Entrenched frugality?

The American consumer today

October 2011
Claudia Benshimol Severin
Richard Benson-Armer
Anne Martinez
Patrick Moore
Entrenched frugality? The American consumer today

<table>
<thead>
<tr>
<th>The not-so-new normal</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>A closer look at Hispanic consumers</td>
<td>3</td>
</tr>
</tbody>
</table>
Entrenched frugality? The American consumer today

Among US consumers, optimism about the country’s economy is at its lowest point since 2008. Americans continue to rein in their spending—and our research shows that the trend toward frugality is even more pronounced in the Hispanic population.

These are stressful times for the American consumer. Half of Americans are worried about someone in their household becoming unemployed. Whereas two years ago 27 percent of Americans were feeling optimistic about the US economy, today a mere 18 percent can say the same. No surprise, then, that many Americans are continuing to watch every dime and sticking to the spending habits they adopted when the recession first hit. And, as our latest research shows, this frugality is even more prevalent in the United States’ burgeoning Hispanic population.

Since August 2008, we have been tracking changes in American consumers’ sentiments and purchasing behaviors through a twice-yearly survey of more than 1,000 consumers. We’ve found that what consumers say tends to match what they do: a comparison of our survey results to sales data for consumer packaged goods (CPG) over the past three years shows consistency between consumers’ stated and actual behavior.

In September 2011, for the first time, we specifically studied Hispanic consumers, and we found differences in their attitudes and behaviors that have important implications for CPG manufacturers. In general, Hispanics have more aggressively cut their spending, but they don’t intend to do so for very long—they’re more likely to revert to old spending habits once they feel they’re on surer financial footing. Highlights of our research follow.

The not-so-new normal

Consumer sentiment hasn’t improved much over the last six months. Today, 41 percent of consumers feel they’re less able to make ends meet than they were a year ago, 41 percent live paycheck to paycheck, and 65 percent feel they’re under economic pressure. These numbers are quite similar to the March 2011 results. But job insecurity is on the rise; given the 9.1 percent unemployment rate, more consumers have become anxious about layoffs (51 percent in September versus 45 percent in March).

More Americans are preparing themselves for a long slog through the economic doldrums. Only 23 percent of respondents—the lowest figure since 2008—believe things will get better in the next year. Just six months ago, that figure was 35 percent. In September 2009, it was as high as 41 percent.

Thus, although consumers have loosened their purse strings a bit (either because they have more disposable income or because they are simply tired of the constant scrimping), they remain quite pessimistic and cautious about spending. This frugality, now widely referred to as “the new normal,” is embodied in five money-saving strategies we first observed in 2008 in response to the recession:

1. **Changing habits.** Fewer people say they’re eating at home more often (46 percent today versus 56 percent in March) and eating leftovers to save money (34 percent today versus 46 percent in March). Regardless, keeping a close eye on the food budget now seems to be a regular part of life for many Americans. Fewer consumers report that they miss dining out (58 percent, as opposed to 63 percent in March) or ordering in—it seems the experience of cooking from scratch, eating at home, and packing lunches from home hasn’t been so bad. Changing other habits has been less enjoyable, however. Whereas in March 2011, 37 percent said they had cut back on getting haircuts at a salon or barbershop, by September, that number was down to 30 percent; in March, 29 percent said they had cut back on hiring home-repair professionals versus 25 percent in September. These drops may have something to do with the fact that fewer people claim to be satisfied with the cheaper alternatives: doing the job themselves, doing it less often, using a less expensive provider, or having a friend or family member do it.

---

1 Of the 1,000 survey respondents, 300 were Hispanic consumers. The composition of survey respondents was in line with US census proportions for ethnicity, age, income, and gender. Weighting was applied to appropriately represent Hispanics in the overall results.

2 Indeed, sales growth in US quick-service restaurants is slightly up from 2010, although far from its peak in 2004.
2. **Cutting back.** Consumers are still cutting back, though in fewer numbers—perhaps because most of them feel they’ve been cutting back for the last few years and have done all they can. In September 2011, 45 percent said they had cut back on overall spending, down from 51 percent in March 2011; this is significantly less than in February 2009, when 63 percent of consumers reported cutbacks in spending.

3. **Pinching pennies.** Similarly, penny-pinching behavior is still evident, but it is less rampant. In March, 70 percent said they were increasingly looking for ways to save money, and 44 percent said they were shopping around to get the best deals; in September, those numbers were down to 56 percent and 34 percent, respectively.

4. **Trading down.** People are still buying—and liking—cheaper brands. Although in some categories (including juice, cereal, pasta, candy, snacks, laundry care, household cleaning products, and skin care) fewer consumers are trading down, in most other categories the numbers are stable. The average trade-down rate across all categories in our survey is 12 percent, a slight decline from 14 percent in March. In certain categories, such as hair care and household cleaning products, between 60 and 70 percent of consumers traded down to brands they had never bought before. On average, across all categories, 60 percent of consumers traded down to private-label brands. And many don’t regret it: more than half of consumers say their experience with cheaper brands turned out to be better than they expected (Exhibit 1). On average, 40 percent of consumers say they no longer prefer the more expensive brand, and more than 80 percent say they intend to continue buying mostly private-label products when the economy recovers.

