Peering Into the Mind of the Post-Recession Consumer

Dr. Charlie Hall

Ellison Chair in
International Floriculture

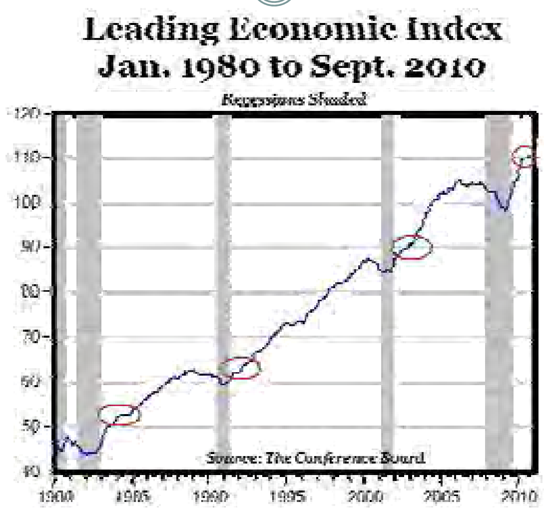
Texas A&M University

Perspective

HENRY FORD

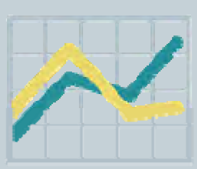
"If I had asked people what they wanted, they would have said faster horses."

Recovery began June 2009



Two beliefs about recoveries

Deep recessions usually lead to strong recoveries.

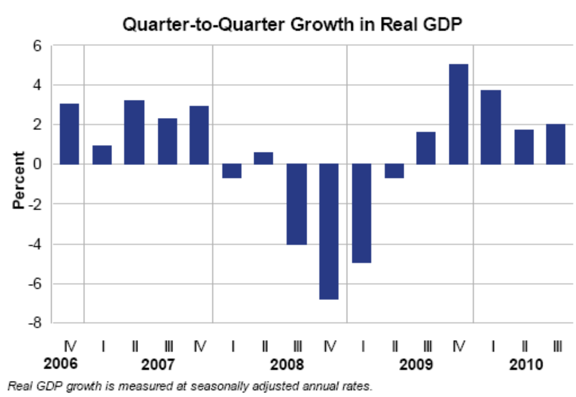


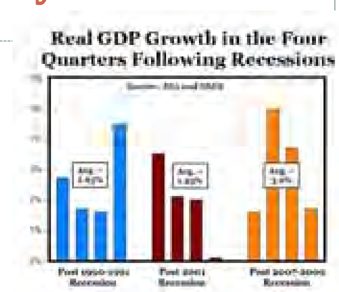
Financial crises usually produce weak recoveries.

Possible recovery scenarios

Scenario 1	Scenario 2
GDP strong; growth accelerates; as does the unemployment decline; businesses rebuild inventory & resume capital expenditures due to anticipating sales; consumers regain confidence & spend; positive export growth; banks navigate weak CRE sector & expand credit.	Fundamental changes in business practices & consumer habits; operate at leaner inventory levels & lower head counts; productivity gains accumulate; consumers more frugal/save; growth continues modestly; unemployment slow to recede.

A Slow Recovery



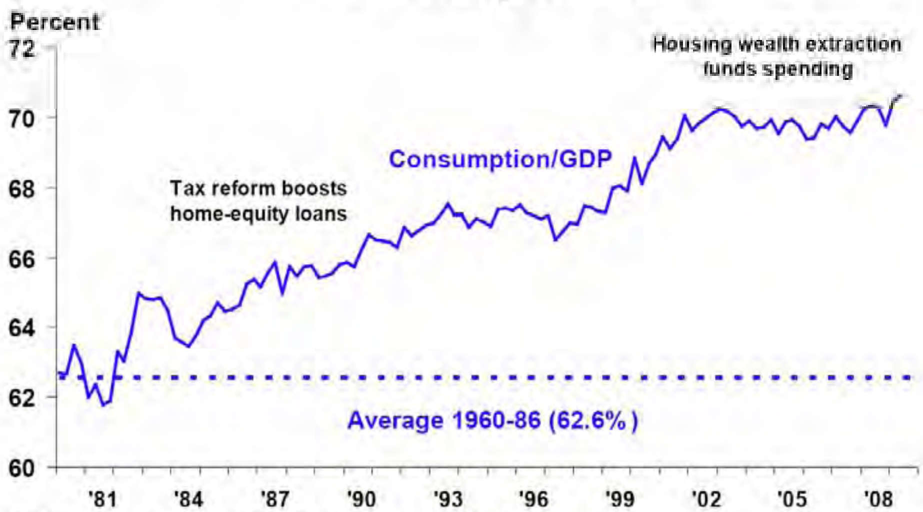


What about the longer term?

