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Coping With Consumers' Newfound Frugality

To Survive and Prosper, Marketers Must Rethink Everything

by **Avi Dan**

Published: [May 19, 2009](#)



Avi Dan

If today's frugality and shrinking markets are the new normal, are marketers ready for it?

Consumers make up 70% of GDP, and that figure has contracted 5% since the start of the recession. Yet it's not the image in our rearview mirror that's worrisome; it's the prospect of permanent consumer retrenching. Wages and benefits accounted for 68% of household income in the past, with the rest made up of other forms of income, and in particular rising asset values. But with wages frozen and asset values declining, is a smaller economy the new norm?

The economy is shrinking to levels that reflect a more cautious and vastly more frugal consumer, and consumer confidence is likely to remain relatively low in the foreseeable future. Even when the economy starts recovering, it is likely to be an anemic recovery, weighted down by high unemployment. And if the recovery follows the pattern of the past few recessions, it is likely to be a jobless recovery. Unemployment will remain high, consumer confidence low and consumption depressed.

Even the employed will continue to pinch pennies in a recovery. With so many people out of work, they will have little bargaining power to negotiate higher wages. And their disposable income will be further constrained because a nervous America starts setting aside more money for savings: 5% of income now, a dramatic swing from no savings a few years ago, if still a far cry from the historical 10% level.

This new normal will challenge marketers to recalibrate their

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A Rance Crain Interview With Nicholas Utton

approach. To paraphrase Jeff Immelt, this time around the recession is not a reflection of the usual business cycle. It represents a complete social and economic reset. Marketers will risk being left behind if they don't rethink everything.

Rethink product. As consumers learn to live within their means and frugality replaces an abundantly wasteful consumerism, sustainability will become an essential benefit to your customers. Customers will uncompromisingly penalize products and brands that are perceived as wasteful of scarce resources and harmful to the environment, from SUVs to bottled water. Indeed, marketers need to recognize that sustainability has moved beyond a trend. It is no longer a sidebar of traditional marketing strategies but rather the very DNA of their product offering.

Rethink promotion. As markets become more tribal, they must recalibrate from broadcasting to narrowcasting and reach targets more efficiently and more effectively through tools such as behavioral targeting and addressable TV. They must also adopt a more granular view of customers by making analytics the cornerstone of any marketing effort. Most marketers are still committed to traditional communication vehicles, primarily TV. But the lesson from the rapid rise of social networking is that people prefer to have a conversation and dialogue within their networks, not an interruptive, one-way communication through TV commercials. Marketers must learn to adapt if they want their communication to maintain its effectiveness with a suddenly harder to please consumer.

Rethink price. As we've seen with the automobile industry, most companies, certainly in the manufacturing sector, operate at overcapacity, which makes them inefficient and diminishes their ability to raise price. How do you compete in such an environment, where top-line growth is a

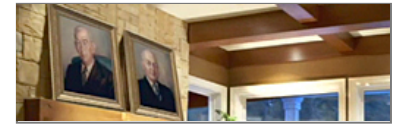
challenge? Rethink your bias, and instead of raising prices, appeal to a broader audience. Most marketers focus on Gen X and Gen Y, with a combined buying power of \$1 trillion, but ignore African-Americans, with buying power in excess of \$1.5 trillion, and baby boomers, with \$2.1 trillion. Hispanic buying power is growing at three times the national average and will reach \$1 trillion in 2011; Asian-Americans spend three times as much as Gen Yers; and gay Americans clock in at \$800 billion. Ignoring these segments will put undue pressure on your profitability in an environment resistant to price increases.

Rethink place. Increasing distribution in a shrinking market is a loser's game -- merely trying to stay put as the treadmill goes faster and faster. It is likely that for the foreseeable future, the U.S. market, while still the world's biggest economy, will become less important as growth flattens. Thus, marketers must pursue growth in other markets. Most marketers are already focused on the BRIC countries -- Brazil, Russia, India and China -- as growth markets, and wisely so. These are fast-growing countries with large populations and appetites for imported goods. But now also may be a good time to explore what Goldman Sachs calls the N-11, or the Next Eleven, the big countries behind the BRICs: Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam.

A crisis, of course, also presents an opportunity. In a permanently smaller economy for marketers, it's time for a reset.

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By Rodney33 | FRISCO, TX [May 20, 2009 02:31:20 am](#)



All good thoughts above. We did research on this subject and generated a white paper -
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By William | Newtown, PA [May 20, 2009 07:57:22 am](#):

We are in total agreement at Brand Idiomatics, a consumer forecasting and strategic planning consultancy. We first identified the secular shift in consumption back last September as a result of the implosion of the consumer balance sheet and the lack of access to cheap credit. In January, we talked about the impact of sharply rising savings rates in response to the lack of net worth of most families and how that dynamic will drive down consumption in all categories of products and services as consumer outlook and priorities have shifted. Our just released whitepaper examines what The New Normal for consumers looks like and the behavioral characteristics which are founded on spending discipline, value and strict budgetary adherence.

You can download our whitepapers at www.brandidiomatics.com. If you like, we can come in and present the data and the full picture.

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By DeaverB | Lincoln, MA [May 20, 2009 09:22:27 am](#):

Excellent article and 2 comments. Recommend people click through to them. Impressive thoughts all the way around.

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By vlinasp | Chicago, IL [May 20, 2009 09:41:59 am](#):

Although I wouldn't necessarily agree that the lack of wealth is the "new norm", I would also add that the recession has made consumers more disgusted and untrusting of large corporations in general. There is a lack of confidence in the entire capitalist system - coupled with declining incomes, layoffs, decreased property values, etc. , we have opened the Pandora's Box of consumerism and everyone needs to bring their A-game now.

Marketers are facing a time when they have to do more with less. Web 2.0 is allowing for greater trackability and companies

and consumers in a B2B and B2C context (in my opinion), are really looking at their ROI on purchases for the first time. Starbucks is starting to "rebrand" itself with historical advertising campaigns and the introduction of their new product, Starbucks Via in order to regain marketshare that they are losing to cheaper alternatives.

We are living and doing business in an interesting time. It's all about creativity - spinning the norm, spinning what people might already be expecting, and ultimately, reinventing the business wheel.

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By Kevin | New York, NY [May 20, 2009 11:42:24 am](#):

So much subjectivity about the "new normal." Not a whiff of data to back up "the prospect of permanent consumer retrenching." Tripe.

Meanwhile, we are rounding the corner toward improvement. Look at the leading indicators rather than in the rear-view mirror. You are leading your clients into the basement with this advice (which would have been helpful about a year ago).

Kevin Horne - NYC

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By rukallstar2 | Minneapolis, MN [May 20, 2009 11:57:41 am](#):

the authoratative fluff. of course this is a new time, at this point responsobility is in fashion. it will continue to be for a little while, then most of us will go back to senseless consumerism of chasing our own tails and thinking that things will make us happy. big point of contention is the discrete difference between gen x and gen y/ vs. african-american, asian, hispanic. aa, asian and hispanic is part of gen x and gen y. of course there are differences as well as similarities. we don't live in completely separate worlds as much, we're more likely to discriminate based on SES rather than ethnicity. That's an outmoded way of thinking that of course the ethnic agency want to propogate because it keeps them in business. hyundai came up with something good, that a contract works both ways (help out with payments)now everyone is jumping in. it's pretty simple, be interesting. that means being current and engaging. not just all this blah, blah, blah

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