Evolving to Win in Post-Recession's New Normal

BY LINDSAY PEDERSEN

The concept of market research has been much maligned of late, Although times are certainly changing, a defining rule of marketing success has not: dominance in the free market must be earned, not bought. Businesses that cannot evolve in response to the changing consumer climate do not deserve to win. So, how can you earn that right?

The recent financial crisis has impacted spending behavior in ways both profound and subtle, and it is likely that this new frugality will endure for years beyond the recovery. Consumers are spending less, saving less and controlling their use of credit. Additionally, evidence confirms that this is not a poor man's recession. As a group, the middle class has been hit hardest, likely due to swells in unemployment and plunges in home values. With retirement looming, baby boomers have reined in spending dramatically. Having grown up with Depression-era parents, they do not feel immune to economic hardship, and their spending will likely never return to pre-recession levels. In addition, the "aspirational" consumer segment has contracted markedly as credit restrictions have tightened.

As consumers have evolved, so must marketing.

Something subtler and with likely more far-reaching ramifications has happened, too: the social meaning of conspicuous consumption has shifted. In a sharp backlash from the luxe-envy of the early 'oughts, we are now seeing a new stigma to high-end purchases; people may shop at Tiffany, but hide their Tiffany bag. The so-called "badge value" of associating one's self with a prestige brand now makes consumers feel self-conscious. "Keeping down with the Joneses" is replacing "keeping up with the Joneses."

And so, while we exhale cautiously at indications of a macroeconomic recovery, we must keep in mind that as consumers find their new normal in the post-recession era, marketers must respond to an altered purchasing mindset. Marketing leaders must revisit their strategies and modify them to ensure their business' right to win in the new climate.

BADGE VALUE

What happens to product strategy when your luxury logo becomes a liability? When badge value shrinks, the product's quality and its ability to deliver on its promise becomes central. This is your "right to win." You need the right to win those customers through a product that over-delivers on its promise. Badge value is no longer there to buffer you from a product that under-delivers. **Your product needs to be worth it.** If you are selling Nike shoes for double the price of the competing shoes, and if the Nike swoosh no longer looks inherently cool, those shoes better make you run 20% faster. Style and badge value alone will no longer retain consumers.

Right to win is absolutely critical with discretionary purchases. **During tough economic times, people still indulge in luxuries**, but they do so with less frequency and/or at lower price points. One variety of wine that previously retailed for $50 is now often selling at the $35 price point – but consumers still expect that $50 taste.

Here's an analogy: When somebody decides to lose weight by changing their lifestyle and fundamental eating habits, that person probably does still occasionally indulge, but when he does so, his selection is likely more thoughtful. Whereas the person might once have eaten dessert nightly or gone for seconds on office birthday cake – even if it was mediocre – now he'll spring for a to-die-for dessert once a month. In other words, that cake has to earn its caloric cost. **Make sure your product is worth the splurge.**

Success Strategies: Wooing the Cautious Consumer

1: BE A GOOD VALUE

Notice that we did not say "lower your price." Value is about being worth your price. It is the heart of your right to win. Lowering your price is certainly one lever for improving your value, but we will discuss that next. The other way takes discipline and energy. It is no quick fix, but in the long-term it creates sustainable and profitable right to win for your business. Here it is: get in the habit of over-delivering on your promise. Continually delight your consumer by innovating your

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products, creating a compelling brand experience, and assertively messaging your product's benefit. Doing these things makes your product more valuable in your consumer's minds, so even at the same price point, you improve the value of your product.

An example of a business that over-delivers through insightful innovation, compelling brand and impactful messaging is Amazon. Their Kindle e-reader's graceful user experience has transformed skeptics into passionate advocates, and Amazon's credible, trustworthy brand has been consistent in voice and messaging.

Another example is Apple's iPhone, which has been a huge winner during the recession, despite a premium price point, because the product and brand over-deliver on the promise. To Apple's target consumer, the iPhone is worth its premium price.

The other way of improving value is, of course, lowering your price. If you choose this lever, keep your eye on the whole value equation. In order to be a good value, you may need to both lower price and improve your offering. A successful recent example of this is Safeway, which has been leveraging scan data to customize coupon lists for loyalty cardholders with a seamless consumer experience. This move may lower Safeway's per-customer revenue, but in creating customer value for their customers, Safeway solidifies loyalty and helps establish its right to win for that segment.

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2: BE EMPATHETIC TO YOUR CONSUMERS

Talk to your consumers and listen to them so that you can respond to their new normal. Get curious about all the nuanced ways that their new normal affects their relationship with your product.

While doing this, remember the fundamental lesson of marketing: your product's importance derives not from its features, but from its primary benefit. Don't ask your customers what kind of a product they want – their job is to tell you what kind of life or experience they want.

Then use that insight to innovate and to evolve your brand and messaging. When Proctor & Gamble's Pamper business uncovered the insight that the meaning of diapers was, for parents, associated with the broader emotions around their babies' development – not the fear of embarrassment for letting their babies sit in wet diapers – Proctor & Gamble revolutionized the category by: a) repositioning themselves around "Being with you every step of the way with your baby's development"; and b) innovating the new product sub-brand "Kandoo" for toddlers in potty training.

If you sell vacuums, don't ask what kind of filter she wants. Ask what it means for her to have a clean house.

