

Consumers curtail consumption

Matthew Creamer

The financial meltdown that's shaken the American economy to its core has already affected consumer spending, and in the coming months will make consumers more tightfisted when it comes to eating in restaurants, traveling and shelling out for big-ticket items.

Amid worsening economic conditions and the spectacular chain of bank crises that has resulted in a massive taxpayer-funded rescue package for Wall Street, a pair of recent surveys on consumer sentiment found that all the bad news will alter consumer behavior in a wide variety of ways as people cut back in an effort to weather what looks to be a long downturn. Expect more bagged lunches and time spent on cheap recreation such as TV watching and internet surfing, as well as less dining out, fewer purchases of new clothes—even fewer text messages.

An internet poll of 507 consumers by WPP Group-owned Lightspeed Research for Advertising Age found that nearly 80% of respondents have changed their buying behavior in the past few weeks, hitting product categories at all price points. Some 70% of respondents said they're curtailing overall spending, which is sure to lead to bad news as the holidays approach. The survey also found no relief for the auto industry: Only one-tenth of respondents have purchased a car in the past three months or plan to purchase one in the next three.

The Lightspeed survey, which has a margin of error of 4.4%, found that changes in consumption were consistent across age groups and income levels. Only 45% of those surveyed expressed confidence about an economic rebound; those who earn less than \$20,000 were more optimistic than those at higher income levels.

In a separate study, Omnicom Group-owned media agency OMD took a detailed look at how and where spending patterns would be altered. More than half—60%—of respondents said they're more likely to take lunch to the office, and a whopping 80% are postponing vacations. Unsurprisingly, big-ticket items such as appliances, jewelry and cars will be less popular, but there is good news for purveyors of less-expensive luxuries or "feel-good products" such as beauty products and even snacks.

Even if the recession is characterized by more TV watching, there may be less use of certain popular forms of communications. Consumers who participated in the OMD study reported they're likely to send fewer text messages and use their phones to surf the internet less, because those services often have costs attached above and beyond a basic plan.

Together the studies offer a snapshot of an American consumer who's reacted sharply to a few weeks of economic doom and gloom in a way that will impact a vast swath of product categories. Whether or not the \$700 billion taxpayer-funded Wall Street rescue package passed Friday by the House of Representatives will offer any solace remains to be seen. After all, Friday also brought grim employment data, with U.S. payrolls dropping nearly 160,000 workers—the largest dip in five years.

There was something of a silver lining for marketers trying to figure out how to proceed during a time sure to be marked by a focus on savings. The OMD study tested consumer feelings about advertising and found that 81% said advertisers need to continue to communicate about their products during a recession, adding that they'll be more receptive to cost-savings messages and products that are positioned as investments.

The OMD study said marketing communications for low-involvement products, where there likely will be much brand switching, should focus on brand benefits. For pricier, higher-involvement products, marketers will have to show why consumers need the product, emphasizing technological improvements that make it a must-have.

A LOOK AT THE EFFECTS

How consumer behavior has changed

HAVE THE COLLAPSES AND SALES OF MAJOR FINANCIAL INSTITUTIONS AFFECTED YOU OR YOUR FAMILY?

Yes	66%
No	34%

HAVE YOUR BUYING HABITS CHANGED IN THE PAST SEVERAL WEEKS?

Yes	78%
No	22%

WHAT HAVE YOU SPENT LESS ON?

Clothing	72%
Restaurants	86%
Travel	67%
Entertainment	83%

WHAT IS YOUR OPINION ABOUT AN ECONOMIC REBOUND?

Optimistic	44%
Pessimistic	56%

Based on 507 Americans interviewed on Oct. 1-2

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