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Understanding the Post-Recession Consumer

by Paul Flatters and Michael Willmott

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The Idea in Brief

- It's possible to predict how consumers will behave postrecession by understanding how they've behaved in previous recessions; how this compares; and how their past experience will affect their response this time.
- Four key trends are being accelerated by this recession: consumer demand for simplicity, a call for ethical business governance, a desire to economize, and a tendency to flit from one offering to another.
- Four other important trends are slowing: green consumption, a decline in respect for authority, ethical consumption, and extreme-experience seeking.
- In the postrecession recovery, some trends (such as green consumption) will resume their prerecession course while others (such as experience seeking) will be altered for the long term.

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In most developed economies, prerecession consumer behavior was the product of more than 15 years of uninterrupted prosperity. Despite the occasional slowdown, growth was an almost permanent feature, accompanied by low and stable levels of price inflation. Consumers felt the effects directly, as asset values and incomes grew more rapidly than inflation. From 1995 to 2005, real disposable incomes increased by a third in the United States and the UK. Sweden and Denmark saw them rise by a quarter, and even in economies like Japan and Germany, which grew more slowly, they climbed about 10%.

That economic landscape had a profound impact on consumers. New appetites emerged, and markets sprang up to serve them. Consumers could afford to be curious about gadgets and technology, shell out for enriching (or just fun) experiences, and indulge themselves with premium products. They could afford to pay extra for socially conscious consumption—while winking at purchases that might not be squeaky clean but that they felt they deserved.

The recession hasn't so much put an end to this party as sobered it up, propelling some consumer trends forward while slowing, halting, or even reversing others in ways that will affect their trajectory in and after the recovery. Of the dozens of trends we follow, we've identified eight that we believe will be substantially affected by this recession.

The Consumer's Journey

How will consumers behave as we emerge from this downturn? Though recessions differ in their causes, depth, and duration, and whom they affect most, it's possible to anticipate consumer behavior by understanding three things: how previous downturns have altered consumer psychology and activity; how this recession compares with previous ones; and the journey consumers have taken to the present, which will condition their reaction to the recession and shape their trajectory out of it. (For more detail, see "Our Methodology.") We have used this approach, based on our two decades of consumer trend forecasting and analysis, to advise global companies across sectors on the recession's likely impacts on long-term consumer behavior.

Recessions fall into two broad groups. Most are relatively brief and shallow and provoke short-term changes in consumer behavior depending on the causes of the recession and who its principal victims are. A recent International Monetary Fund analysis of 122 recessions in 21 developed countries since 1960 found that the typical recession lasted about a year and resulted in a dip in GDP of roughly 2%. Usually, consumption trends rebound fairly quickly when the recession ends, though at different rates in different sectors.

In rare cases, downturns are catastrophically deep and enduring, as were the Great Depression of the 1930s and Japan's lost decade. Such downturns shape the mind-set of whole cohorts of consumers and have a long-term impact on buying behavior. Many people who lived through the Depression have pinched pennies for the rest of their lives. Deep recessions can also transform the regulatory landscape, affecting both companies and consumption (consider, for example, the Glass-Steagall Act of 1933—repealed just a decade ago—which separated retail from investment banking in an effort to control speculation).

The current recession may have features of both types of downturns. Most observers, including the IMF, the World Bank, the Organisation for Economic Co-operation and Development, and nearly all private forecasting agencies, agree that it will not be as deep as the Great Depression and won't persist for as long as the lost decade. However, it's likely to be the most severe slowdown since the Depression and will affect most markets and consumers in all economic strata.

Let's now look in more detail at the eight important trends for business. We categorize them on the basis of their maturity and whether they are likely to be accelerated or slowed by the recession.