5. **Channel shifting.** An ever-larger fraction of the household budget continues to shift toward dollar stores. The trend isn’t confined to less affluent households (those with an annual income of less than $75,000), where 33 percent

---

**Exhibit 1**

More than half of consumers report better-than-expected experiences with a less expensive brand.

---

3 Analysis of Euromonitor sales data corroborates consumers’ stated behavior. Between 2007 and 2010, the categories with the largest gains in private-label penetration (3 to 4 percentage points) were also those in which the most consumers reported trading down to private-label products: over-the-counter drugs, canned vegetables, butter, cookies, and pasta.
of consumers report having increased their spending in dollar stores. Among households with an income of at least $75,000, 28 percent now spend more in the dollar channel. More than half of consumers who have made the shift toward dollar stores say the experience exceeded their expectations, and 83 percent say they’ll continue to shop more at dollar stores even after the economy improves.

A closer look at Hispanic consumers

Compared with the overall US population, a larger percentage of Hispanic consumers have changed their spending behaviors—but this change may only be temporary. Although Hispanic consumers feel they’re in the same boat as other Americans (68 percent of Hispanics feel they are under economic pressure versus 65 percent of the full sample), their outlook isn’t as grim: 30 percent of Hispanics, compared with 24 percent of the total sample, believe they’ll be back to their pre-recession spending levels within two years.

For now, however, a larger fraction of Hispanics are living paycheck to paycheck (46 percent of Hispanics versus 41 percent of American consumers in general) and are worried about losing a job (60 percent versus 51 percent). More of them are cutting back on their spending, delaying purchases, and buying fewer high-end or luxury brands. More have changed their eating behaviors—but they’ve been pleasantly surprised at how much they’ve enjoyed cooking from scratch, packing their lunch, eating at home, and preparing frozen meals (Exhibit 2).

While home cooking has proved pleasurable, undertaking do-it-yourself projects has been less so. Hispanics have cut back more

---

4 These differences cannot be attributed to differences in income distribution, since the income levels and splits of our Hispanic sample were identical to those of the overall sample.
than other consumers on salon visits and professional car- and home-maintenance services, but they haven’t been particularly pleased with the results (Exhibit 3).

In most categories, Hispanics are trading down to private-label goods at slightly higher rates than the rest of American consumers, but they’re less likely to stick with private labels when the economy recovers (51 percent versus 58 percent). And more Hispanics (43 percent versus 36 percent of the broader population) say they’ll revert to their old spending habits as soon as they feel more confident about their economic situation. Even as they struggle financially, 21 percent of Hispanics—compared with 15 percent of all consumers—are treating themselves to small luxuries (such as expensive chocolates or premium ice cream) to ease the pain of their spending cuts.

CPG manufacturers would do well to pay close attention to the trends that our latest survey highlights. Given the lingering economic uncertainty, value products and value messaging will continue to play crucial roles in a CPG company’s portfolio. Consumers will seek products that make home cooking and do-it-yourself activities easier and more pleasurable. The rising importance of dollar stores calls for a refocusing of resources on this channel—manufacturers might, for example, think about offering “almost premium” brands exclusive to dollar stores or other value channels. The American consumer’s spending habits seem to reflect a newly entrenched frugality.

Exhibit 3
Hispanics report more cuts on ‘do it for me’ services, and they miss them more.

<table>
<thead>
<tr>
<th>Service Description</th>
<th>% Cutting Back Significant/Somewhat on Do-It-For-Me Services vs 12 Months Ago September 2011</th>
<th>% Reporting That They Miss Old Activities¹ September 2011</th>
<th>% Rating the Experience of the Substitute Activity Worse Than Expected² September 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having your hair cut at a salon/barber shop</td>
<td>30</td>
<td>53</td>
<td>23</td>
</tr>
<tr>
<td>Having car serviced/repaired by a dealer or auto shop</td>
<td>26</td>
<td>34</td>
<td>24</td>
</tr>
<tr>
<td>Having a repair person do repairs or maintenance at your home</td>
<td>25</td>
<td>33</td>
<td>26</td>
</tr>
<tr>
<td>Getting a facial or skin treatment at a salon/spa</td>
<td>25</td>
<td>31</td>
<td>26</td>
</tr>
<tr>
<td>Having a housekeeper help with cleaning</td>
<td>22</td>
<td>27</td>
<td>28</td>
</tr>
</tbody>
</table>

¹ Consumers who said they missed very much or somewhat the activities they are doing less.
² Consumers who said doing the substitute activity more was much worse or somewhat worse than expected.

Source: McKinsey Consumer Sentiment Survey VII, September 2011
Entrenched frugality? The American consumer today

Claudia Benshimol Severin is a consultant in the New Jersey office, where Richard Benson-Armer is a director and Anne Martinez is a consultant. Patrick Moore is a principal in the Atlanta office.

Contact for distribution: Anne Martinez
Phone: +1 (973) 549-6279
E-mail: Anne_Martinez@mckinsey.com