



# *Consumer Spending in the Economic Downturn*

*The wide ranging impact on consumer behavior*

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*Results from September 2008 Consumer Spending Behavior  
Study conducted by Booz & Company*

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## Executive Summary

### *Study Context*

- The unprecedented confluence of three major economic factors—a dramatic rise in oil prices, a significant deterioration of housing values, and a credit crunch—is affecting the overall economy and **significantly changing consumer behavior**
- To understand how consumer behavior is being altered in the current economic environment, **Booz & Company surveyed nearly 1,000 U.S. households**
- The survey covered changes in consumer behavior in three areas:
  - Changes that consumers have made over the past six months
  - Additional changes they will make as the economy continues to falter (a reality now given recent economic developments)
  - Changes they will reverse once the economy recovers
- **The vast majority of consumers have already made substantial cuts in their spending—and expect to make deeper cuts given their gloomy outlook on the economy**
- Although there are some differences in how different income and age groups have approached spending cuts, most consumers are making similar trade-offs across major spending areas. In addition, as expected, lower income groups are making deeper cuts by more aggressively cutting back on spending and driving and shopping more frugally
- The similarity in cost-reduction patterns is not surprising given the fact that the vast majority of the population (except the top few percent) have similar spend allocations and are exposed to similar drivers of change:
  - Depreciating home/property values
  - Rising mortgage rates and a credit squeeze
  - Declining value of retirement funds/savings
  - Increasing prices for gas and food
  - Job security concerns

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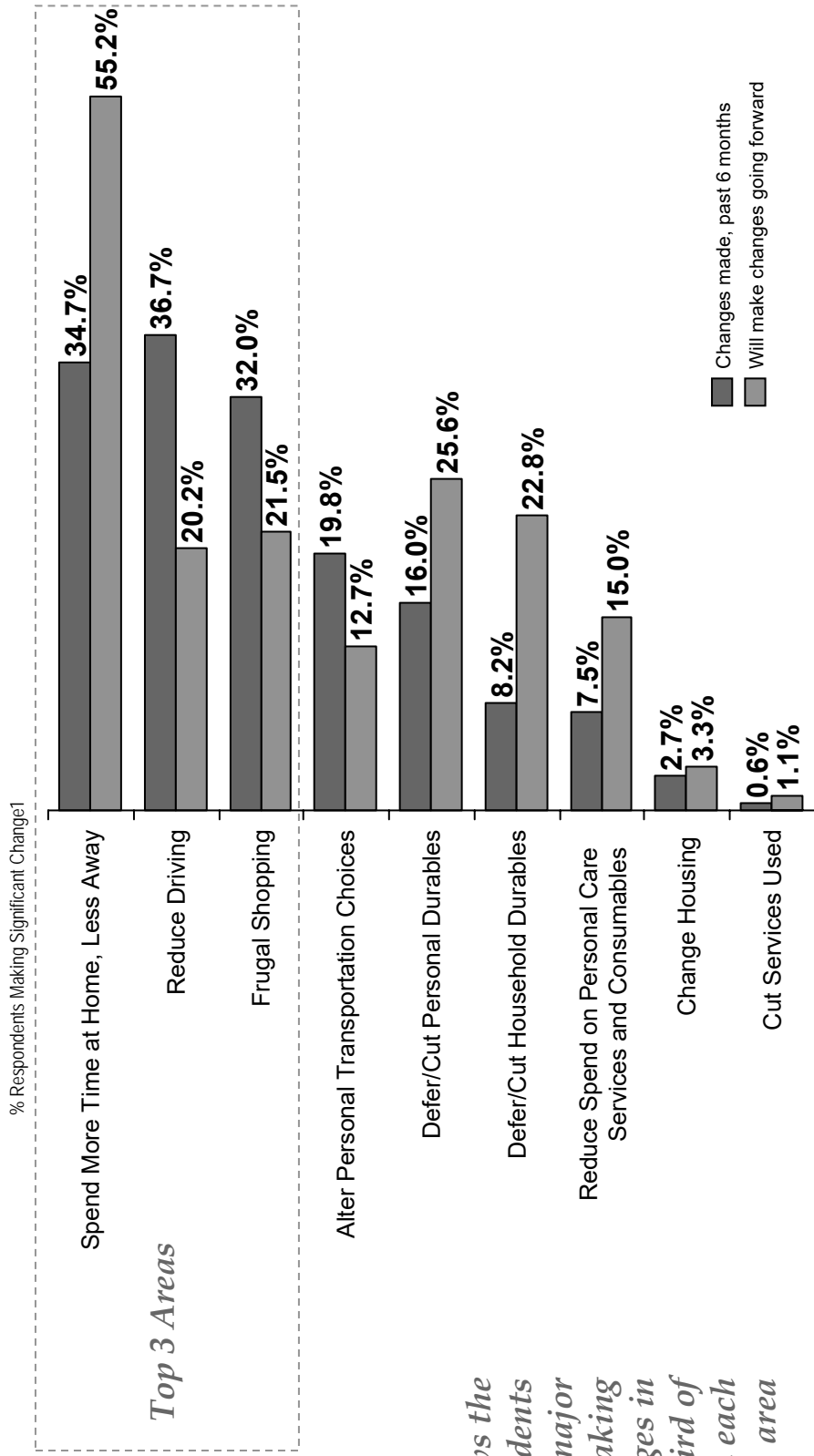
## Executive Summary

### *Summary Findings*

- **In approaching cost-cutting, households have focused first on a set of high-expenditure, less structural areas—staying at home more, shopping frugally, and driving less—even though they value many of these activities highly**
- **Deferring the purchase of durables has just begun** and has been most pronounced in automobiles thus far—more than 20% of consumers have deferred automobile purchases, while some 15% have traded down to cheaper or more fuel-efficient vehicles
- Looking forward, consumers are reporting that they plan to make incremental saving decisions in two areas:
  - Making deeper cuts in the three areas listed above
  - Beginning to reduce expenditures on personal durables (clothing), indulgences (coffee chains, alcohol), household durables (electronics) and services (salon treatments, house cleaning)
- Major structural changes are challenging for consumers to make, given the high transaction costs (and emotional costs) involved—yet remarkably, **12% of the respondents either have or expect to make major changes** to where they live, such as moving closer to work or to a smaller home (and in fact, 8% have already done so)
- **Only a small number of respondents (7%) have significantly cut charitable contributions thus far**, although more than 10% expect to make additional cuts. The impact of this cost reduction is significant because those contributing the most are making the largest cuts
- Despite making changes focused on reducing spend, **nearly half the respondents expect their savings to decline and their debt to increase**
- When the economy recovers, consumers are mixed about returning to their previous spending choices—they will be much quicker to return to purchasing those items they value most highly, while they will most likely consider making some changes permanent
  - Across the board, consumers do not believe that they will substantially reverse their new, more frugal spending pattern—though at least part of this may be affected by current budgetary concerns
  - At least one set of spending activities, however, will be faster to come back; this includes spending on restaurants, vacations, entertainment, and driving—though this spending may be focused first on the more affordable forms of these activities (e.g., not returning as quickly to expensive restaurants)