Dominant Trends

A demand for simplicity. Downturns are stressful and typically increase people's desire for simplicity. Even prior to this recession, many consumers were feeling overwhelmed by the profusion of choices and 24/7 connectivity and were starting to simplify. The U.S. publisher Time Inc. recognized this trend early and capitalized on it by launching its highly successful back-to-basics magazine *Real Simple* in 2000. Apple likewise was responding to the trend when it launched the elegant and spare iPod in 2001.

The recession is accelerating this maturing trend. Consider the rise of edited retailing (consumers are offered limited collections of coordinated product choices), a growing demand for trusted brands and value, an increasing desire for advisers—ranging from social networks to product ranking web sites—that can simplify choicemaking, and enthusiasm for less complicated, more user-friendly technologies.

This trend will continue to accelerate through the recovery into the long term. Unlike consumers in previous recessions, who greeted the return of financial stability with a buying spree, current consumers entered the recession feeling bloated. When they regain their ability to spend, they'll continue to buy simpler offerings with the greatest value.

A focus on the boardroom. The financial crisis has put a spotlight on corporate governance, in particular the malfeasance of some executives and the complicity of their companies' boards. Misbehavior that boards might get away with in good times arouses the ire of consumers and regulators when the economy goes south, as the lynch-mob response to executive bonuses at AIG suggests. Excessive executive pay has long irritated the public, but the recession has prompted ordinary Americans to flood Capitol Hill with phone calls and e-mails and even to make death threats to some high-profile executives.

Like the simplicity trend, the focus on the boardroom has been building for years, spurred by notorious governance failures at companies like Enron and WorldCom early in the decade. The huge, taxpayer-funded bailouts of badly managed businesses will accelerate this trend, with two important effects: Government intervention will intensify, and the consumer backlash against companies with unethical or ineffective governance will worsen. The growing interest in the boardroom builds on an older instinct, the public's well-established reflex to punish companies for unethical labor or customer practices is potent (as Nike and Nestlé learned the hard way).

This trend should accelerate through the recession but will most likely lose velocity over

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the long term. In recessions people seek to punish the perceived sources of their dire circumstances; in good times disciplining bad business has a lower priority.

Advancing Trends

Discretionary thrift. Some consumers have no choice but to be thrifty. Increasingly, though, many affluent consumers are economizing as well, even though they don't always have to. This is a relatively new trend, having emerged in the final three years or so of the prerecession boom. Our research among more affluent consumers has revealed mounting dissatisfaction with excessive consumption. Many desire a more wholesome and less wasteful life. They're recycling more, buying used goods, and imbuing their children with traditional values—behaviors that dovetail with the growing demand for simplicity and a solid, though currently slowing, interest in green consumerism.

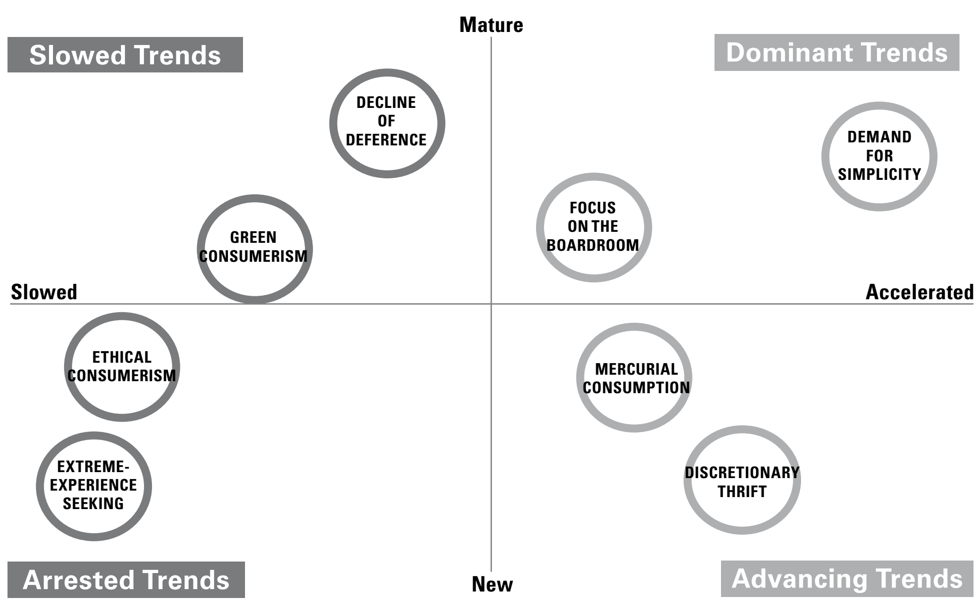
Initially, many of these newly frugal consumers were reluctant to admit their attraction to thriftiness, concerned that others might see them as dull and austere. But the recession has made discretionary thrift acceptable—even fashionable. Just as victory gardens became trendy among the well-off during World War II, growing vegetables at home now seems to be catching on among the affluent. To take another example, the once moribund UK firm Eurocamp, which offers an upscale back-to-nature experience, is expanding as an economical alternative to high-end vacations.

