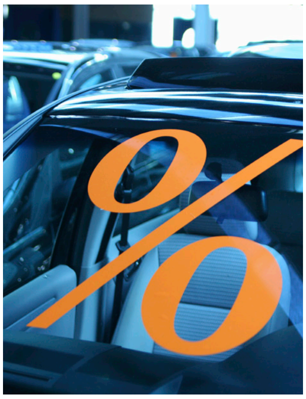
McKinsey&Company

McKinsey Global Institute



April 2009

Beating the recession: Buying into new European consumer strategies

McKinsey Global Institute

The McKinsey Global Institute (MGI), founded in 1990, is McKinsey & Company's economics research arm. MGI's mission is to help business and government leaders develop a deeper understanding of the evolution of the global economy and provide a fact base that contributes to decision making on critical management and policy issues.

MGI's research is a unique combination of two disciplines: economics and management. By integrating these two perspectives, MGI is able to gain insights into the microeconomic underpinnings of the broad trends shaping the global economy. MGI has utilized this "micro-to-macro" approach in research covering more than 15 countries and 28 industry sectors, on topics that include productivity, global economic integration, offshoring, capital markets, health care, energy, demographics, and consumer demand.

A group of full-time fellows based in offices in Brussels, London, San Francisco, Shanghai, and Washington, DC, conduct MGI's research. MGI project teams also include consultants drawn from McKinsey's offices around the world and are supported by McKinsey's network of industry and management experts and worldwide partners. In addition, MGI teams work with leading economists, including Nobel laureates and policy experts, who act as advisers to MGI projects.

The partners of McKinsey & Company fund MGI's research, which is not commissioned by any business, government, or other institution. Further information about MGI and copies of MGI's published reports can be found at www.mckinsey.com/mgi.

McKinsey Global Institute

April 2009

Beating the recession: Buying into new European consumer strategies

Georges Desvaux
Baudouin Regout
Eric Labaye
Frédéric Lepoutre
Wendy Widman
Flora Yu

Preface

As the effects of the global economic crisis began to have an impact in Europe, the McKinsey Global Institute started examining the factors that could affect its evolution. We quickly narrowed our focus to consumption because of its dual role both as a casualty of the current economic fallout and also as a significant driver of the future shape of the European economy. In order to explore the role of consumption in some depth, we sought to pair our understanding of the economic context of this recession with a close-up view into the mind of the European consumer. MGI therefore teamed up with McKinsey & Company's Consumer and Shopper Insights practice to examine how changing consumer preferences could play out on a macroeconomic scale. We searched for clues into how consumers have responded to downturns in recent history and built upon these insights by conducting a survey to understand how today's unique economic stresses are shaping consumer behavior. Our findings illustrate the potential impact of new and evolving consumer tactics on all categories of consumption and project how these tactics might develop if economic conditions worsen. Our unique blend of economic and consumer findings forms the basis upon which companies can build new strategies in order to position themselves most effectively in this uncertain environment.

Baudouin Regout, senior MGI fellow in Brussels, provided overall leadership for the project. Frédéric Lepoutre, an engagement manager in the Paris office, oversaw the project and analysis, working with team members Wendy Widman and Flora Yu. The consumer and shopper insights practice, led by senior expert Maarten Schellekens and specialist Claire Pagès, provided significant input to our consumer survey. We are also grateful for the editorial support of Janet Bush, senior MGI editor in London.

This work is part of the fulfillment of MGI's mission to help better understand the forces at play in the macroeconomy and help improve company performance. As with all MGI research, we would like to emphasize that this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution.

Georges Desvaux
Director,
Consumer and Shopper Insights Europe
McKinsey & Company
Paris

Eric Labaye
Managing Director, France
McKinsey & Company
Paris

Lenny Mendonca
Chairman,
McKinsey Global Institute
San Francisco

April 2009

Beating the recession: Buying into new European consumer strategies

Policy makers and businesses in Europe have focused heavily on how to stabilize the financial and banking sectors. But the challenge now is to contain the fall-out in the real economy. While weakening exports and investment were the main drivers of economic contraction in the autumn, it is the consumer who could now play the critical role in determining the length and depth of the recession.