# A large proportion of households have made major changes across the spend themes identified in our study.

## Respondents Making Significant Changes

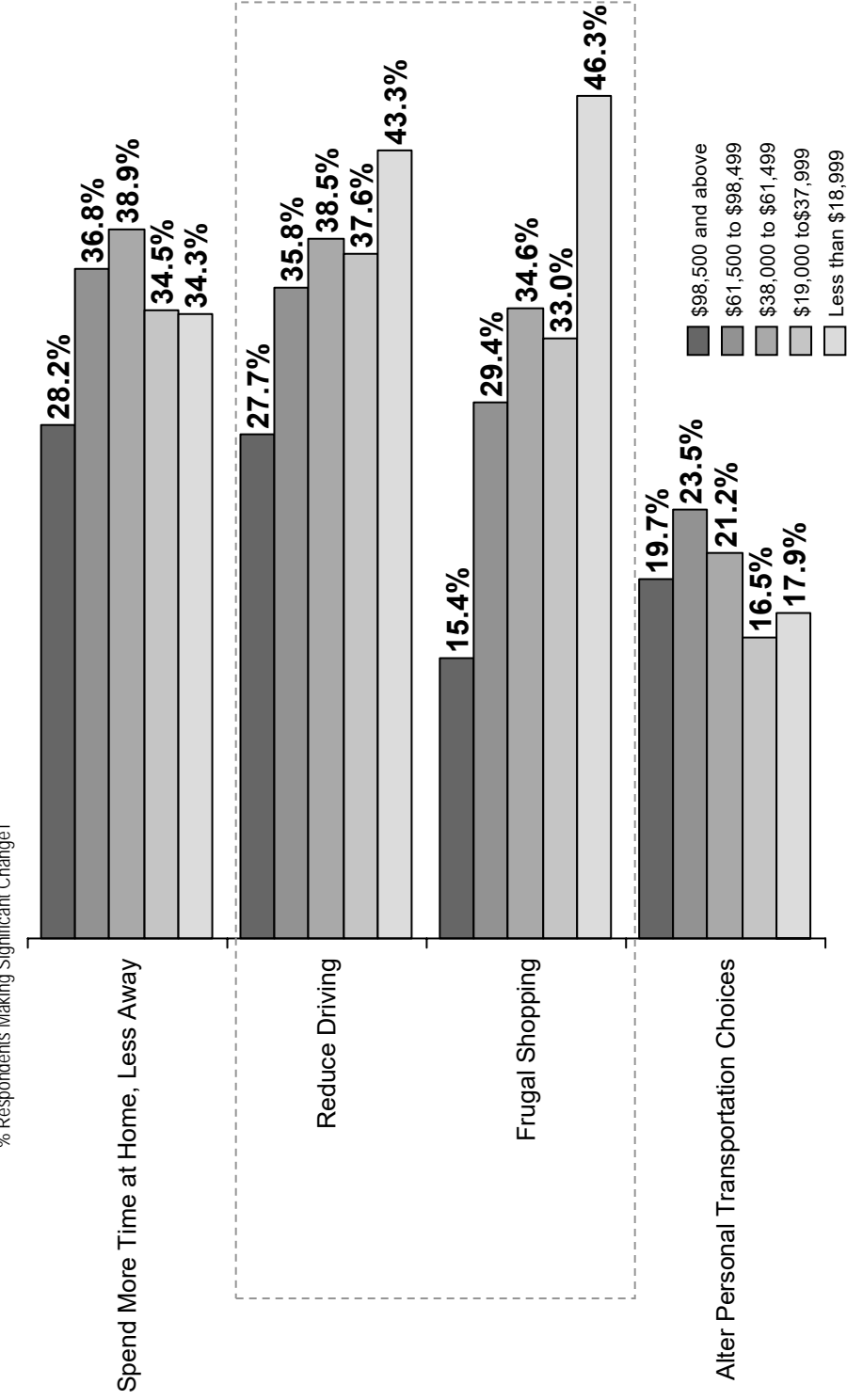


*This exhibit shows the percent of respondents who have made major changes - i.e., are making significant changes in more than a third of surveyed actions, in each area*

**Although lower income groups have made more aggressive changes in driving and shopping, the broad spending themes are remarkably consistent.**

*Significant Changes in a Third or More Actions, In Each Area, Over the Past Six Months – Top Four Areas*

% Respondents Making Significant Change<sup>1</sup>



*The broad consistency of behavior across income groups is not surprising given that the vast majority of the population (except the top few percent) has similar spend allocations and is exposed to similar drivers of change:*

- *Depreciating home and property values*
- *Rising mortgage rates and a credit squeeze*
- *Declining value of retirement funds/savings*
- *Increasing prices for gas and food*
- *Job security concerns*

1) Percent responding 5 or above on a 7-point scale in more than a third of surveyed actions in each area  
Source: Booz & Company consumer spending behavior survey

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## Executive Summary

*The changes in consumer behavior that we have seen have a wide-ranging set of implications for businesses and public policy. They also raise new opportunities for those that are either well positioned or who reposition themselves to serve consumers' new needs. Some examples of key issues and implications include:*

- Spending Time at Home
  - Reductions in eating out have resulted in sharp declines in restaurants' performance—additional declines are imminent
  - The resulting increase in time at home creates opportunities related to **meal preparation and entertainment**
- Shopping Frugally
  - Consumers continue to be **brand loyal in categories of high personal value** (e.g., personal care, liquor), though many are willing to try private label or value brands or more broadly change their retail outlet choices. Moreover, consumers may stick with these choices if satisfied
  - **Longer-term trends** toward convenience and premiumization **suggest that consumers may eventually reverse many of their new spending choices**, even if they don't currently believe they will (their beliefs may be caused by being in a particularly thrifty mindset)
  - **Retailers and brand owners must work hard** to provide value-branded alternatives and solutions that better suit consumers' new shopping preferences
- Driving Less
  - **Consumers have clearly stated a desire to return to pre-downturn driving behaviors**, especially as they relate to non-work driving—although their ability to do so will in great part depend on oil prices
  - We fully expect more stickiness around trends toward trading down to less expensive and more fuel-efficient vehicles; we also expect that a pent-up demand driven by deferred vehicle purchased will eventually be unleashed
- Savings and Debt
  - Consumers do not appear to have fully “come to grips” with what it would take to sustain a depressed economy—a **large proportion of consumers expect their savings to shrink and debt to rise even with the changes made**
  - Limited access to debt and higher interest rates on debt will necessitate additional cuts in other areas.
- Structural Housing
  - 12% of respondents indicated that they have taken or expect to take **the relatively difficult step of making a major housing move to save money**. We believe that depending on the interplay between income, mortgages, and savings, additional consumers may need to reevaluate these choices.

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## Study Context and Methodology

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## **The survey probed consumer behavior change as it has happened, as it will happen, and as it might revert.**

- The goal of the study was to understand how consumers have altered their behavior, and how they expect to alter it further, in response to the current economic crisis.
- We designed this survey as a comprehensive study of consumer behavior:
  - Covering a wide range of actions (such as shopping patterns and changes in living arrangements)
  - Including all major product categories (e.g., food, automobiles, entertainment, durables, and electronics)
  - Having a large enough sample size to go beyond anecdotal or partial evidence.
- This survey was completed in the second half of September 2008.
  - The recent financial crisis was beginning to escalate. Bear Stearns had just collapsed.
  - Even at that time, consumers were already expecting a real loss of income and were adjusting their spending behavior and their attitudes; since then, the situation has continued to worsen.
  - The responses to our study thus represent a reasonable proxy for what will happen in the forthcoming year.
- More than two-thirds of the survey respondents believed that the economic outlook six months out would be worse—and expressed a strong desire to take further action.



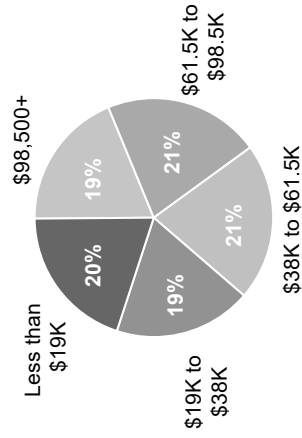
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## We divided responses by timeframe.

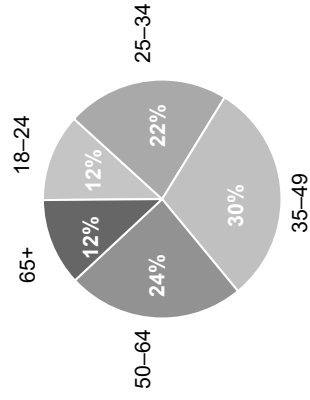
- We asked consumers to define:
  - 1 **the changes they have already made** in the previous six months, when economic conditions were tightening
  - 2 **the changes they will make** in the next six months and beyond, when economic conditions are likely to tighten further
  - 3 **the changes they will undo** (or behavior they would revert to) in the more distant future, when economic conditions are expected to improve
- *In highlighting the results of the study, we focused only on the people who made **significant changes***
  - defined as a response of 5 or higher, on a scale of 1 to 7, to questions about the importance of the change to them.

