


HOW AMERICA SHOPS[®]

in CRISIS
WHITE PAPER



For many, October '08 was the beginning of their time of crisis when Wall Street as we know it collapsed. October made the shopper recession universal, crossing all income groups around the world. But for low, middle and upper-middle American shoppers across the country, in cities like Allentown, Austin, Detroit, Hoboken, Sacramento, Tucson, this has been going on for 8 long years. The hard times caused by the gas rollercoaster, soaring food prices, and home equity collapse have forced them to cut back, trade down, put back and re-assess how much money they spend, and over-spend.

First we talk. Then we walk. In 19 years of analyzing How America Shops®, we've observed that it takes 12 to 18 months for shoppers to "walk the talk." When shoppers tell us they are spending less, it's on their mind that they need to spend less. When they tell us they can't control the big things, like mortgage costs and gas prices, that "they need to control the little things," they are anticipating the pain of cutting back, focusing on what they can begin to do to manage their much-reduced family budget.

When we titled our '08 How America Shops® MegaTrends study "Anarchy" (published January '08) we anticipated the chaos, the financial and emotional pain shoppers were feeling and their response because they told us so. Now we see it in action. Retail sales numbers assure us that shoppers are now walking the talk. Actually they have been since the '07 holiday season when retail sales hit the wall. That's when they really began to tighten their belts.

It's anarchy. By the end of '07, 60% of women already told us, because they couldn't control the big things, they were trying to control the little things. Today, 80% of women tell us so, including the more affluent. At the end of '07, 56% told us they were carefully assessing the value of anything they bought ("Before I buy something today, I ask myself is this a smart use of my money"). Today, 77% do. It's now the shoppers' mantra.

No surprise that cutting back has become a way of life.

It started with the obvious – less money spent on take-out food, clothes they don't need more of, \$4.00 lattes they could no longer afford everyday, magazines with newsstand sticker shock. But by May '08 the cutting back had become serious, even life threatening – the percent of people cutting back on their prescriptions had doubled in a year to 24% and that included people with household incomes up to \$100,000. Each of these cutting back behaviors that we predicted in How America Shops® reports became headlines a few months later.

Shoppers are cutting back, trading down to less expensive brands, shopping in less expensive stores, putting less on the credit card. Today, they are going even further by taking things out of the cart before checking out, and checking out new channels like salvage grocery stores. Along the way they have decided to stay out of stores where they find themselves tempted to overspend.

They are incorporating old and new techniques to be smarter shoppers – cutting coupons (again), reading retail circulars (again), and taking full advantage of shopping online: not to just browse the Internet but to buy more efficiently. Buying pre-owned product is another method shoppers have adopted to stretch their dollars: this is now a legitimate way for shoppers to get everything from cars and books to home décor, clothes, even baby products.

There is a massive national re-assessment of “shopping life” values going on. Three big trends capture the shoppers’ new mindset. It’s where they’ve come out after 8 years of knowing they have to change their spending but searching for the least painful way to do it.

3 EMERGING TRENDS IN SHOPPING LIFE

1. Just say “No.”

The big, worrisome shift for retailers and manufacturers is that shoppers are learning to say “No,” as in, “No, not today,” “No, I really don’t need that,” “No, mommy can’t afford to buy you that,” “No thank you, I’ll do it myself.” The longer the economic bad news lasts, the more familiar “No” will be to shoppers.

2. Do-It-Myself

Americans spent decades creating a service economy, but now paying someone else to brew our coffee, cook our food, manicure our nails and cut the grass is no longer in the budget – but that doesn’t mean doing without. The majority of consumers are cutting back these categories and making their own coffee, doing their own nails, baking dessert, making dinner, cleaning the house and cutting the grass – at least some of the time.

3. Taking Pride in Crisis Management

There’s a new buzz word in the media, “Ameri-can.” It captures how shoppers are feeling --- **I’m angry about what circumstances have done to me, but I’m going to take control of it.** Surprise, most shoppers are proud of their talent to face financial crisis and manage it.

SO HOW DO YOU SURVIVE THIS TROUBLED TIME?

When, if and but. When confidence picks up again, if gas prices stay down, when unemployment recedes, then trips to browse will return, but...that’s a lot of “whens” and “ifs.” We don’t expect buying to return in full force through ‘09. The longer shoppers learn to say “No” the easier it is, and the longer it will take to return to the passionate consumption of the early years of the millennium.

The big culture shift is underway. However, beyond the doom and loss, smart companies are already finding new ways to survive even thrive.

Throughout How America Shops® In Crisis we showcase smart ideas from companies that are facing your challenges selling to your shoppers. Ann Taylor Loft. Barbie. Home Depot. Macy’s. Sam’s Club. Staples. Walmart. What they have in common is the formula for surviving and thriving in these times.

1. Recognize that your shoppers are afraid to spend and hurting because they can’t.
2. Mix a cocktail of creativity that takes you to bold new places.
3. Tap into the new shopper values to give them a reason to buy from you.
4. Recognize that your smart thinking can spark a burst of shopper confidence around the world.