Europe's consumers had begun to retrench in the spring and summer of 2008 as soaring commodity prices squeezed their purchasing power. But the consumption pullback was not synchronized across the continent; spending declined in some quarters and some countries but not in others. Overall, consumption barely had a negative impact on Eurozone GDP in the third quarter.

Yet, shortly after inflationary pressures started to ease as commodity prices fell away from their peaks, the financial stress that began in the US subprime market hit Europe's shores. There was only a small window for Europe's consumers to recover from the inflation shock to their pockets before the financial crisis and associated economic pressures pulled the rug out from under them. In the fourth quarter, tumbling consumption contributed to an even larger decrease in Eurozone GDP.

What is happening on the ground to consumption will matter very much to businesses serving the European market in what are already deeply challenging conditions. Companies that get to know their customers and how they are coping and planning to cope with the recession have the best chance of weathering the downturn and even carving out new opportunities both now and when the cycle eventually turns.

In this context, the McKinsey Global Institute (MGI) and McKinsey & Company's Consumer and Shopper Insights (CSI) practice decided to examine how European consumers have responded to past economic slowdowns and how they are reacting to the current crisis; how their tactics may develop if conditions worsen; and how businesses can align themselves with evolving customer behavior and best position themselves for economic recovery.

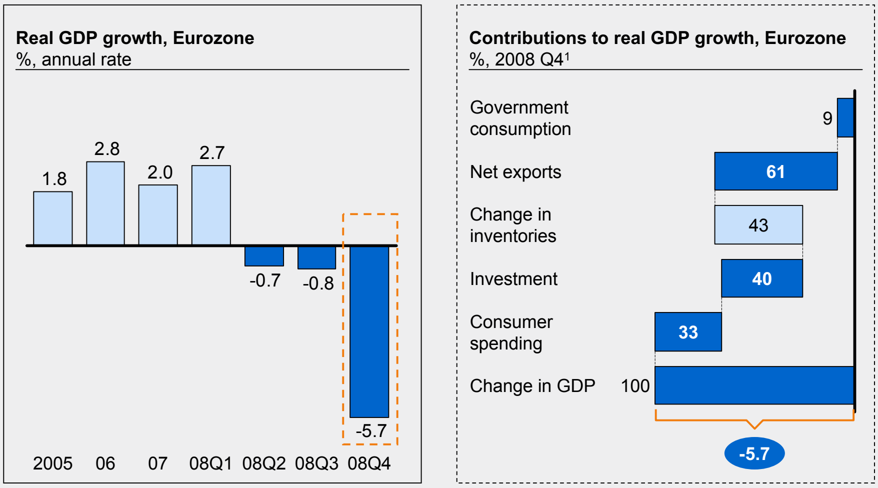
WILL THE EUROPEAN CONSUMER EXACERBATE THE ECONOMIC CRISIS?

By early 2009, Europe had firmly entered recession for the first time since the introduction of the euro in 1995. Eurozone GDP declined at an increasingly steep rate during the last three quarters of 2008, with the fourth quarter alone witnessing a decrease of a record 5.7 percent at an annual rate. While a decline in net exports contributed most significantly to this decrease, consumption also accounted for roughly one-third of GDP's negative growth (Exhibit 1).

