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NEVIL C. SPEER, PHD, MBA (nevil.speer@wku.edu)
WESTERN KENTUCKY UNIVERSITY

“What’s the consumer going to be doing in 20 years?” That complex question was asked at a recent meeting at which my presentation included some discussion of the current financial crisis. My response was quick to point out that I won’t even pretend to know the answer; given the time frame it’s nearly impossible to extrapolate that far out.

However, despite uncertainty surrounding a definitive target it’s an important question to kick around – it relates directly to strategic decision making and risk management going forward. Most notably, all businesses need to be concerned about potential legacy effect of the current economic turmoil on consumer behavior. Therefore, it’s a critical question as it surrounds long-term, permanent shifts in preferences, decision making and spending patterns.

Addressing the question, though, requires assessment of current economic conditions and analysis of both the short-and-long-term impacts upon consumers. First, recessions are good for the grocery trade: consumers are eating out less and cooking at home more. That’s evidenced by the National Restaurant Association’s monthly Restaurant Performance Index which established an all-time low in December and remained below 100 (indicating contraction) in February – the 16th consecutive month and the report stating that the “...outlook for sales growth in months ahead remains uncertain.” Second, both restaurant and retail markets are seeing consumers are trade down. The illustration outlines same-store sales for the most recent reported quarter across a variety of publicly traded companies – note the self-explanatory trend across the various types of restaurants included in the analysis (high-end versus mid-scale versus quick-serve). Meanwhile, results of the recent Power of Meat survey (American Meat Institute / Food Marketing Institute) reveal some important retail trends: namely, shoppers are more aware of features (71%), stocking up on specials (69%) and either always or frequently purchasing less expensive cuts (67%). Regardless of the analysis, the price/value relationship is increasingly important.

Clearly, the food industry is working hard to respond to a decline in spending. Consider the following examples of efforts to ramp up value:

- Wal-Mart: expanding the company’s private-label Great Value brand to include 80 new products.
- Kroger: recently announced that same-store sales increased 3.8% for the quarter ending January 31 – the company attributed much of the increase to sales growth of lower-priced Kroger brands.
- Cargill: establishing a new promotional program with grocery chains with the tagline being “Feed the whole family for \$10”.
- Outback Steakhouse: the restaurant chain has introduced a new merchandising campaign: “15 meals under \$15 starting at \$9.95”.
- Dominos Pizza: recently initiated a new promotion called “Big Taste Bailout” – any three items for \$15.
- Applebee’s: now running a special, “2 for \$20”, that prices 2 full-sized entrees and 1 appetizer for \$20.

Regardless of where you look, companies are responding to the reality that consumers are increasingly value conscious – they’re being ever-more careful about their food expenditures.

Going forward, to understand what *might* happen it’s critical to understand the importance of consumer cohorts and consumer behavior. Consumer cohorts are defined as those experiencing similar emotional events and/or continual exposure to comparable external influences. And in general, they tend to respond in a similar manner to those factors: the experiences and inductions help to shape and define their preferences, attitudes and purchasing behavior. That’s especially true when they are “coming of age” – the period in life in which

individuals begin to develop and establish their own lifestyles independent of family influence; they're investing their own money in respective consumer products. That typically occurs between the ages of 17 and 25. Purchasing habits developed during that period often remain with us during our lifetime. That's especially important given a recent (April 1) report by the NPD group citing decline in annual restaurant visits during 2008 was steepest among 18-to-24-year olds.

Granted, long-run consumer behavior is very difficult to change. Despite short-term shifts, shoppers often revert back to their previously established purchasing habits. But consider the influence of the current economic crisis upon young adults – if the cohort theory holds true then we could potentially see a long-term change in food purchasing habits. Yes, that's an arguable point and one which remains to be seen but important consider as we look out 20 years.

What's also important to consider here is that we've come through a period of unprecedented prosperity. As alluded to above, much of that was underwritten by free flowing credit and rising real-estate values. Those days are gone. The Wall Street Journal's Real Time Economics Newsletter recently addressed the broader economic situation and provided an excellent synopsis of current consumer behavior (March 17, 2009):

One thing the outsized finance sector was doing was helping underwrite a lot of consumer spending. [...] That jump in debt levels [since 2000] coincided with a jump in consumer expenditures as a share of GDP - it averaged about 71% last year, compared with 67% in the 1990s. The bottom line is that the financial sector may not be as big a part of the new economy, employing fewer people and paying them less. And consumer spending may not be as big a share of the economy, either, which would mean fewer stores and fewer people who work in them. If that's right, the economy could be on the verge of a shift that's on a scale with the move away from manufacturing in the early 1980s. Such changes are never easy.

Along those lines two quotes of late caught my eye:

“We don't expect any rebound in aggregate consumer spending to the historical peak.”

Richard Hastings, Consumer Analyst, Global Hunter Securities (CNBC 3/26/09:
Don't Count On A Consumer-Led Recovery

“...rising unemployment and the rising savings rate will cause a long-lasting shift to austerity in consumer spending, even in the grocery store.”

Robert Moskow, Analyst, Credit-Suisse (Wall Street Journal 3/27/09: Store
Brands Squeeze Big Food Firms)

It's important to remember that we often spend based on how we feel. That's why reports such as consumer confidence and unemployment are so important; it also underscores the importance of monitoring perceptions around the “wealth effect”. Manifestation of those influences, positive and negative, are felt by the food industry via decisions in the grocery store aisle and at the restaurant level. And it's why changing consumer behavior is so difficult.

Looking ahead what's important is that consumer credit availability will continue to contract, wealth perception has dramatically declined and there's a large population of consumers coming to age in a tumultuous and uncertain period who will begin to enter their peak earning phase in 20 years. Bottom-line: change is on the horizon! How and/or to what extent that occurs remains to be seen but undoubtedly the food industry is in for some major adjustments.