CBO's Year-by-Year Forecast and Projections for Fiscal Years 2009 to 2020

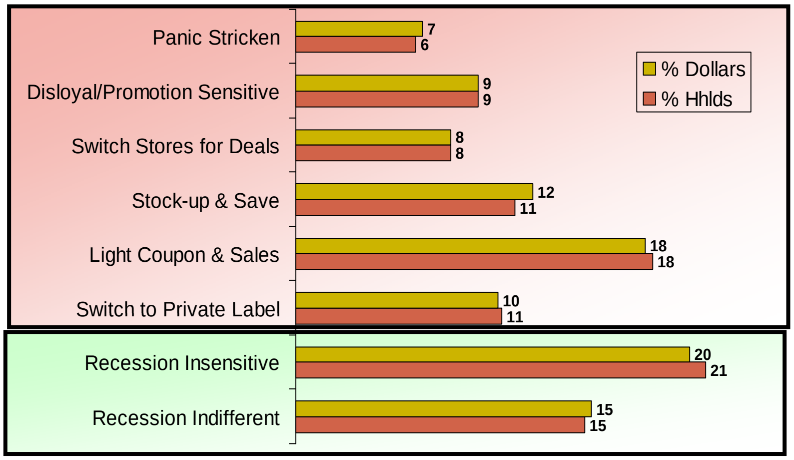
	Actual	Forecast		Projected								
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Nominal GDP (Billions of dollars)	14,236	14,595	14,992	15,730	16,676	17,606	18,421	19,223	20,036	20,823	21,667	22,544
Nominal GDP (Percentage change)	-1.4	2.5	2.7	4.9	6.0	5.6	4.6	4.4	4.2	3.9	4.1	4.0
Real GDP (Percentage change)	-2.9	1.6	1.8	3.9	4.9	4.3	3.0	2.6	2.4	2.1	2.3	2.2

Consumption Share of GDP Jumped in the Early 2000's



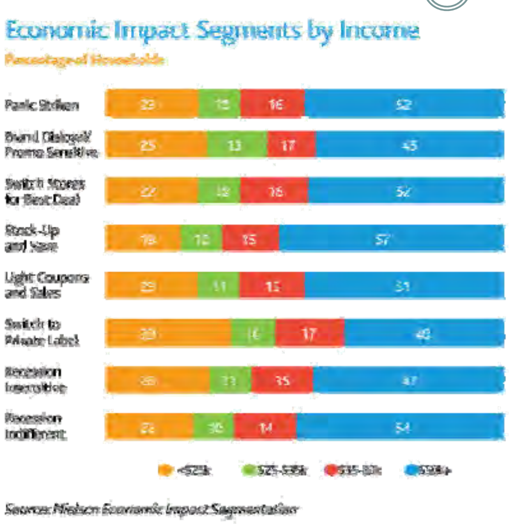
NOTE: Data are seasonally adjusted, annualized rates.
SOURCES: Bureau of Economic Analysis; calculations by FRB Dallas.

Coping Strategies During Down Economy

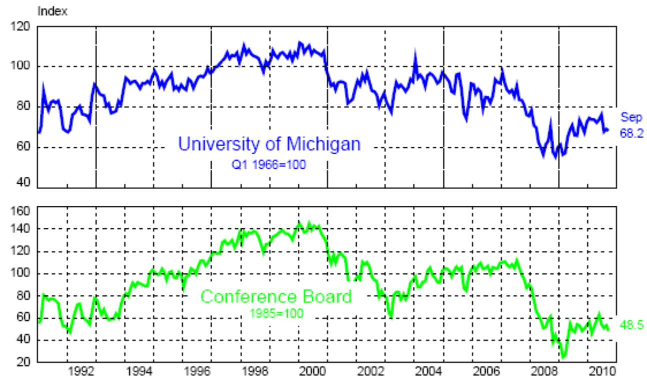


Source: Homescan®, a service of The Nielsen Company 52 weeks ending 12/27/08

Income is not a predictor



Consumer confidence rebounding



Sources: University of Michigan; NFO Research Inc. and The Conference Board.