Exhibit 1

Declining investment and net exports have put the Eurozone into recession for the first time since the euro launched in 1995

Positive
Negative



1 Data on the most up-to-date contributions to real GDP growth is for 2008 Q4.

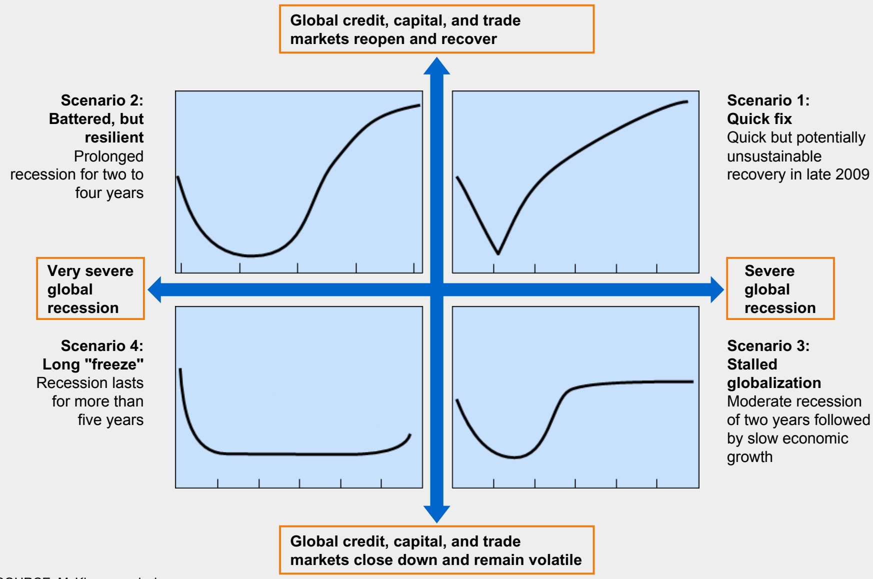
SOURCE: Oxford Economics

Because this recession is so different from others in recent experience, it is hard to imagine the future of the global economy. It is helpful to think through how the economy could evolve by focusing on the two major underlying uncertainties—the degree to which global credit and capital markets are restored to a state in which they are operating efficiently and effectively, and the depth and duration of the current economic downturn. Combining these two uncertainties yields four very different scenarios for the future of the global economy (Exhibit 2). A major determinant of the final outcome will be the degree to which government policies succeed in repairing the global capital markets and reviving the economy.

Exhibit 2

Fundamental uncertainties about how the crisis will play out lead to four scenarios

CONCEPTUAL



SOURCE: McKinsey analysis

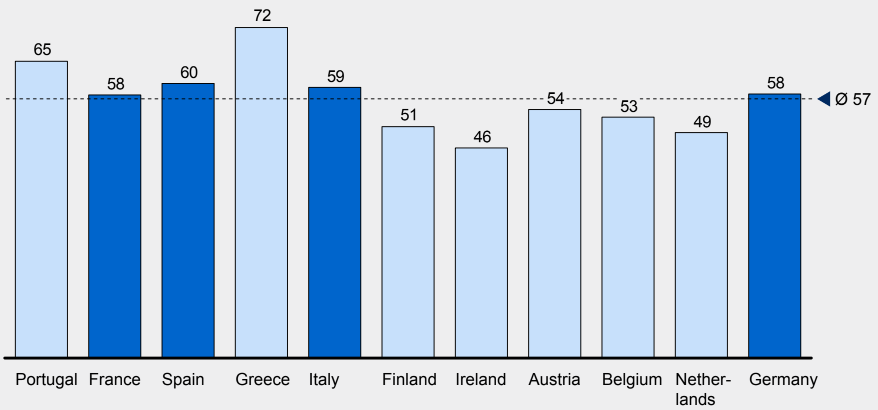
The consumer will also play a critical role in determining which of these scenarios comes to pass in Europe. Between 2002 and 2007, private consumption not only accounted for almost 57 percent of Eurozone GDP on average but also was the single-largest factor fueling economic growth over that period (Exhibit 3).[1]

Exhibit 3

Private consumption will play a pivotal role in the evolution of the crisis as it accounts for almost 57 percent of Eurozone GDP

Larger economies

Share of private consumption in total GDP, 2002– 07
%



SOURCE: Eurostat; McKinsey Global Institute analysis

In the early months of 2008, European consumers were already showing signs of being under stress as soaring commodity prices (and particularly oil and food prices) increased the cost of living. By the fourth quarter, even as commodity prices were coming off their highs, the banking crisis that began across the Atlantic arrived in Europe. The question now is whether the European economy, already hit by a deteriorating trade balance and declining investment, will come to count declining consumption among its woes, as in