# The survey covered nearly a thousand households distributed across income and representative age demographics.

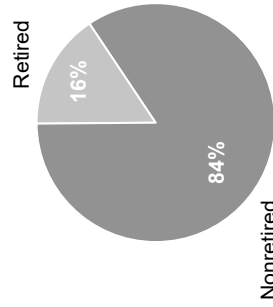
**Income Quintiles**



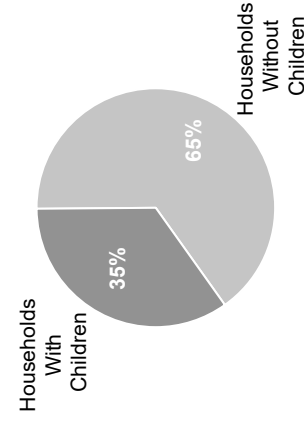
**Age Distribution**



**Employment Status**



**Children**



- We asked consumers about a dozen product and service categories:
  - Appliances and electronics
  - Charitable contributions
  - Clothing
  - Education
  - Entertainment
  - Food and drink (at home)
  - Food and drink (away from home)
  - Furniture
  - Health products and health insurance
  - Housing
  - Personal care
  - Pensions, retirement funds, insurance
- We covered more than 120 specific actions, including:
  - “eating at less expensive restaurants”
  - “moving to a less expensive city”
  - “switching to cheaper brands of beer”
- The mix of survey respondents is largely consistent with U.S. census data

*The survey covered ~1,100 respondents who were primary decision makers. Some of the respondents were rejected based on data integrity checks, resulting in an analysis base of 995 households.*

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1

*Changes consumers have  
already made*

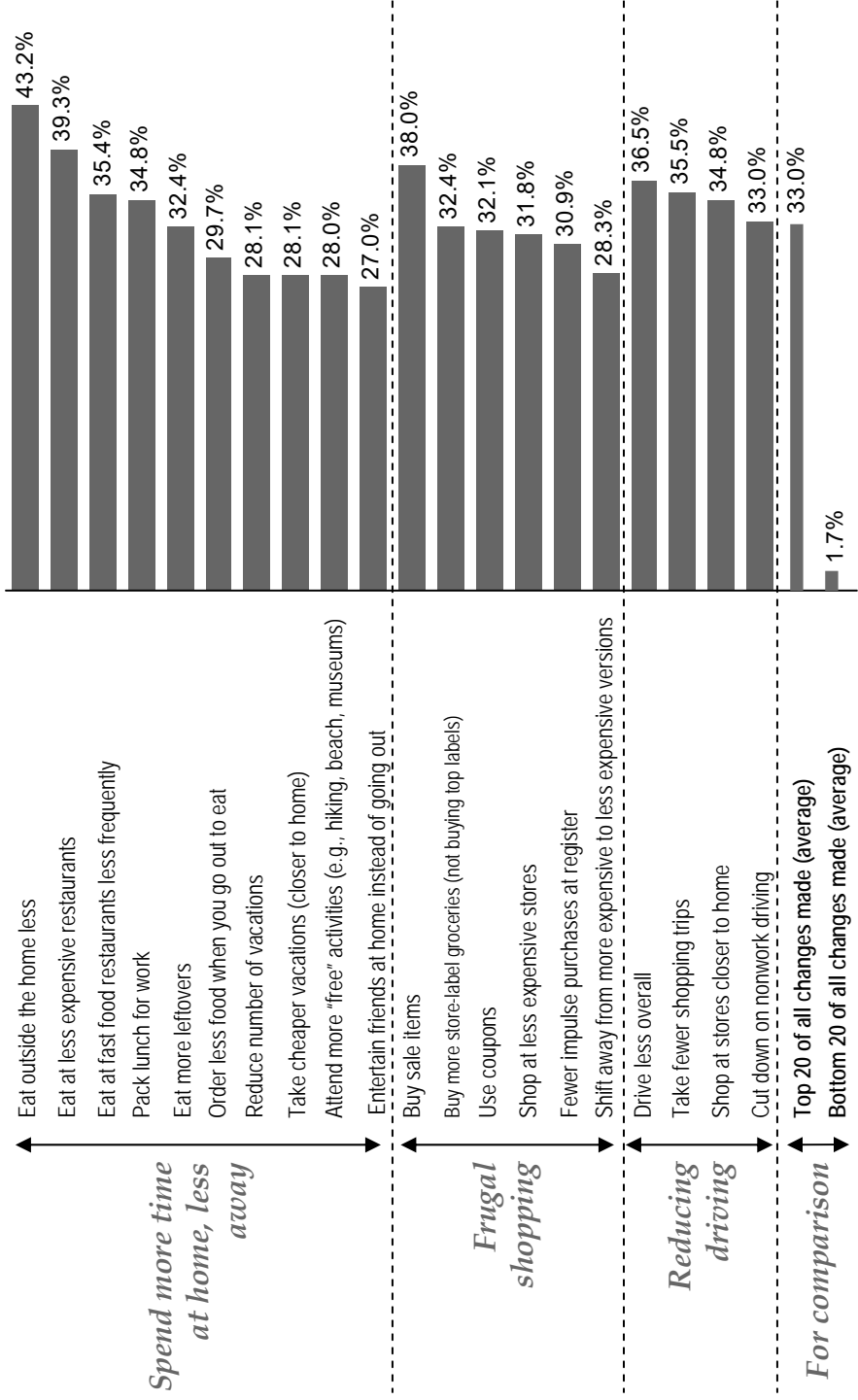
Changes Consumers Have Already Made

# Consumers have made the most changes so far in high-expenditure, less structural consumables: leisure (including dining out), shopping, and driving.

*While choosing the actions to give up, consumers seem to have favored "ease" over how much they value the actions — which is apparent in their decision to mostly give up the "high-up the "high-expenditure, less structural" actions that are also the first ones they will undo if the economy recovers (this trend is discussed in later section)*