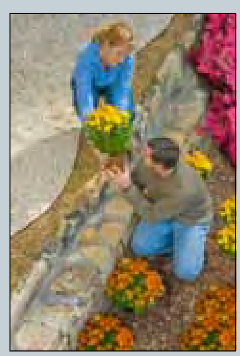
HH balance sheet improving

Personal saving rate increasing

Retail sales better than expected

Real Consumer Spending

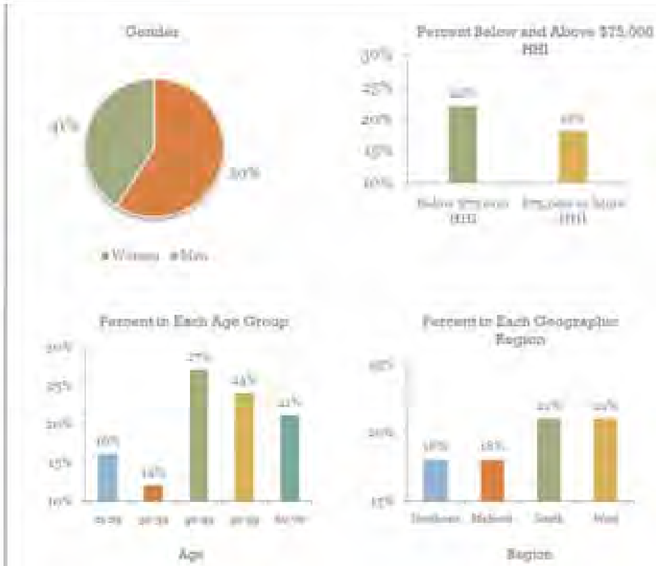
Types of post-recession consumers



1. Steadfast Frugalists

Main Characteristics:

- Size → 20% in the population.
- 6 in 10 are women.
- Composed of people from all age groups; however, fewer from Gen X and Gen Y.
- Steadfast Frugalists are the most disciplined in their behaviors and seriously committed to self-restraint.
- It is likely that many of these individuals deemed themselves tightwads even before the recession.
  - 29% of individuals in this group considered themselves tightwads in this survey.
- Marketers will find this group to be the most challenging.



2. Involuntary Penny-Pinchers

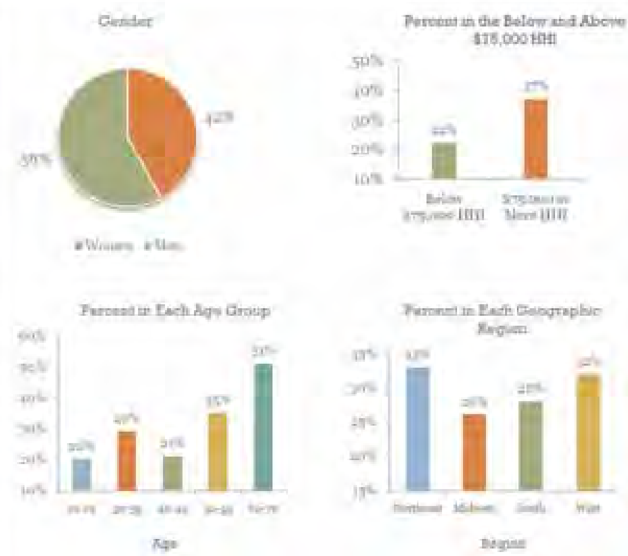
Main Characteristics:

- Size → 29% in the population.
- 6 in 10 are women.
- Over-represented by people in their 30s and 40s.
- Involuntary Penny-Pinchers are the most severely affected – *financially and emotionally* – by the recession.
- Their new-found frugality for the most part has been forced upon them. Half have not saved any money for emergencies.
- Spending for a sizeable proportion (38%) in this group exceeded their income last year, indicating that they were not that disciplined to begin with.
- Marketers will find this group to be quite challenging to influence mainly due to their lower/diminished capacity to spend.