Recoveries typically unleash pent-up demand, and we expect that people will celebrate this one by buying a few indulgences and replacing their aging durables. But, as President Barack Obama observed on his way to the G-20 summit in March 2009, even the famously gluttonous United States is unlikely to reemerge as a "voracious consumer market." Many postrecession purchases, we suspect, will be less extravagant versions of the originals. The discretionary thrift trend should regain momentum over the long term as consumers continue to find personal and practical satisfaction in it.

Mercurial consumption. In the prerecession boom, consumers became agile—and fickle—shoppers. They could instantly find a profusion of brands or products to meet their needs but would just as quickly abandon any choices that somehow fell short. They have brought this increasingly erratic loyalty into the recession, as Starbucks discovered when regular customers, fatigued by $4 coffees, began defecting to cheaper, good-enough competitors like Dunkin' Donuts. The instantaneous

Trends and Trajectories

The recession is exerting a broad influence on consumer trends and attitudes, propelling some trends forward while slowing, halting, and even reversing others. Here we see a snapshot of the current impact of the recession on trends, relative to one another.



spread of word-of-mouth through online social media has only accelerated the trend.

Technology- and social-network-enabled shopping strategies will allow this trend to pick up steam well into the recovery and beyond. Exactly what consumers buy may change, but their facility in navigating the options will prove durable—as will their readiness to shift allegiances.

Slowed Trends

Green consumerism. Environmentalism is by now deeply rooted in the consumer mindset and public-policy arena, although consumers and politicians express widely varying degrees of engagement. Consumers have increasingly embraced green products and services over the past decade; they will often pay a premium for the chance to do good and, in many cases, be seen doing good. Green offerings may struggle in recessions as consumers bypass expensive ecoproducts or trade down to cheaper alternatives: Toyota Priuses, once hard to get, are gathering dust on lots.

Our research suggests that green consumerism has slowed in this recession, though it hasn't stalled. Consumers may be cutting back on pricey displays of their green credentials (known as "badging"), such as buying premium green products and hybrid cars, but they're ramping up cheap and discreet methods of reducing waste—switching off lights, recycling more, and buying less. This form of green consumerism is reinforced by the burgeoning demand for simplicity, the growing appeal of discretionary thrift, and ever-more-potent social norms against extravagant consumption.

We expect green consumerism to recover and accelerate postrecession in both its forms—waste-reduction and badging—as consumers regain confidence and the disposable income to fully express their growing concern about climate change and the environment.

The decline of deference. Public respect for institutions and authority—particularly government and business—has been declining for decades, fed by consumers' growing confidence in their own ability to find information and tap family and social networks in order to make smart choices. The decline of deference is also driven by mounting skepticism about the quality of information provided by traditional sources of authority such as businesspeople, economists, doctors, and the clergy.