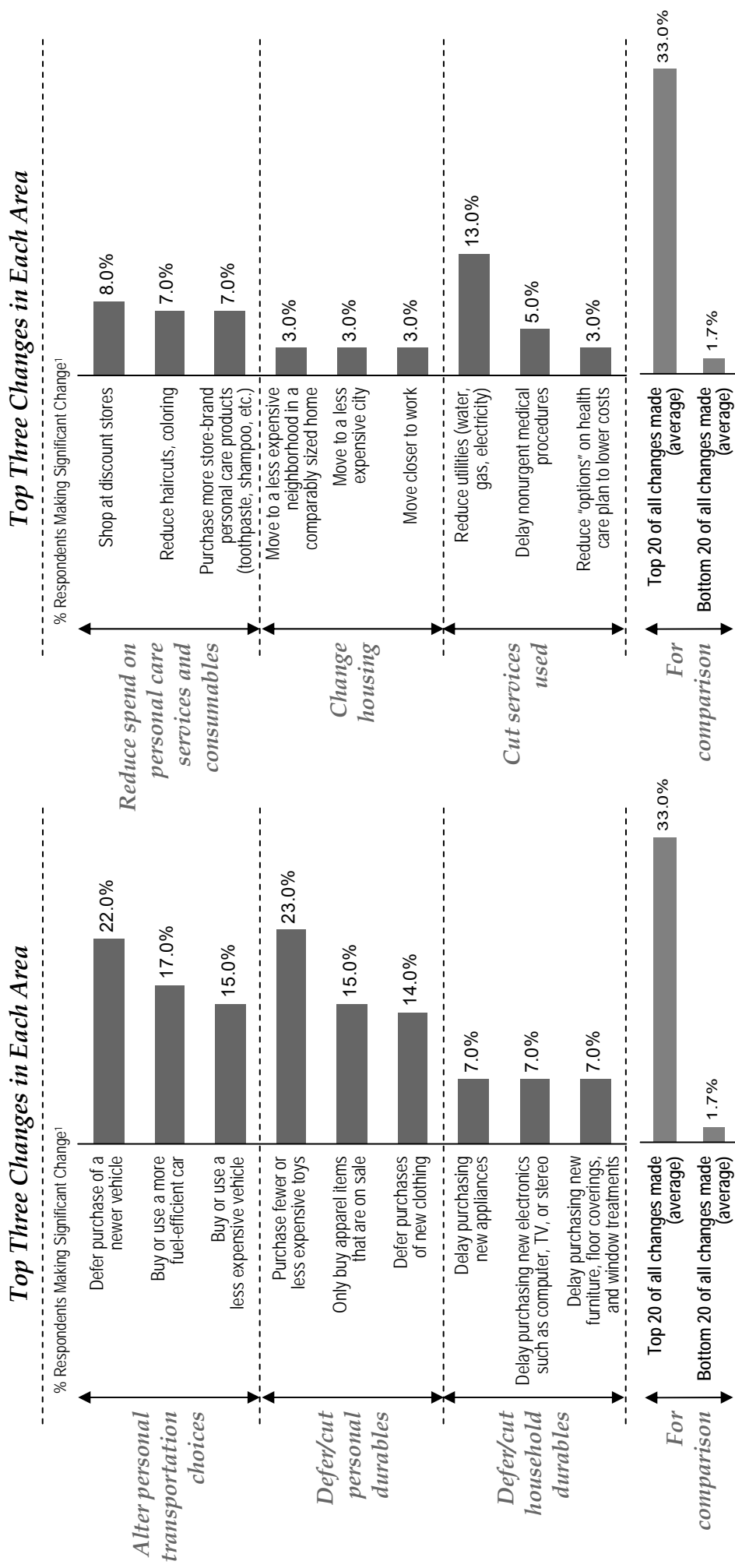
## Top 20 Changes Consumers Have Made

% Respondents Making Significant Change<sup>1</sup>



1) Percent responding 5 or above on a 7-point scale  
Source: Booz & Company consumer spending behavior survey

But we've seen only a few consumers make more substantial changes related to other areas – durables, services, and structural transportation and housing.



## In these relatively slow-changing areas, we see some harbingers of future behavior.

- Generally, consumers are reporting making fewer changes in more structural areas; that is, in areas where substantial time, effort, and in some cases costs would need to be made in order to change spending patterns
  - 15% are trading down to a less expensive vehicle
  - 8% have made some changes in areas related to the home—though in fact this is a relatively high percentage given the type of changes (moving to a less expensive neighborhood or city, moving closer to work, or moving to a smaller home)
- A more general trend, however, is the delaying of more substantial purchases
  - 22% of survey respondents are delaying the purchase of a new car or motor vehicle
  - Consumers have made relatively fewer changes to their personal durable choices, both deferral (purchasing new clothing) and trading down (purchasing fewer premium apparel brands)
  - For household durable products (apparel, electronics, furniture, appliances), consumers are deferring purchases rather than “trading down” to what they perceive as less desirable products
- Consumers are, however, more varied in their response to services
  - The top action has been to reduce utilities usage (13%)
  - The third-biggest action relates to reducing options on healthcare plans, a change made by only 3% of the consumers surveyed

## Some interesting observations.

- **We love how we look . . .**
  - Only about 5% of the consumers surveyed said they have moved away from their choice of beauty product brands to cheaper versions or reduced the frequency of use
  - In addition, a similarly low number said they would reduce their outlay on personal care (e.g., massages, facials, manicures)
- **. . . and what we drink**
  - Less than 10% of consumers said they have switched to a less expensive brand of alcohol. . .
  - . . . or switched to a cheaper brand of beer
  - Instead, they are enjoying their drinking occasions “at home”
- **A healthier America or simple cost savings?**
  - Soda and other noncarbonated drinks are being substituted with tap water by ~22% of consumers
  - In addition, almost 25% of consumers have cut down on treats
- **Store brands are avoided (as not very “personal”?)**
  - Only around 7% of consumers have switched to store-brand personal care products (e.g., toothpaste, shampoo)
  - This is in stark contrast to the fact that almost 33% of consumers have switched to store-brand groceries
- **We stay more “at home” . . .**
  - Consumers say they have focused more on things they can do “at home,” such as entertaining friends (~27%)
  - In addition, they are filling their free time by watching more TV (~27%) or spending more time on the Internet (~25%)
- **. . . and cut down on outside activities**
- **We worry about fuel costs, but do not alter our travel choices . . . yet**
  - Interestingly, even though fuel cost is an issue, not many consumers are resorting to carpooling (~7%) or taking public transportation (~8%)

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2

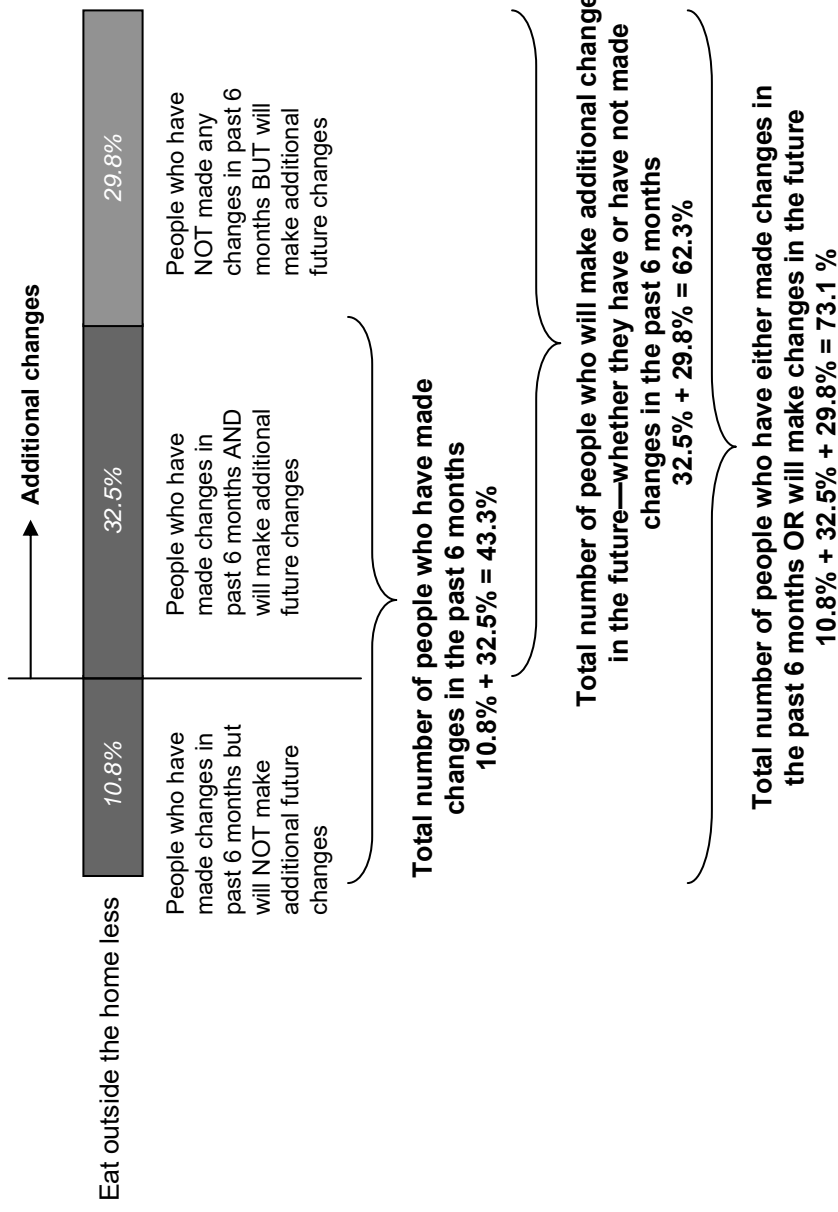
*Changes consumers  
will make*

Changes Consumers Will Make  
(Under a Continued Negative  
Economic Outlook)



