are characterised by reduced consumer spending. For some consumers this is out of financial necessity, but for many others it is about being more cautious about spending in uncertain times. Many consumers may pause, postpone or reduce discretionary, large, habitual or impulse purchases. Instead, they focus their spend on essentials that are perceived as necessary for daily life.

SO WHAT?

Focus marketing and innovation effort on consumer essentials and core benefits.

Rosa-Díaz, I. M. (2004). Price knowledge: effects of consumers' attitudes towards prices, demographics, and socio-cultural characteristics. *Journal of Product and Brand Management*, 13(6), 406-428.

DELAY DISCOUNTING

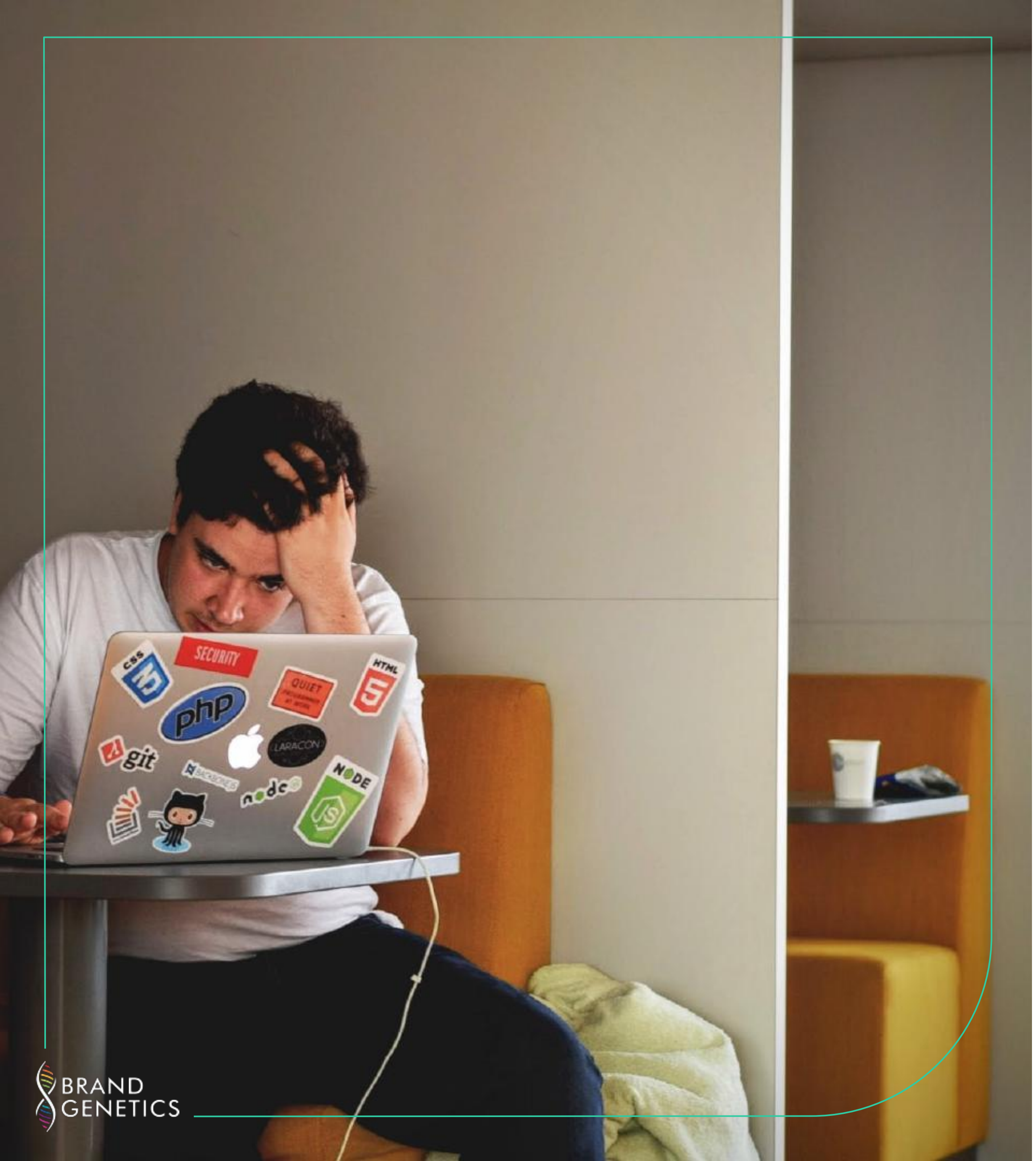
During economic contractions, when resources become more scarce, instant gratification matters more.

Delay discounting (also known as 'hyperbolic discounting') is a mental bias summed up by the maxim "a bird in the hand is worth two in the bush". This simply means we discount or devalue future benefits the longer we have to wait for them. In other words, we have a present bias and prefer immediate rewards over longer term benefits. Whilst delay discounting appears to be part of our evolved human nature, evidence suggests this bias is exacerbated when resources are scarce.

SO WHAT?

Focus marketing and innovation on providing/ communicating immediate benefits.

Bickel, W. K., Wilon, A. G., Chen, C., Koffarnus, M. N., & Franck, C. T. (2016). Stuck in time: Negative income shock constricts the temporal window of valuation spanning the future and the past. PloS One, 11(9), e0163051.



STRESS TESTED

Consumers can experience more stress during periods of economic disruption due to increased financial pressures.

Stress is a physiological and psychological response to experiencing increased pressure. Financial pressures, uncertainty and insecurity can provoke or exacerbate stress. Whilst short term stress can be adaptive in that it readies our mind and body to deal with the threat of a 'stressor', prolonged stress can harm physical and mental health.