Shallow recessions typically accelerate this trend as consumers blame institutions for their woes. In deep downturns, such as the Great Depression, the reverse effect can occur: Though people understand that business and government—through greed and lax oversight—got them into dire straits, they also grasp that only these institutions can get them out, and they begin to look to them for rescue and guidance. The U.S. government's New Deal in the 1930s created regulatory bodies such as the FDIC and the SEC, and its Works Progress Administration put millions of people back to work, helping to restore public faith in authority.

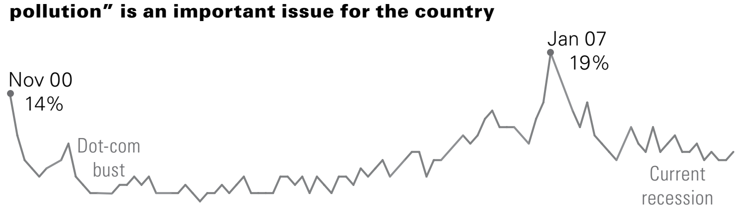
In this recession, we anticipate a similar short-term recovery of trust in authority as governments intercede to regulate business, stabilize markets, create jobs, and save homes. Over the long term, the decline of deference will resume its trajectory as consumers become ever savvier information gatherers and decision makers, and the traditional sources of

Our Methodology

Drawing on our more than 20 years of experience in consumer trend forecasting and analysis, we've projected the likely impacts of the current recession on long-term consumer behavior. Our forecasting for this article is based on an analysis of consumer behavior and spending statistics, by sector, in previous recessions (perhaps the best window on customer motives and priorities) and current consumer trend data. We commission consumer surveys and conduct secondary analysis on a range of data sets, and build formal econometric models using linear regression and other statistical techniques. Given our disparate data sources and the complexity of the trends, we rely heavily on qualitative methods in making consumer behavior projections; these include observational research, focus groups, and attitudinal studies looking at product categories and markets.

Using all these methods, we can see how recessions accelerate or decelerate trends already under way, and we can predict their trajectories. For example, in order to forecast the green consumerism trend, we combined our focus group research on attitudes in areas including green consumerism, discretionary thrift, and desire for simplicity with quantitative studies illustrating the decline and rebound of consumer environmental concern in previous recessions.

Percentage of British respondents who say "environment/ pollution" is an important issue for the country

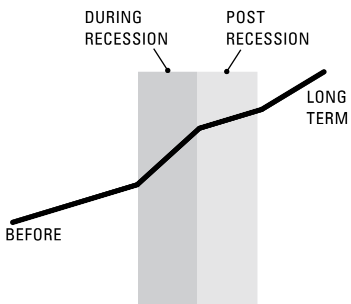


Source: Ipsos-MORI

How Trends Will Drive Consumption

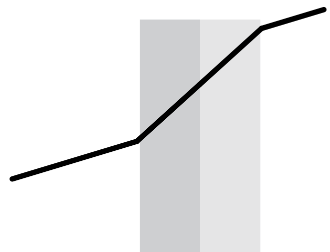
Influence of trends on consumer decisions before, during, and after the recession:

Demand for simplicity



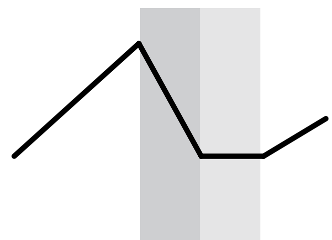
Consumers are seeking uncomplicated, user-friendly products and services that simplify their lives.

Mercurial consumption



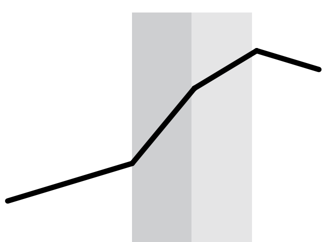
Easy access to information and friction-free purchasing is making consumers ever more agile—and less loyal.