**Additional changes will be driven by those who have made changes and those who will now make changes.**

*Example: Key to Charts on the Following Pages*

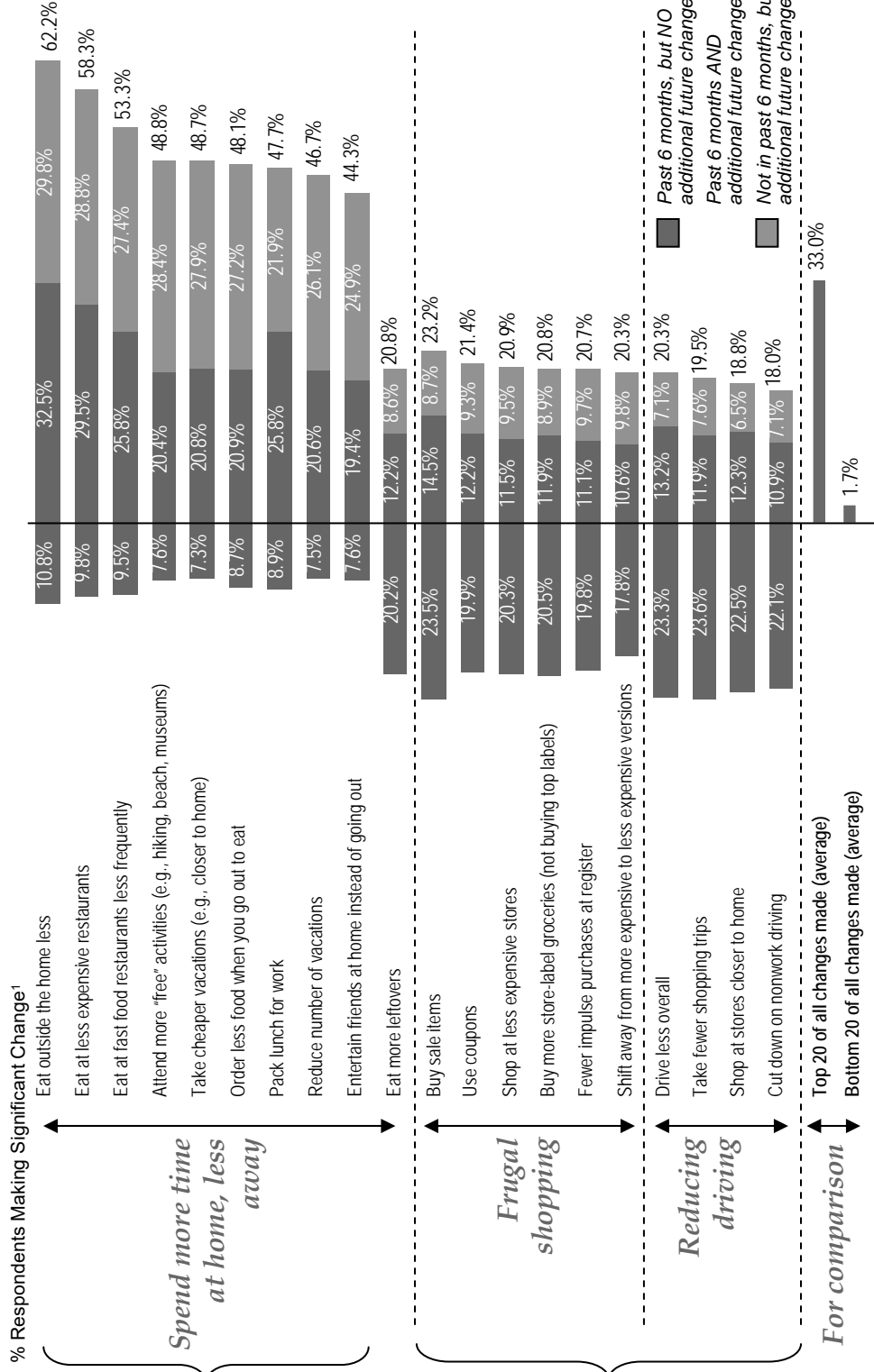


**Example Explanation**

- Almost 43% of households have cut back significantly on eating out in the past six months
  - Of this number, 10.8% will not make substantial additional changes
  - The remaining 32.5% will make additional cuts as the economy continues to worsen
- An additional 20.6% of households that did not substantially reduce eating out in the past six months will now make significant cuts, given the worsening economy

# Spending cuts to come are expected to be significant – though the sources of those cuts are not equal across categories.

## Extent of Additional Changes People Will Make in Areas Where They Have Already Made Changes (Top 20 Changes)



We've seen big changes here already; more dramatic changes are expected related to eating at home, attending more free activities, spending less time away from home, and reducing the cost of meals and entertainment in general.

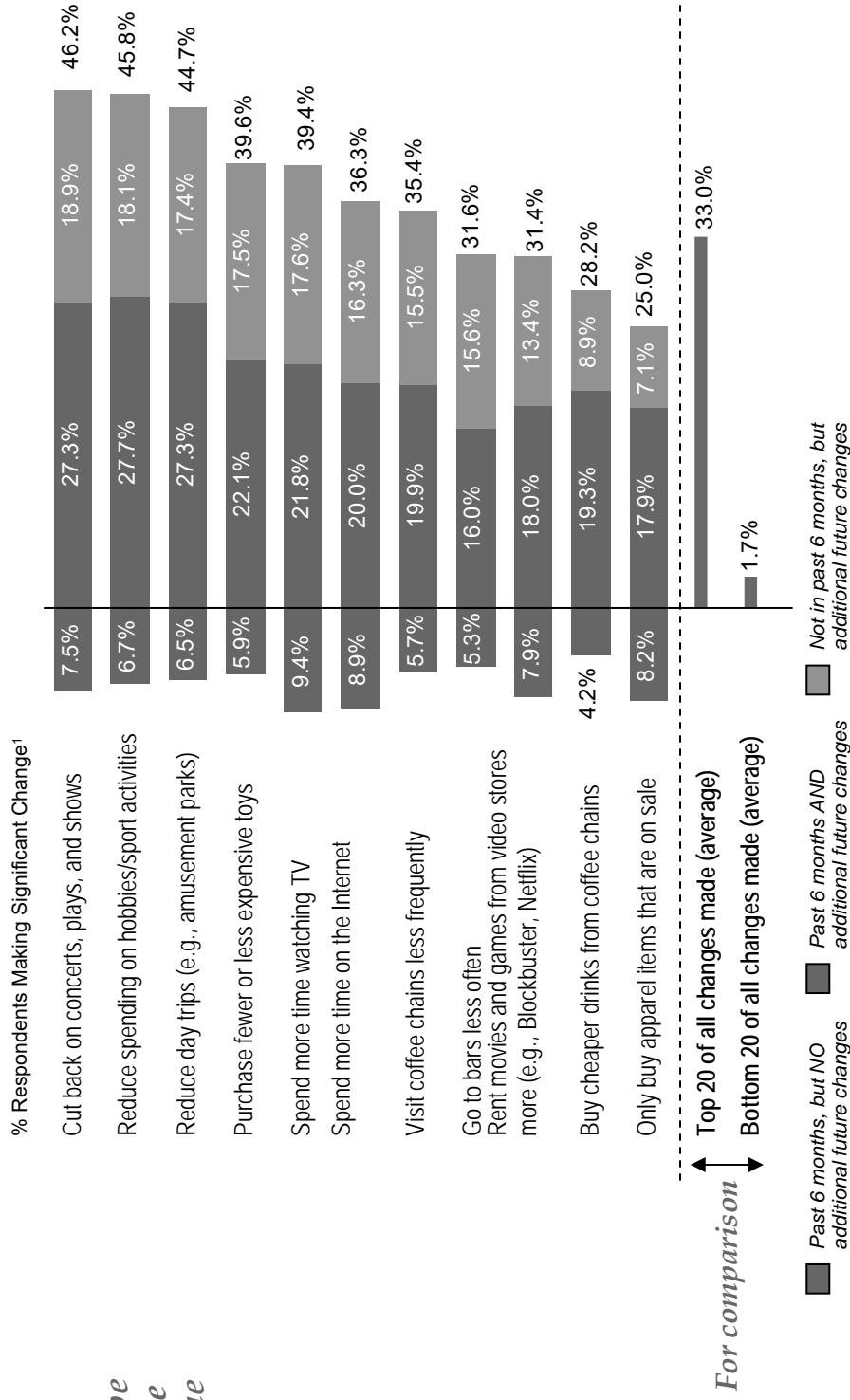
These habits, already changed by many consumers (up to 30%), are likely to increase less dramatically going forward: shifts in shopping and driving patterns (buying items on sale, using coupons, making fewer trips), along with eating more leftovers.

