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Brand Relevancy in the Age of Frugality

by Greg Sieck

"A New Era of Responsibility" – TITLE OF 2009 FEDERAL BUDGET

Change makes things different. And if you don't think things are changing for consumers in America and all around the world, lift your nose out of your sales data for a second, and take a whiff. At first it smells like fear, "What happened to my 401k, 529, home, job?" But there's an underlying smell, and it's one of practicality, frugality and the will to survive.

American consumers have been hit with an unprecedented quadruple whammy of factors—the dive in home prices, tumbling stock values, soaring energy and food costs, the credit crunch—which is changing the way consumers think...and behave. Given the reduction in the value of retirement accounts and the inability of homes to provide a windfall for the future, many Americans have set their minds to a commitment to work until their 70s...there's just no other way to catch up.

"Americans are pretty adaptable, so when it gets tough, we make it cool to be frugal" – CONSUMER TREND SPOTTER

There is no question that consumers are changing their attitudes and adapting their behavior. In a survey by Faith Popcorn, 90% of respondents said they were considering options for "the simpler life;" 84% said they were inclined to "buy less stuff." Booz recently conducted a survey of 1,000 households and found that 43% of respondents said they were eating at home more and 25% said they were cutting back on costly hobbies and sports activities. In both cases, most said they would continue their frugal behaviors even when the economy improves.

Younger consumers—Generation Y—may be shaped by the current environment most as they form lifetime shopping habits in an austere time, much as their great-grandparents did in the Great Depression. However, other analysts state that the "optimism and drive to spend are hard-wired parts of America's DNA."

The end-state is still unknown, but evidence of change persists. A survey from WSL Strategic Retail detected a "saving is cool" culture developing, with more than half of those polled agreeing they take pride in the ways they've found to save money—a way of thinking that will become more entrenched the longer the downturn persists.

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"Frugality is replacing frivolity…" – BANK OF AMERICA ANALYST

Those who work in service industries, specifically those who serve individuals, have been severely impacted by the unintended consequences of frugality. Services such as pet grooming, nannies, salons, housecleaners and carwashes are all suffering; even revenues at physicians' offices have slipped. At the same time, according to Information Resources Inc. (IRI), products used for things like home manicures and home medical treatments have had a healthy increase. When financial worries ease, many consumers say they will probably remain self-service converts.

"People are not hiring a professional. They are doing it themselves…"

– VP BRANDS, STANLEY TOOLS

Further proof of fundamental change in consumer spending is that household debt declined in Q3/2008 for the first time since the data began in 1952. In the same quarter, consumer spending declined for the first time in 17 years. Economists believe that, long-term, this has the potential to create real financial stability for Americans. However, according to Elizabeth Warren, who runs TARP, "The idea that the American Family will quickly spend us out of this recession is a fantasy."

Walmart, BJ's Wholesale Club and Goodwill Industries are thriving, while Saks, Neiman's and Abercrombie & Fitch are struggling. McDonald's is serving more, while Starbucks is closing stores. Even Spam has made a comeback.

"Be the Jones's, instead of trying to keep up with them"

– SCHOOLTEACHER IN VERMONT

As a result of 10 years of recession in Japan, significant changes in attitudes towards spending have occurred, especially among younger people. 48% of workers under 24 years old are temporary workers and, due to their precarious employment situation, they tend to shun conspicuous consumption. The desire for car ownership among young men dropped from 48% in 2000 to 25% in 2008. Even young Japanese women, once known for an insatiable thirst for fashion, are losing their desire, fueling a 10% drop in Louis Vuitton sales last year.

Japanese consumers have become hardened bargain-hunters, putting off purchases due to the perception that deflation will drive prices ever-lower. "I'm going to find a bargain, then wait until it gets even cheaper," says one Japanese woman of her desire for a new flat-panel TV.

"You can make almost anything with some cabbage, and maybe some potato…" – MRS. TAGASAKI, TOKYO, JAPAN

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CPG analysts are predicting what they term a "structural slowdown" in consumer spending for the next four to ten years. This slowdown, in conjunction with marketing-savvy retailers, is conspiring to push consumers into private-label brands at a dizzying pace. The shift to private-label is occurring in categories where it was not a factor before, such as skincare and feminine protection.

At the same time, consumers are implementing portion control on their usage, affecting even highly recession-resistant categories such as health and beauty aids. Unit sales of shampoo were down 7.7% in 2008, according to Tom Blischok of IRI. Blischok is predicting the development of a "downturn generation" who learns to scrimp and save permanently.

"Consumers are turning to private-label, substituting hamburger for steak and opting for smaller portions" – IRI TIMES AND TREND REPORTS

What brands are winning with frugal consumers?

Many brands have already made moves to become more appealing to consumers and more competitive in the new, frugal environment.

Hyundai, the Korean automaker, offers its Hyundai Assurance program to new car buyers: Hyundai will take your car back in the event you find yourself involuntarily out of a job during the first 12 months after you buy a new car. Hyundai reported January 2009 sales running 20% over prior year in one of the worst car-selling periods on record.

Kellogg's takes their "*Best To You Each Morning*" to the frugal with their new "*50 Cents A Bowl*" campaign. But it's more than simply the low price, when they explain not just the economic benefits, but the nutritional value as well.

Kool-Aid, the perennial value leader in the flavored drink business, takes it a step further by touting "*more smiles per gallon.*" The message clearly plays off of Kool-Aid's 'fun' heritage and then directly challenges bottled soda by offering three times the amount of drink for about half the price.

Kroger, the largest grocer in America, leverages their superior customer knowledge to deliver just the right offer to the right customer. It's a highly personalized approach that goes beyond demographics and into actual shopping behavior. The approach was successful, generating a 6% increase in Kroger's same-store sales during 2008.