3. Pragmatic Spenders

Main Characteristics:

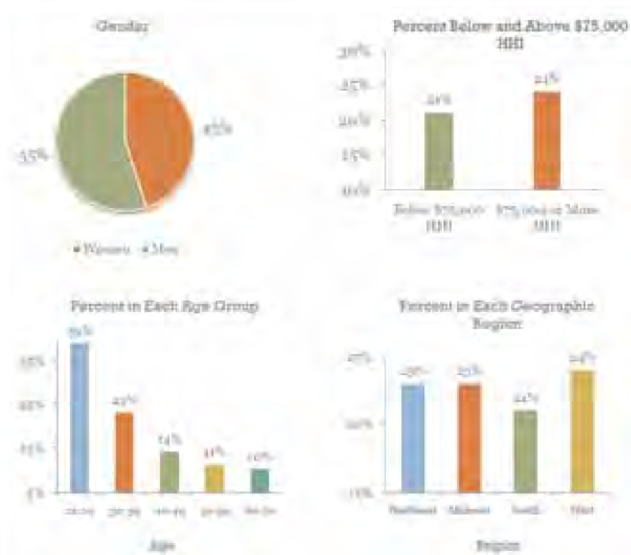
- Size → 29% in the population.
- 6 in 10 are men.
- Over-represented by people in their 60s, and from the Northeast and West.
- Over a third of the people with greater than $75,000 HHI are in this group.
- Pragmatic Spenders have the greatest capacity – both financial and psychological – to willfully resurrect their past spending patterns.
- Their approach to spending is tempered with caution; they have cut back and are engaging in thrift like others but seem less troubled by the recession.
- Pragmatic Spenders will be the most attractive to marketers given their above-average financial wherewithal.



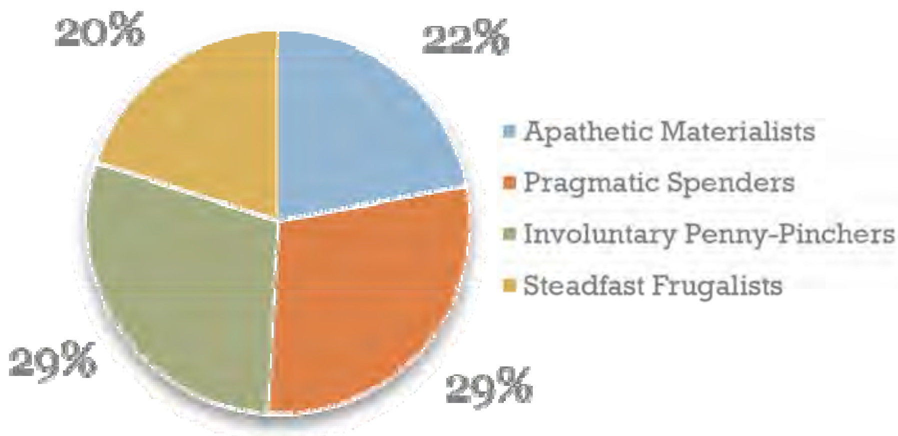
4. Apathetic Materialists

Main Characteristics:

- Size → 22% in the population.
- Slightly more men than women.
- Over-represented by people in their 20s (Gen Y).
- Apathetic Materialists are less perturbed by the recession. They are the least changed in terms of their spending habits and future intentions.
- It is likely that their relative indifference springs from their life stage – more younger, single people with limited disposable income at the moment.
- Apathetic Materialists will be an attractive target for youth-oriented marketers.



Post-Recession Consumers



Deliberate ≠ Frugal

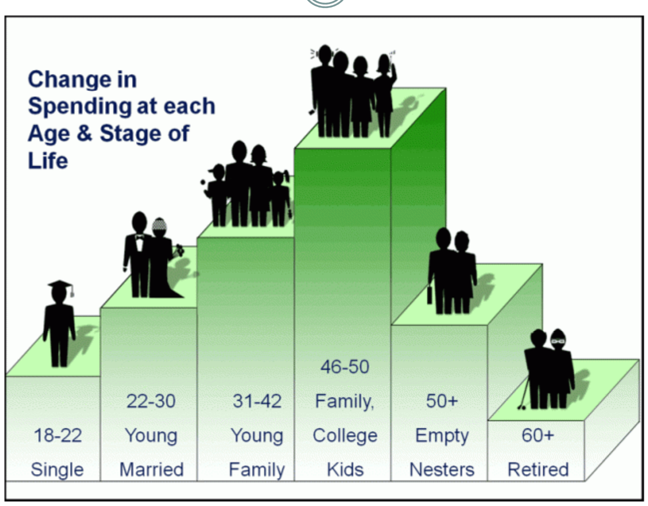
MINDLESS	◀▶	MINDFUL
SPLURGE	◀▶	SACRIFICE
EXTRAVAGANT	◀▶	FRUGAL
OPTING OUT	◀▶	TRADING DOWN