1) Percent responding 5 or above on a 7-point scale  
Source: Booz & Company consumer spending behavior survey

# In some areas, consumers are planning on making cuts in new categories for the first time as they look for increased savings.

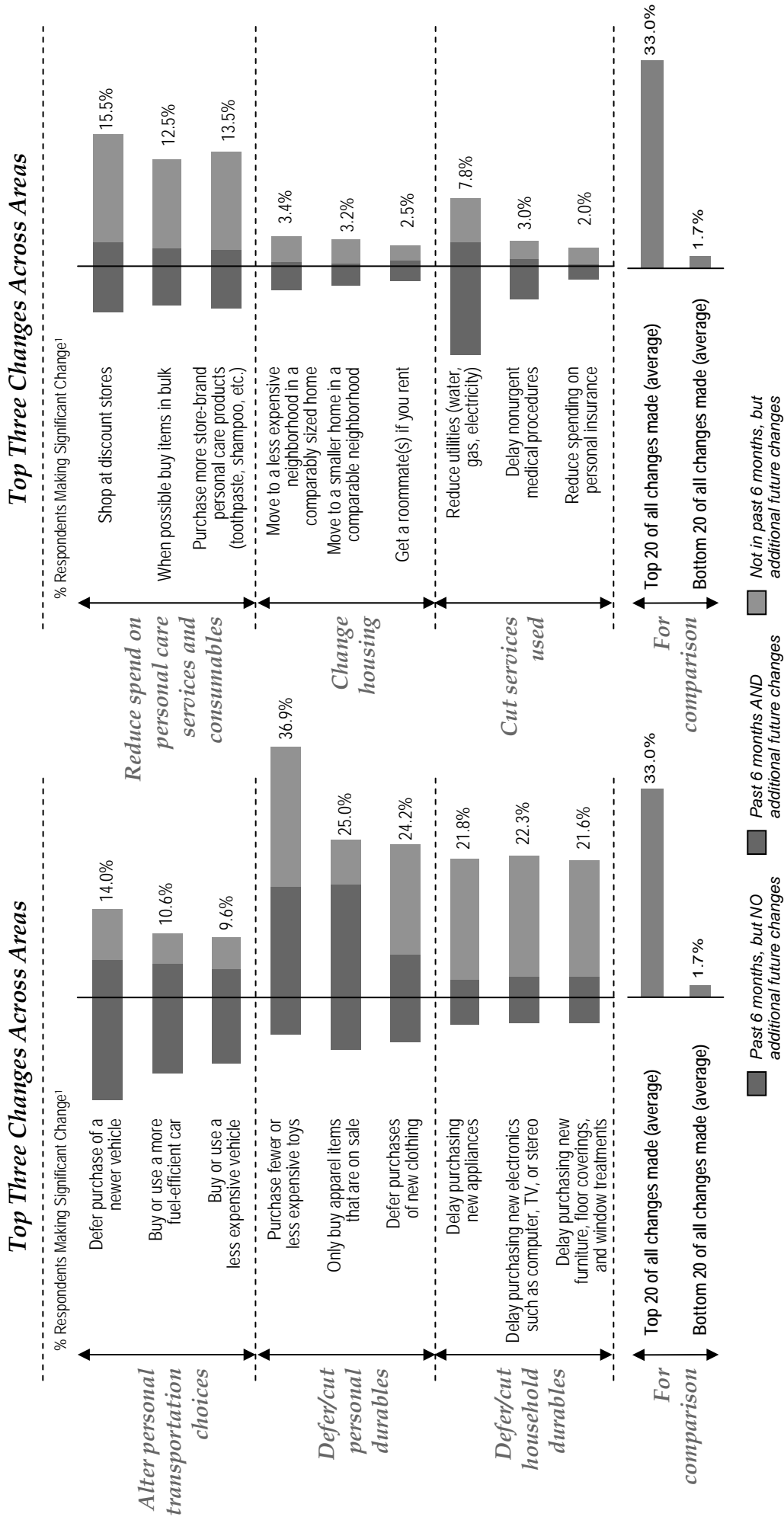
*Even people who have already cut back in time (dark blue bars) expect to cut back more; they will be joined by people who have not yet cut back (light blue bars).*

## Extent of Additional Changes People Will Make in Areas That Are Not Part of Top 20 Changes Already Made



1) Percent responding 5 or above on a 7-point scale  
Source: Booz & Company consumer spending behavior survey

# Some consumers who have not yet made tough choices now expect to make aggressive cutbacks in durables and a few services; housing and transportation will see minimal further action.



## **In relatively slow-changing areas (services, durables, housing and transportation), a small but growing number of people expect to change.**

- Though the trend is still not widespread, consumers are increasingly planning for changes in more structural areas—housing, automobiles, durables—though these areas are still considered challenging ones for consumers to change. Consumers may revisit this area going forward if they have a need because it offers significant potential savings.
  - In the past, we have not seen many consumers cut back their durables purchases, but now they expect to do so.
  - Housing-related actions increase only incrementally; however, these aggregate to a bigger number since nearly 4% of new, unique consumers will make some kind of major structural housing change, making the total impact ~12% (those who have made or will make changes)
- Cutbacks in services continue to be modest . . .
- . . . but the rate of change is accelerating as more people make significant cuts in services for the first time. These include:
  - Reducing the number of salon and barber visits
  - Deferring health and beauty augmentations
  - Canceling gym memberships
  - Eliminating therapists

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## Some interesting observations.

- **Climate change and carbon considerations may take a back seat**
  - The number of people expecting to buy a more fuel-efficient car has actually gone down (from 17.3% to 10.3%) since the crisis began.
  - Only 7.8% of consumers surveyed expect to cut back home use of electricity, heating fuel, and water—down from 13.4% who have already done so.
  - On the other hand, 8.9% expect to replace appliances with more energy-efficient versions—up from 3.9% who already have.
- **We expect to switch to less expensive stores for basic goods**
  - More people will accept (for example) Wal-Mart and Target for their basic needs
  - ~21% will make the change vs. ~13% who have made the change already
  - With apparel, and its image-defining nature, the shift is slightly less (~19% vs. ~11%)
- **We protect our personal image—but not at any cost**
  - With a tightening economy, more people are willing to give up on actions that relate to personal image
  - They will purchase fewer premium clothes (22% vs. ~14%), buy items out of season (~23% vs. ~13%), or buy cheaper brands of beauty products (~12% vs. 6%)
- **Will we give up “indulgences”—small luxuries?**
  - Consumers will buy cheaper brands of beer (~22% vs. ~11%) and alcohol (8% vs. 8% who have already changed),
  - They will visit coffee chains less frequently (~35% vs. ~21%) and buy cheaper drinks when they are there (~28% vs. 13%)
  - Interestingly, consumers will not be as aggressive about shifting to drinking more at home (~11% vs. 15%)
- **We expect to stay at home even more as the economy worsens . . .**
  - There is likely to be an aggressive reduction in consumer spending on outdoor activities (~46% vs. ~25%), number of vacations (~48% vs. 28%), going to bars (~32% vs. ~21%), and visiting coffee chains (~35% vs. ~21%)
  - People will watch more TV (~40% vs. ~27%) and spend more time on the Internet (~36% vs. ~25%)
- . . . **while cutting down further on “away from home” occasions**