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Rock and Republic, the marketer of chic jeans in the $300 range, recently launched their Recession Collection, priced at about $130. Although the company announced that the new, lower-priced product would be around for a limited time, R&R's founder Michael Ball was quoted as saying, "the days of the $300 jean are gone."

American Apparel is known for trendy urban clothing and scantily-clad young models. Their target market is young adults who live in cities—they don't have a mortgage or stock portfolio, so they're relatively unaffected by the downturn. American Apparel stays relevant to their target and nets a 3% sales increase in January 2009.

Whole Foods, bowing to the pressure of their "whole paycheck" reputation, recently launched the "Whole Deal" newsletter, with offers like "*feed for under $10*" and "*3 for $3.*" The Whole Deal remains true to the Whole Foods brand by promising to help you "*be healthier without being wealthier, weather the winter with pantry power and keep get-together costs from getting out of hand.*" Whole Foods' original brand message still resonates with some, as one long-standing customer stated: "if it doesn't have any additives or preservatives, I'm willing to pay a little more."

Probably the most visible effect of brand relevancy is the case of **Walmart** vs. **Target**. In this case, **Target** has spent the better part of 10 years trying to separate itself from Walmart and become more than just low prices. The emphasis on design and style was successful, until the consumer economy hit the wall. Then, Walmart's brand heritage of low prices, which had been successful became über-successful, while Target seeks to retrench and build credibility for low-prices and value. For 2008, **Walmart** was up 3.3%, while Target dropped 2.6%. Now that consumers are trading down, they want to trade down to the place that they can count on for low prices.

Where is there opportunity for brands?

While there is no question that consumer attitudes are changing about spending, we may be seeing some trade-offs as consumers get creative about how they're going to have their fun. The opportunity exists to find a place for your brand to help consumers get it all, without having to spend a ton.

Consider these as thought-starters, or a new way to think about promoting your brand:

The Staycation is in. Your customers are staying home and eating in instead of eating out, drinking good wine and liquor instead of heading to the club, lounging instead of dressing up for a night out, watching a movie at home or reading a book instead of going to a movie or the theatre. How does your brand fit into their lives now that their lives center more on home, family and friends?

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Fixing it up instead of buying new...that means cars, appliances, homes, clothing...you name it. If you're in the self-help business, help them learn to be more self-reliant and pick up new skills. If your product is in a category that has been perceived as disposable—from cars to appliances to electronics—look for ways to improve your reputation for quality and reliability.

Negotiating is OK. Whether for travel on Priceline or Travelocity, or buying and selling on eBay or Craigslist, paying full price is not part of the new frugality. Consumers are looking for a deal, whether on the sale rack, with a coupon or negotiating down the price. Implement offers and pricing strategies to ensure that your customers feel they have a say in what they pay.

Playing instead of Paying. Move away from the high-ticket, professional team sponsorships and get into helping your customers play sports. Many consumers are making the same trade-off, from attending an expensive sporting event to playing it themselves.

Everything online. Not only are there savings in getting news online instead of subscribing to newspapers and magazines, but there's also gas to be saved by online shopping. Social lives have also moved online via Facebook, Twitter, etc. Your presence online, and on mobile networks, makes you part of the conversation and accessible to your customers.

Five Rules for Brands in the Age of Frugality

1) Believe in your brand: Whether your brand has been in the market for years, or is relatively new, you have equity with your customers. If you lose faith and break with your brand values now, you'll need to give your customers another, more compelling reason to stay with you. Building new products and offers, fresh messages and innovative promotions that leverage the promises you have made to your customers in the past will bear fruit, even in these tough times.

2) Know your customers and speak to them: In this new Age of Frugality, old values are coming to fore. What's important: Health? Security? Education? Family? These values will drive your customers' decision-making. Make sure your salesforce, retail salespeople and customer service personnel have the training they need to empathize with your customers. Help them consider alternatives, including doing nothing. Help them evaluate the purchase by touting benefits, *both* rational and emotional.

3) Try something new: Speak to a new customer segment, use a new media or promotion vehicle, develop new packaging, launch a new distribution channel, or make an acquisition that helps your growth. Even though money is tight, doing new things is less expensive as the entire marketing eco-system looks for ways to survive.

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4) Focus on value, not simply price: Lowering price to attract new customers is a viable strategy. But if it is the only way you can compete, you are committing to being the low-priced brand in your category. Your brand has value (see rule #1), therefore you must exploit that value to be more competitive and make sales without giving away all your margin. If you understand your category and your competition, you can find ways to create value...without being on sale every day.

5) Have a strategy for permanent frugality: There is no reason to believe that this is going to be a one-year-and-out downturn with consumers returning to their free-spending ways. The net worth of Americans has been dramatically reduced and it will take many years for your customers (and you) to rebuild financial well-being. In many cases, whole new thrift behaviors are being learned, which will preclude a rapid rebound of consumer spending. Put long-term brand strategies in place now that comprehend a frugal consumer for years to come.

Change is Good (for Brand Relevancy)

In understanding how to keep your brand relevant in the Age of Frugality, perhaps the most important thing to come to grips with is that we are experiencing a fundamental, permanent shift in values and buying behavior. It is a change that will be good for your customers, the country and the global economy. To be successful, your brand must take in account the challenges your customers face and become empathetic with their emerging values.

Now, building brand value is wholly dependent upon understanding how your customers values have evolved. Getting it right is essential for both short-term survival and long-term growth.

About SieckGrowth Consulting: *SieckGrowth is a boutique brand strategy and identity firm that specializes in integrating sophisticated strategy with world-class design. The firm works with global brands from Fortune 50 to startups, including Dolby, Kroger, Applied Materials, Health Strategies Group and Information Resources Inc. (IRI).*

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