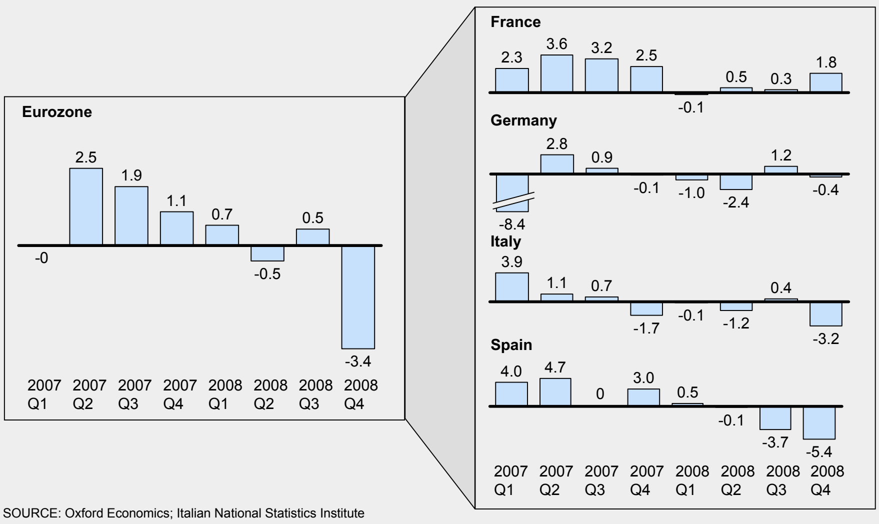
1 The exception is Germany, where private consumption was a relatively less important driver of growth in 2005 to 2007.

the United States. Europe's consumers are now showing distinct signs of fragility, which threatens to exacerbate the recession in terms of both its length and depth. By the fourth quarter, consumption had decreased by an average of 3.4 percent in the Eurozone, although there was considerable variation between countries (with France a clear outlier, posting an increase in consumption during this three-month period) (Exhibit 4).

Exhibit 4

Consumers showed signs of fragility in European countries ahead of the arrival of the banking crisis
Actual figures

Real growth in private consumption
% change, annual rate



SOURCE: Oxford Economics; Italian National Statistics Institute

Looking ahead, there are signs of an even deeper retrenchment with four out of the five key drivers of consumption (consumer confidence, incomes, wealth, and the availability of credit) now pointing strongly downward. The effect of the fifth driver (cost of living) is only marginally positive (Exhibit 5). This combination is unprecedented in recent history.

Exhibit 5

Most consumption drivers point to unprecedented further deterioration
Consumption drivers in previous historical economic downturns and current situation

✓ Strong
Moderate

Consumption drivers	Mid 1970s	Early 1980s	Early 1990s	Early 2000s	Current period	Key facts
1 Lower consumer confidence	Strong	Moderate	Strong		Strong	▪ Consumer confidence is at historical lows across Europe and dropping
2 Lower income	Moderate	Strong	Strong	Strong	Strong	▪ Low employment figures will translate into lower income for households
3 Higher living cost/ inflation	Strong	Strong			Moderate	▪ Lower oil prices ease pressure, yet price decreases could result in purchases being delayed
4 Lower wealth		Moderate	Moderate	Moderate	Strong	▪ Declining housing prices and equity indexes are reducing household wealth
5 Restricted consumer credit	N/A	N/A	Moderate	Moderate	Strong	▪ Banks are tightening availability of credit to consumers

SOURCE: McKinsey Global Institute analysis

Businesses need to tune into and sharpen their awareness of evolving consumer attitudes and behaviors if they are to survive the recession and position themselves for economic recovery. The savings strategies that consumers forge today could become long-lasting features of the market landscape as stagnant wages, resurgent commodity prices, rising pensions and health care costs, and demographic trends such as aging and the fragmentation of families appear poised to continue to squeeze purchasing power.