If you lack Proctor & Gamble's research budget (as most of us do!), do not let that be an excuse for not listening to your customers. Be scrappy. Host pizza parties for consumers and listen to them talk about the need states that lead them to use your product. Hang around where your product is sold and listen to consumers as they consider purchasing your product.

Another inexpensive, fast and often highly effective way to get close to your customers is through social media. With social media, you can invite customers into the innovation process and gain results almost instantaneously. When the Qdoba restaurant business tests new menu items, their marketers consult the chatter on Facebook and Twitter to learn what consumers are saying about their products. They have even tweaked recipes and added menu items based on that feedback. Once, they posted a tweet reading "Hey guys, what would you like to see new on the Qdoba menu?" Within ten minutes, their chefs had 170 suggestions to inspire new creations.

3: BE DIVERSIFIED

This is the time to make sure your assortment is optimally meeting the needs of each of your consumer targets. For some, this may mean ramping up mid-level or value options in the assortment. If consumers will trade down anyway, be well-positioned to capture that lower-priced transaction.

Businesses with value-priced offerings may consider encouraging consumers to "trade down." Drugstore.com, which has flourished during the recession, has leveraged its broad assortment and site features (such as online coupons and shared cart with beauty.com) to evolve with consumers' new behaviors. Consumers will still spend on the prestige items they want (such as the make-up foundation they have been using for years), but they demand lower-priced options on other things they simply need (e.g. bath soap or hand lotion).

Differentiate your value brand from your premium brand both in product and in positioning. Make sure your value equation is compelling for all your products. Whether it is value-priced or premium-priced, the price needs to be worth it to the consumer.

Benefits must be especially sharply defined if your product is a discretionary purchase. Interbrand's Best Global Brands 2009 Report examines the drivers of high performance among luxury brands (which would be a discretionary purchase for most of us). The findings suggest that the luxury brands that prospered (e.g., Gucci, Hermes, Prada, and Louis Vuitton) effectively communicated their premium proposition – their exclusivity and craftsmanship, legacy, excellence and authenticity. Luxury brands that lost ground (e.g. Armani) diluted their equity with moves toward the mainstream.

BACK TO BASICS

The new frugality has also returned consumers to tried and true money-saving techniques. People are dining out less and staying home more. Home-cooked meals are replacing restaurant dining. Among national restaurant operators, 30 of 32 operators reported same-store losses averaging -8.2%. In April 2009, Nielsen found that affluent consumers ($70+/yr) were eating out less often than the national average. The fiscal year ending July 11, 2009 showed impressive growth rates for fresh meat (6.2%) wine (5.6%) dry mix prepared foods (5.2%) pasta (4.2%) baking mixes (3.8%). Even canning and freezing supplies jumped 18% (back to the basics of the Depression era!).
(Source: Nielsen)

Coupons, another time-tested basic, are back in vogue. For both food and non-food items, coupon activity rose dramatically in 2008, in terms of both increased redemption rates and increased distribution. Most coupons (90%) are from FSIs (freestanding inserts), but retailers are also enabling shoppers to print coupons from their websites. For example, Kroger and Safeway both use Cellfire, a company specializing in mobile coupon distribution, to enable shoppers to download coupons to their frequent shopper cards via a computer or cell phone, eliminating the hurdle of bringing coupons to store.
(Source: Nielsen)

They ended up in no man's land: too high-end for the mass market, but too mass market for the high-end segment.

4: COMMUNICATE TRANSPARENTLY

The new normal is also about being real. Consumers have shed many pretenses and are hiding their Tiffany bags. To respond, companies should communicate openly and authentically. Eliminate trust barriers and heighten transparency.

RECESSION WINNERS

- **Products whose inherent proposition is around compelling value**, such as quick-service restaurants, lower-priced beauty products, private label groceries and value channels (e.g. warehouse clubs, dollar stores and mass supercenters).
- **Products with perception of value and trustworthiness**, such as credit unions.
- **Products supporting the recession trend of "nesting"** – Netflix, Hasbro toys, Ball canning jars, baking mixes.
- **Products that decrease need for spending money**, such as social networking sites, which enable consumers to connect with friends without traveling. Also, as people vacation closer to home, Coleman camping gear has performed well.
- **Affordable luxuries that over-deliver on their promise.** Demand for wine under $15 is so high that wineries cannot supply all of the demand. People are still drinking wine, but they are more choosy, frequently selecting value alternatives.

Glitz and glam advertising is being replaced by real-life spokespeople, supportive proof points and success stories. One particularly effective radio ad was for Ford's crossover vehicle, the Ford Flex. The ad featured a family in a cool L.A. beach city describing how this car fit into to their family's busy but relaxed lifestyle.

Consumers are also responding well to companies whose senior executives participate in social media. Zappos (an online clothing retailer) is known for its use of Twitter to bring the company to life. The friendly, funny, helpful personality of the Zappos CEO has become the brand personality so that shopping at Zappos feels like buying shoes from a friend.

In conclusion, we can't say if or when the pendulum will swing back in favor of luxury brands. However, we can expect the new frugality to stick around for several years after the recession lifts. To win over customers reeling from the recession, businesses need to listen, adapt, and think creatively, using every available avenue to communicate their value. These are the businesses that will earn their right to win.

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