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3

*Changes consumers  
will undo*

Changes Consumers Will Undo  
(Under a Positive Economic Outlook)

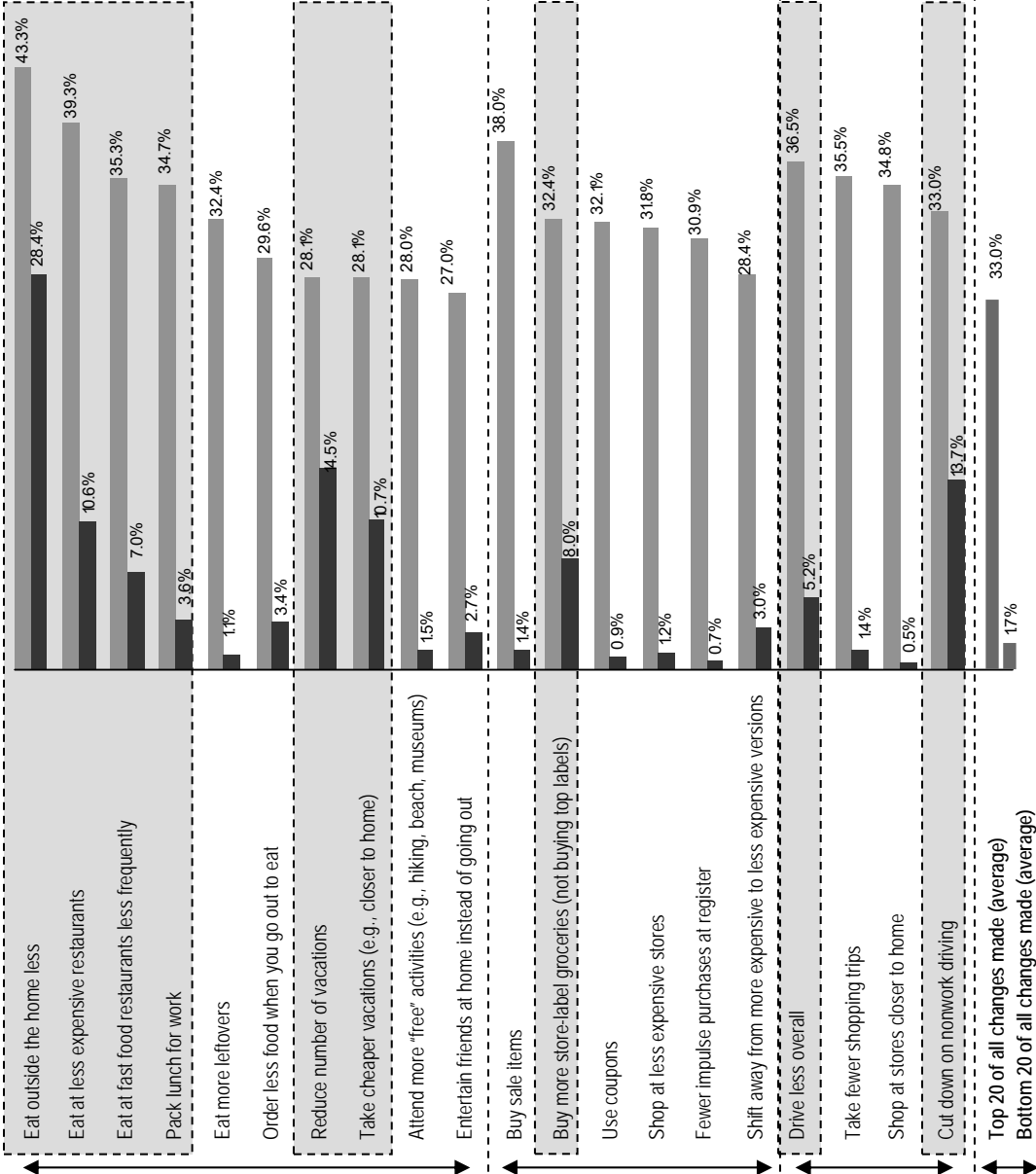
Consumers generally predict that they will hold changes despite an ability to reverse them — though some of this belief may be attributed to a frugal mindset.

*Spend more time at home, less away*

*Looking forward, we asked consumers which of their new frugal behaviors they would undo when the economy recovers:*

*How much would they revert to old (more expensive) habits?*

*Extent of Changes People Will Undo in Areas Where They Have Already Made Changes (Top 20 Changes)*  
 % Respondents Making Significant Change<sup>1</sup>



■ People who have made significant changes in the past six months (some proportion of them have made additional changes)

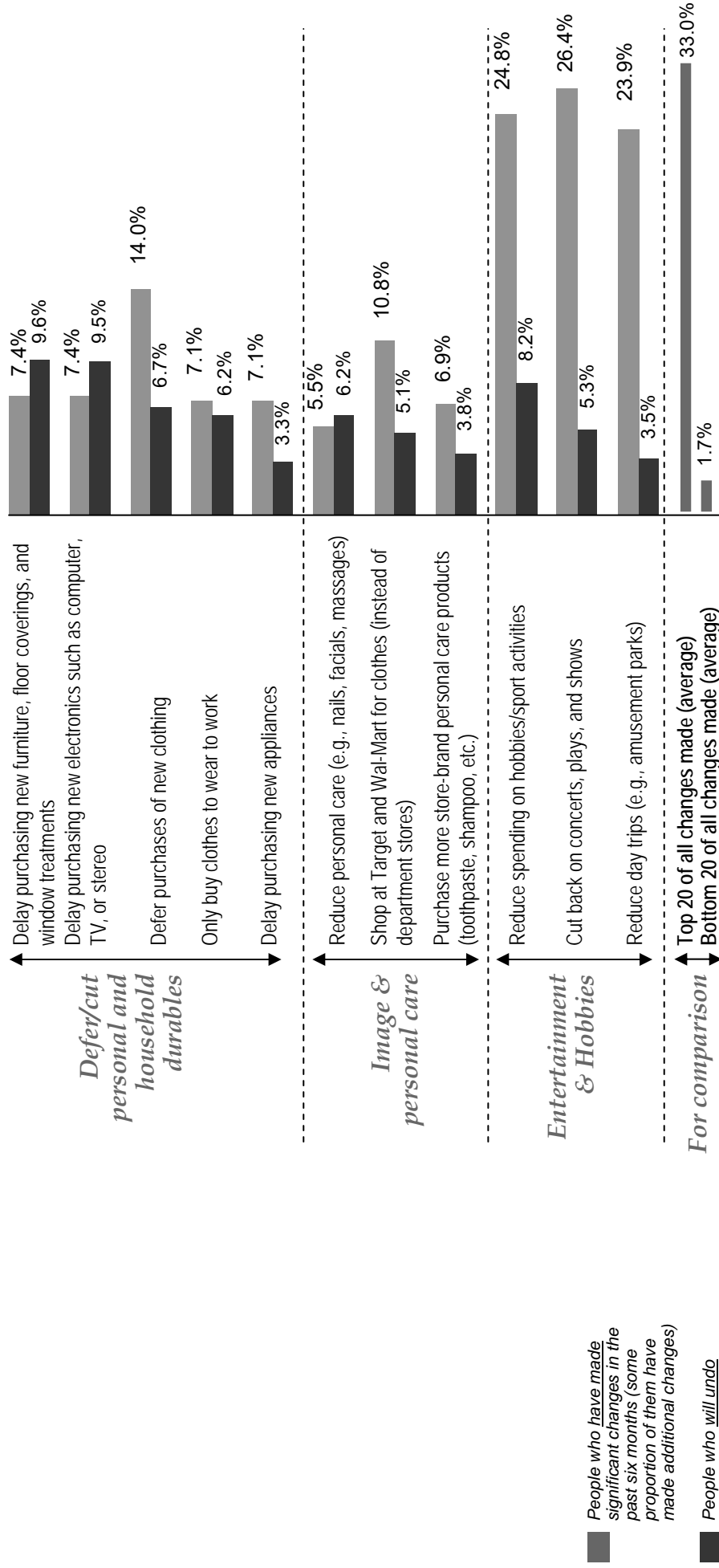
■ People who will undo changes they have made