To help businesses to "read" the consumer, this paper takes a comprehensive view of recession dynamics, integrating McKinsey's perspective on the drivers and potential evolution of the current crisis with an analysis of how consumption has fared in past recessions. In addition, recognizing that macroeconomic data alone cannot explain what's on consumers' minds, MGI and CSI went straight to the source. In September 2008, we conducted a series of in-depth household interviews with European consumers in five countries—Germany, the United Kingdom, France, Italy, and Poland. We followed these with a quantitative consumer survey in the same countries in December 2008. Our fieldwork brings new light to the tactics consumers are now using to help them save.

Armed with these insights, companies should reexamine their total marketing approach—including product offerings, communications, channels, and pricing—to align with the rapidly evolving attitudes and behaviors of consumers, not just in recession but also in recovery. Those who most effectively anticipate the impact of changing consumer behavior stand the best chance of riding out the cycle and even capturing new customers and opportunities that are already beginning to take shape today.

COMPANIES NEED TO DEVELOP AN UNDERSTANDING OF TYPICAL CONSUMPTION SHIFTS DURING PAST RECESSIONS IN EUROPE

The first task for companies is to try to anticipate how the recession is likely to impact their business. To gain keener insights into how past recessions affected consumer choices, we analyzed the performance of 18 consumption categories across similar time horizons in four downturns since 1974—1974–75, 1980–81, 1991–93, and 2002—in the United Kingdom, Germany, France, and Italy.[2]

This exercise demonstrated that at times of economic growth, consumption tends to follow closely its long-term trend and therefore move relatively predictably. During recessions, however, consumption diverges strongly and quickly from this long-term-trend growth—by 2.2 percent on average (Exhibit 6). This makes forecasting difficult for even the most savvy of business planners. Furthermore, in past recessions, even after the economy as a whole rose out of recession, consumption took longer to recover to its long-term growth levels—nine quarters on average, three quarters more than the average length of recent recessions.[3]

Exhibit 6

Consumption trends move smoothly in growth years; recessions trigger much deeper and faster change

UNITED KINGDOM, GERMANY, FRANCE, ITALY

During growth years
%

	Actual growth	Trend[1] growth	Growth gap
Early 1970s	4.7	3.8	0.9
Late 1970s	3.3	2.6	0.7
Mid-to-late 1980s	2.9	2.6	0.3
Mid-to-late 1990s	2.4	2.0	0.4
Mid-2000s	1.5	1.7	-0.2
Average annual growth gap			0.3

During recession[2] years
%

	Actual growth	Trend[1] growth	Growth gap
Mid-1970s recession	0.4	3.1	-2.7
Early-1980s recession	0.2	2.2	-2.0
Early-1990s recession	-1.1	1.6	-2.7
Early-2000s recession	-0.4	1.1	-1.5
Average annual growth gap			-2.2

1 The long-term growth trend represents the growth expectation of a product category; it is computed by the Hodrick-Prescott filter, a mathematical tool to obtain a smoothed non-linear representation of a time series.
2 Using CEPR (Center for Economic Policy Research) methodology for defining recessions (indices include GDP real growth, consumer confidence and unemployment rate).

SOURCE: McKinsey Global Institute analysis

Beyond this finding, our analysis yielded two main insights:

1. **There are large variations of impact across categories.** Although the average decline in consumption relative to trend in past recessions has been an annual 2.2 percent (which does not seem particularly large and therefore worrisome for businesses), this aggregate figure masks a huge variety in the impact of economic downturns on different product categories and subcategories. Our analysis, which scattered categories based on their performance during recession years,uncovered three major groupings that range from light, quick hits to spending to deeper, more sustained consumption depressions. Categories that performed similarly were largely comparable in qualitative terms as well, with typical necessities (e.g., food)