Ethical consumerism



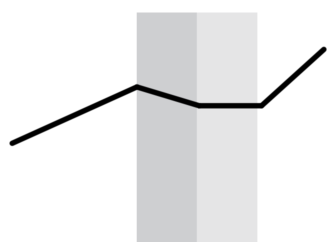
Altruistic consumption and spending, such as eating cage-free eggs and giving to charity, are falling as people focus on their own dire situations.

Focus on the boardroom



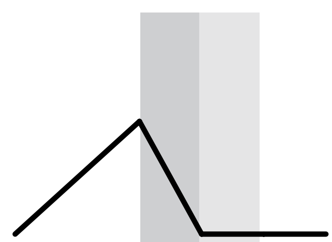
Outraged by corporate malfeasance, people are punishing companies for unethical governance.

Green consumerism



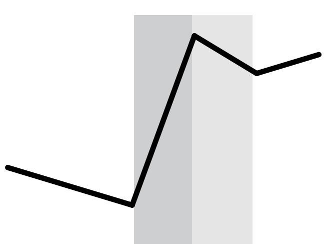
Consumers are forgoing pricey green products and instead are cheaply and discreetly reducing waste.

Extreme-experience seeking



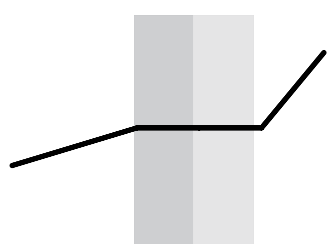
Expensive, frivolous, or risky recreational experiences, popular during the boom preceding the recession, have fallen out of favor.

Discretionary thrift



Even those who don't need to economize are pursuing a more wholesome and less wasteful life.

Decline of deference



Respect for institutions and authority, long in decline, will temporarily level off as people look to them to fix the economy.

guidance inevitably fail to meet their expectations.

Arrested Trends

Ethical consumerism. Fair-trade products, locally sourced produce, and eggs laid by cage-free hens are often expensive compared with traditional alternatives. What's more, ethical consumption, although it intersects with green consumption, is less embedded in the consumer culture and less convincingly linked with self-interest. Like most altruistic spending, ethical consumerism will take a backseat in this recession. Witness the double-digit declines over the past year in charitable donations to organizations such as the American Red Cross. When people are focused on feeding their own kids and keeping a roof over their heads, concern about children in other parts of the world, or about animal welfare, drops on the list of priorities.

In the recovery, we expect this trend to rebound only slowly. As consumer confidence returns, people will first attend to buying the things that they have gone without. Only then will they return to prerecession levels of altruistic spending.

Extreme-experience seeking. The desire to accumulate experiences in addition to material possessions, especially leisure and extreme experiences, gained footing before this recession. Some experiences—those that are relatively cheap and connect people to nature and wholesome thrift—will continue to flourish. However, exotic experiences that are expensive, frivolous, risky, or environmentally destructive—such as driving a race car or even excessive recreational air travel—are suffering from a recession-driven mood of seriousness and responsibility. Though this trend is relatively new, we use evidence from past recessions to map its trajectory. Global long-haul tourism arrivals, for example, fell by 9% during the early 1990s recession, while short-haul arrivals actually increased.

Part of the appeal of extreme experiences, our consumer research shows, is that people feel that the experience differentiates them. But conspicuous consumption is now out of favor and, as the simplicity and discretionary thrift trends suggest, is unlikely to rebound soon.

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The economy is unpredictable, and consumers are fickle. Nonetheless, we are confident that the trend trajectories we describe here will bear out—with plain implications for marketers. In particular, we believe that the cohort of consumers coming of age in this recession will, like their great-grandparents who lived through the Great Depression, carry the attitudes and behaviors they learn now throughout their lives. Some consumers may return to boom-time consumption patterns in the coming decades, but millions of people under age 35 entering this recession may well remain simplicity-seeking, thrifty, green yet mercurial consumers who will hold businesses to very high standards. Companies would be wise to understand what these consumers want and be prepared to deliver it.

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