Two insightful principles

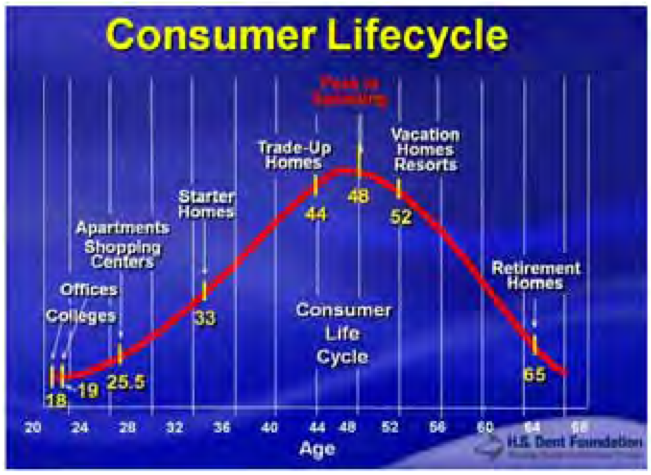
1. **Expenditures rise to meet income.**
   -- *(C. Northcote Parkinson)*

2. **People <u>afford</u> what they <u>want</u>.**
   -- *(Lowell Catlett)*

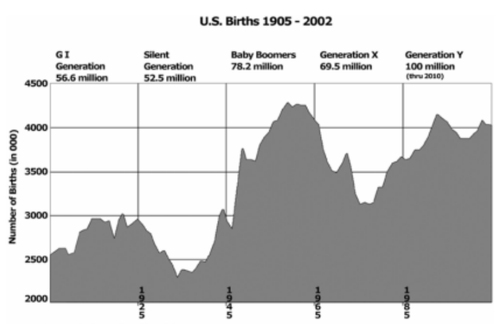
Spending Patterns

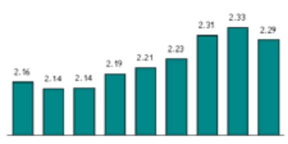


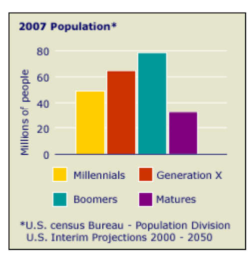
Consumer Housing Lifecycle



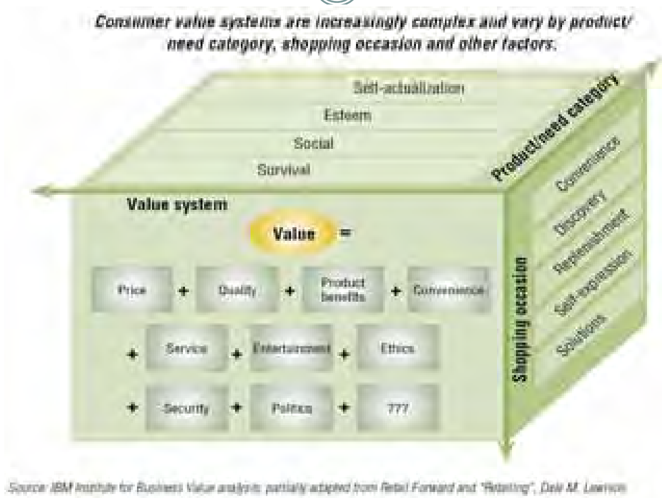
Effect of future transfers of wealth?







It's all about value and relevance!