# Consumers will revert back more quickly in some areas – even in areas that were not big sources of savings.

## Extent of Additional Changes People Will Undo in Areas That Are Not Part of Top 20 Changes Already Made <sup>2</sup>

% Respondents Making Significant Change<sup>1</sup>



■ People who have made significant changes in the past six months (some proportion of them have made additional changes)

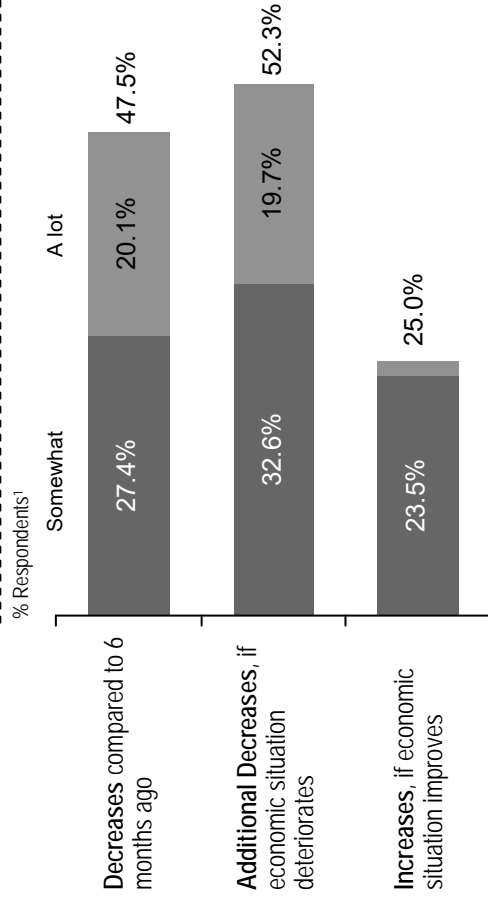
■ People who will undo changes they have made

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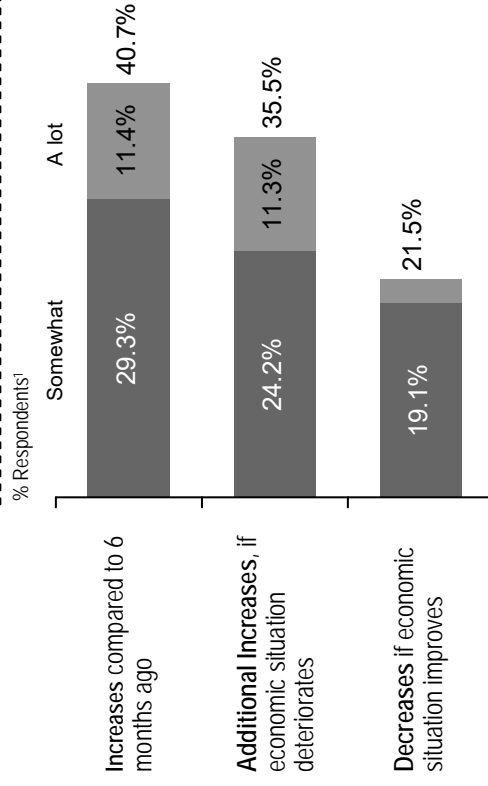
## Impact on Savings, Debt, and Charitable Contributions

# Consumers expect economic conditions to affect their savings and debt.

## Changes in Savings



## Changes in Debt

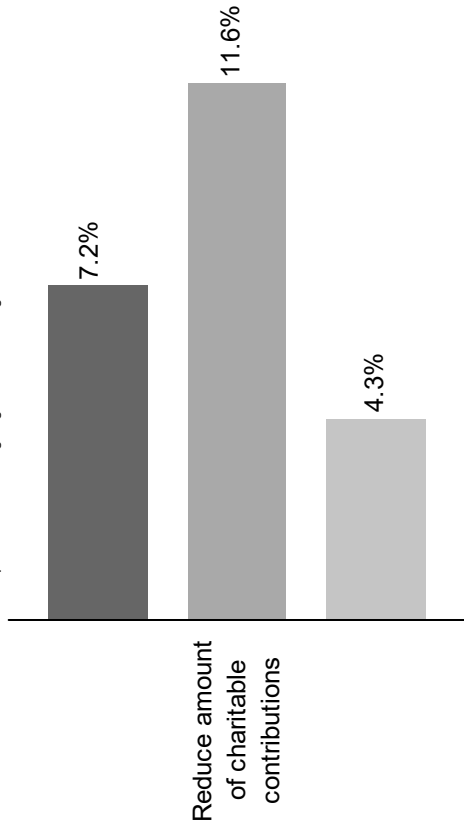


- Only 28% of the highest income group have decreased savings (somewhat or a lot) compared to 53% of the lowest income group
- Almost half of the highest income group will further reduce their savings in a declining economy
- The lower income group does not expect to see any further reduction in their savings
- 27% of the highest income group has seen their debt level rise vs. 50% for the lowest income group
- In a worsening economy, across income groups, a smaller number of people expect their debt level to rise

# Consumers expect economic conditions to affect their charitable contributions.

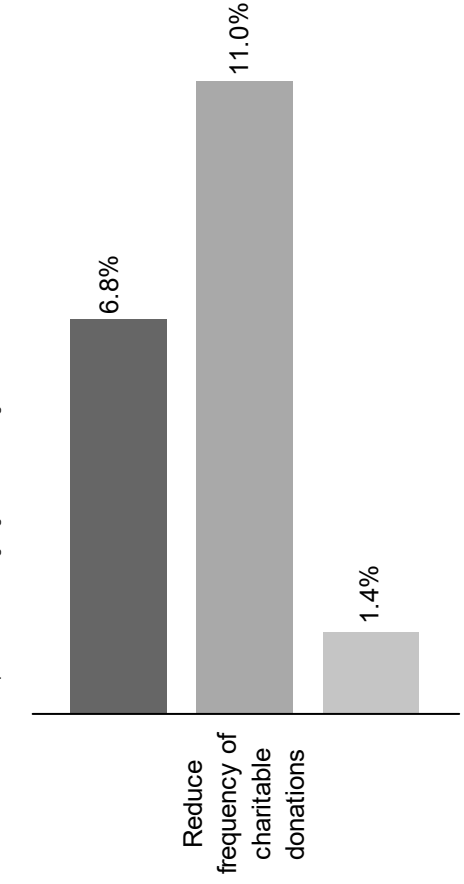
*Charity: Dollar Amount Given*

% Respondents Making Significant Change<sup>1)</sup>



*Charity: Frequency of Donation*

% Respondents Making Significant Change<sup>1)</sup>



- A greater proportion (14%) of the highest income group will significantly reduce their charitable contributions
- In addition, 12% of the highest income group will reduce their frequency of donation vs. 6.8% for the overall population
- As the economy worsens, an even greater proportion of the highest income group will decrease the amount and frequency of their charitable contribution —21% and 21%, respectively
- This trend may be compounded by the lack of capital gains available for tax offset, which is traditionally a source of charitable giving

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