SO WHAT?

Market your brand as either relieving stress or providing a stress-free experience.

Mucci, N., Giorgi, G., Roncaioli, M., Perez, J. F., & Arcangeli, G. (2016). The correlation between stress and economic crisis: a systematic review. Neuropsychiatric Disease and Treatment, 12, 983-993.

LIPSTICK EFFECT

During economic downturns, and when resources are scarce, women may spend more on beauty products such as lipstick, moisturiser or mascara.

This countercyclical phenomenon was popularised by Estée Lauder's chairman in 2001 after reports that that the company's lipstick sales rose during recessions. Psychologists believe the lipstick effect may be due our evolved human nature. It is thought that environmental resource scarcity might prime automatic mate-acquisition and mate-retention motivations, resulting in an increased attention to physical attractiveness. This may include the use of more on-trend cosmetics.

SO WHAT?

Double-down on how your brand helps people feel and look more attractive.

Hill, S. E., Rodeheffer, C. D., Griskevicius, V., Durante, K., & White, A. E. (2012). Boosting beauty in an economic decline: mating, spending, and the lipstick effect. Journal of Personality and Social Psychology, 103(2), 275-291.

STATUS SIGNALLING

Scientific evidence suggests economic downturns can increase women's desire for men owning luxury products and men's desire to buy them.

When resources are scarce, resource acquisition becomes more pressing. And one way to acquire resources is to acquire and retain a mate with resources. And one way to spot a mate with resources is through a display of luxury status symbols. Experimental evidence shows that under recessionary conditions women find men owning luxury brands more attractive, and men’s motivation to acquire luxury brands increases.

SO WHAT?

Show how your product is a contemporary status symbol that signals wealth and taste.

Bradshaw, H. K., Rodeheffer, C. D., & Hill, S. E. (2020). Scarcity, sex, and spending: Recession cues increase women's desire for men owning luxury products and men's desire to buy them. Journal of Business Research, 120, 561-568.

BRAND PROMISCUITY

During economic troughs, many consumers become more promiscuous, switching between brands, products and stores.

Financial necessity can prompt consumers to do more comparative shopping and switch to more affordable options. But another powerful psychological factor can promote more promiscuous buying behaviour. Evidence suggests that deteriorating economic circumstances can stimulate 'variety-seeking' behaviour because change gives the impression of freedom and autonomy in a time when perceived personal control can be diminished.

SO WHAT?

Position your offer to appeal to new consumers who may be more ready to switch to you.

Yoon, S., & Kim, H. C. (2018). Feeling economically stuck: The effect of perceived economic mobility and socioeconomic status on variety seeking. Journal of Consumer Research, 44(5), 1141-1156.

SUPER SIMPLE

More consumers will seek simplicity and ease during periods of economic distress.

Economic pressures can increase ‘cognitive load’, which simply means that people have more things to think and worry about. To cope with increased cognitive load and reduce the total amount of mental effort being expended, consumers can turn to solutions that are simpler, or that simplify their lives.

SO WHAT?

Market your brand as either simplifying life with solutions that are simple to understand, buy and enjoy.

Flatters, P., Willmott, M. (2009). Understanding the post-recession consumer. Harvard Business Review, 87(7/8), 64–72.

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VALUE DRIVEN

In economic downturns, the importance of perceived value increases.

Distinct from price, consumers have always valued value, the balance between what they get and what they are prepared to give in terms of time, effort, money, opportunity costs. However, during recessions and when resources are scarce, evidence suggests that consumers become more value-conscious to ensure they benefit from the value exchange.

SO WHAT?

Ensure that your value proposition actually focuses on value. (Hidden shrinkflation may not be the best route!)

Ang, S. H. (2000). Personality influences on consumption: Insights from the Asian economic crisis. Journal of International Consumer Marketing, 13(1), 5-20.

NEGATIVE SENTIMENT

During economic slowdowns, more consumers have a pessimistic outlook on the future.

Consumer sentiment is metric used by economists to gauge how confident and certain consumers feel about their own financial situation and prospects, and the situation and prospects for the economy. Consumer sentiment tends to deteriorate during economic contractions, as consumers become more pessimistic and uncertain. This downbeat psychological mood can be reflected in a reduced willingness to spend, increased worries that things may go wrong, and a belief that wishes and aims may not be fulfilled.

SO WHAT?

Offer consumers a dose of optimism and positivity, but in a relatable way

Golinelli, R., & Parigi, G. (2004). Consumer sentiment and economic activity: a cross country comparison. Journal of Business Cycle Measurement and Analysis, 2004(2), 147-170.

K-FACTOR

Economic crises can increase inequality and polarise consumer behaviour between trading up or trading down.

Economic shocks affect different groups differently, and can exacerbate inequalities by harming the less well off relativity more than the affluent. For example, despite the biggest drop in economic output on record, the most monied consumers have increased their wealth by by 27% since the pandemic. Diverging fortunes can create divergent ‘K-shaped’ market behaviour as some consumers ‘premiumise’ their choices up whilst others shift down to more affordable options.

SO WHAT?

Implement a K-shaped innovation and marketing strategy, focusing on both premium and affordable options. Just don’t get stuck in the flabby middle

Meyer, B. D., & Sullivan, J. X. (2013). Consumption and income inequality and the Great Recession. American Economic Review, 103(3), 178-83.

NEED TO UNLOCK GROWTH? WE'RE HERE TO HELP WITH A HUMAN-FIRST PERSPECTIVE

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