Elements of perceived value

1. Functional/instrumental value
2. Experiential/hedonic value
3. Symbolic/expressive value
4. Cost/sacrifice value

Elements of perceived value

1. **Functional/instrumental value**
   - features, functions, attributes, or characteristics (aesthetics, quality, customization, or creativity)
   - appropriate performances (reliability, performance quality, or service–support outcomes)
   - appropriate outcomes or consequences (strategic value, effectiveness, operational benefits, and environmental benefits)

Elements of perceived value

2. **Experiential/hedonic value**
   - sensory value (aesthetics, ambiance, sensory aspects)
   - emotional value (such as pleasure, enjoyment, fun, excitement, adventure, and humor)
   - social–relational value (relational or network benefits, bonding, connectedness, personal interaction, developing trust or commitment)
   - epistemic value (knowledge, curiosity, novelty)

Elements of perceived value

3. **Symbolic/expressive value**
   - appeal to consumer's self-concepts and self-worth—that is, they make us feel good about ourselves—either in possession or in giving
   - personal meaning—associations with people or events that only have meaning to a particular consumer; a means of self expression
   - social meaning—how others see us
   - conditional meaning—symbolism or meaning relating to sociocultural events and traditions (e.g. flowers on Valentine's Day.)

Elements of perceived value

4. **Cost/sacrifice value**
   - economic costs, such as product price, operating costs, switching costs, and opportunity costs
   - psychological/relational costs include cognitive difficulty, stress, conflict, search costs, learning costs, switching costs, and relationship costs
   - personal investment of customers—the time, effort, and energy consumers devoted to the purchase and consumption process
   - personal, operational, financial, or strategic risks

Elements of perceived value

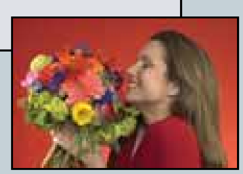
1. Functional/instrumental value
2. Experiential/hedonic value
3. Symbolic/expressive value
4. Cost/sacrifice value

What is a value proposition?

- A concise statement which articulates why the target customer will “choose to buy” your product / service offering over other alternatives in the market.
- The Value Proposition is the distilled essence of the company’s mission and strategy.

Relevancy of flowers

- Flowers = happiness emotion (satisfaction)
- Inspire social networking
- Refresh memory as we age.
- Can be better to give than to receive
- ↑ compassion; ↓ worry; ↓ depression



Relevancy of Plants/Trees

- Minimizes sick building syndrome
- Gardening = ↑ self esteem; ↓ stress; ↑ life satisfaction
- Enhanced therapeutic value for patients
- Reduced exposure to ultraviolet light
- Creates jobs!
- Sustainable???

Eco-Systems Services Benefits

- Reduced wind speed
- Reduced conductive heat loss from buildings.
- Shade = ↓AC costs
- Absorb gaseous pollutants
- Reduced CO_2

- Reduced noise levels
- Reduced erosion & stormwater runoff
- Enhanced biological diversity & habitat
- Intercepts particulates
- Produce O2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Wildflower center
UNITED STATES BOTANIC GARDEN

GARDENERS BE AWARE

For just about every plant we buy, a pot, a bag, a bottle gets sent to the landfill

Beauty and the plastic beast

Nutrition Facts

Serving Size 1 bar (35g)
Servings Per Container 6

Amount Per Serving	
Calories	170
Calories from Fat	80
	% Daily Value*
Total Fat 9g	**14%**
Saturated Fat 1.5g	**8%**
Trans Fat 0g	
Cholesterol 0mg	**0%**
Sodium 80mg	**3%**
Total Carbohydrate 19g	**6%**
Dietary Fiber 2g	**8%**
Sugars 8g	
Protein 4g	

Iron 2% • Vitamin E 6%

Not a significant source of vitamin A, vitamin C and calcium.

* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:

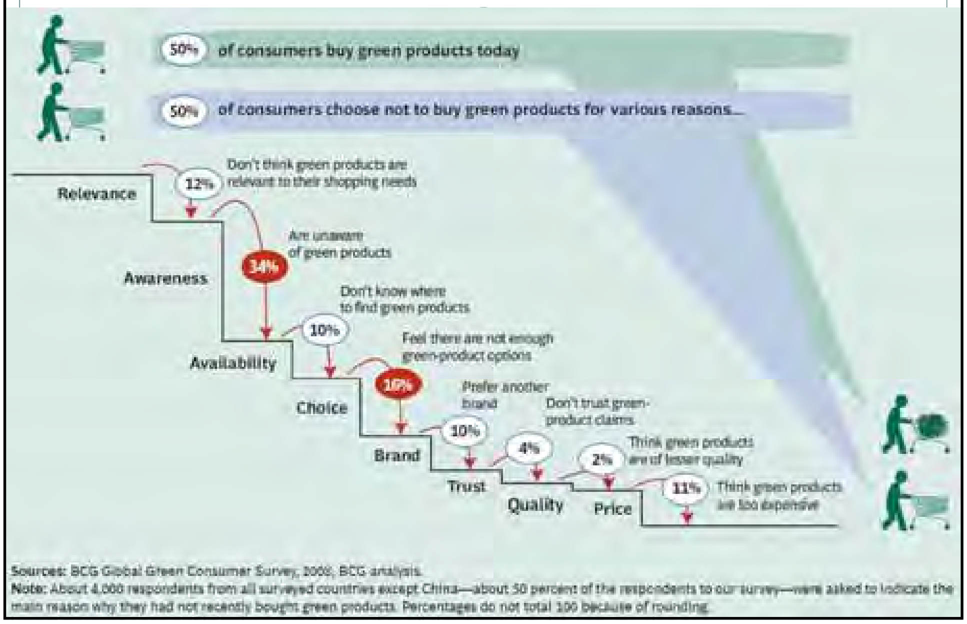
	Calories:	2,000	2,500
Total Fat	Less than	65g	80g
Sat Fat	Less than	20g	25g
Cholesterol	Less than	300mg	300mg
Sodium	Less than	2,400mg	2,400mg
Total Carbohydrate		300g	375g
Dietary Fiber		25g	30g

Sustainable Facts

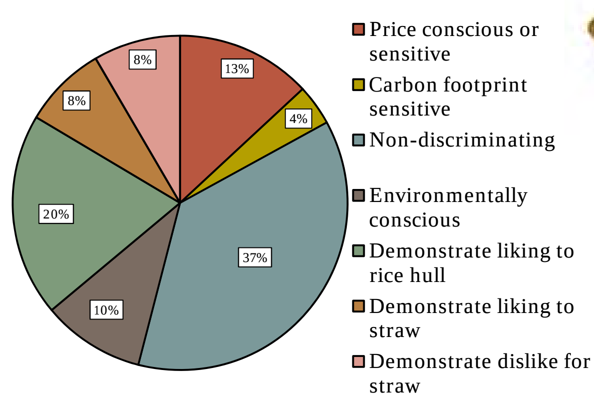
per 1000 Geranium plants

Carbon Balance	
Carbon Sequestrene	***0.15 ton***
Carbon Used in Heating & Transportation	***1.0 ton***
	Resources Used
Pesticides (mg ai)	**3.2**
Category I	**0.6**
Category II	**0.8**
Category III	**0.9**
Category IV	**1.0**
Biological Control	*yes*
Water (Kliter)	
Applied	**11.5**
Runoff	**8.6**
Waste (kg)	
Plastic	**30**
Paper	**15**

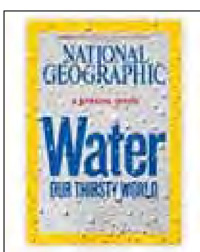
Green purchasing factors



WTP & Consumer Segments for Biodegradable Containers



Container attribute	WTP results
Plastic	base
Rice hull	$0.58
Straw	$0.37
Wheat (OP-47)	$0.23
Carbon saving	$0.17
Carbon neutral	base
Carbon intensive	-$0.43
No waste	base
1-49% waste	$0.15
+50% waste	$0.23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Relevancy of landscaping

- Moving from the least valued landscape to the most valued landscape, perceived home value increased, on average, 9 percent.
- A landscape is a good investment (returning > $1 in value for every $1 invested) which increases in value (and size) over time.

J. Environ. Hort. 23(3):127–133. September 2005

Remember these principles?

1. **Expenditures rise to meet income.**
   -- *(C. Northcote Parkinson)*

2. **People afford what they want.**
   -- *(Lowell Catlett)*

We enhance quality of life.

If we can position ourselves in such a way that we are viewed as ***necessities*** in people's lives and not mere luxuries, that is the best recession-proofing and weather-proofing we can do.


FOR
SALE


SOLD
SALE

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