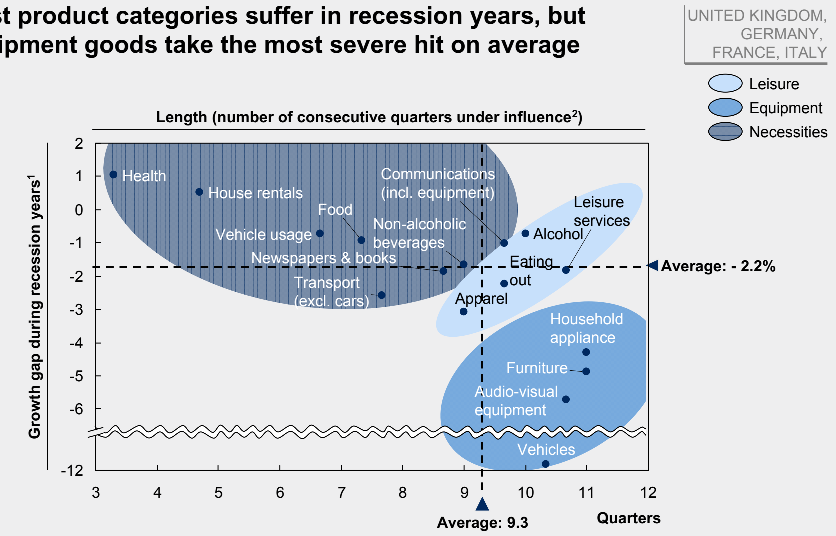
2 For this analysis, we considered the change in consumption during calendar years defined as recession by the Center for Economic Policy Research (CEPR). This may underestimate the impact on consumption as the largest peak to trough decrease over a 12-month period does not always coincide with the exact calendar year.

3 This is based solely on UK data. Average length of recession is defined here as the number of consecutive quarters where actual GDP growth lies under its long-term trend growth.

suffering least, leisure items (e.g., eating out and holidays) taking a moderate hit, and equipment (e.g., cars and household appliances) diving most dramatically (Exhibit 7).[4]

Exhibit 7

Most product categories suffer in recession years, but equipment goods take the most severe hit on average



1 Assessed through the difference between actual and long-term trend growth during recession years, as defined by CEPR.
2 Defined as starting with negative (positive for the positively hit categories) growth gap, and continuing until actual consumption goes above (below for the positively hit categories) trend for two consecutive quarters; length analysis is based on UK quarterly data only. Tobacco is on average positively hit but this is not the case in the United Kingdom and we therefore don't show the length of influence in this category in the United Kingdom.

SOURCE: Eurostat; Office for National Statistics, United Kingdom; McKinsey Global Institute analysis

Within equipment, sales of vehicles encountered the most negative response, with sales growth lagging trend by an average of 11 percent a year for the past four recessions.[5] Equipment goods also take the longest to recover—10 to 11 quarters in recent history.[6] If we examine the total impact on these categories over the full period where their performance lags behind their long term trend, and not just over the individual years defined as recessions, we observe average growth gaps that can be as large as 18 percent (versus 11 percent) for vehicles and 16 percent (versus 6 percent) for audio-visual equipment.[7]

2. **Some categories have changed in their sensitivity to recessions.** A few categories have shown notable evolutions of their growth gaps over time. The impact of recession on eating out, communications, and audiovisual equipment has become more pronounced in recent years (Exhibit 8). These categories have also seen a tremendous increase in consumption since the 1970s, resulting in a greater margin for consumers to save. On the other hand, categories such as vehicle usage and alcohol consumption appear to have declined in their sensitivity to recession in recent years.

Past figures are clearly a useful frame of reference for spotting trends in how consumers respond within the range of historical experience. However, to better assess the situation today it is also worth examining current consumer attitudes. Surveing consumers can lead to insights that help businesses to better understand trade-offs consumers may make in this particular economic downturn, which the evidence suggests could take us into territory that is unmatched in recent economic history in terms of its length and depth.

4 Three categories actually show positive growth gaps versus trend during past recessions: health, house rentals, and tobacco.

5 Equipment goods comprise car purchases, home furnishings, and electronics.

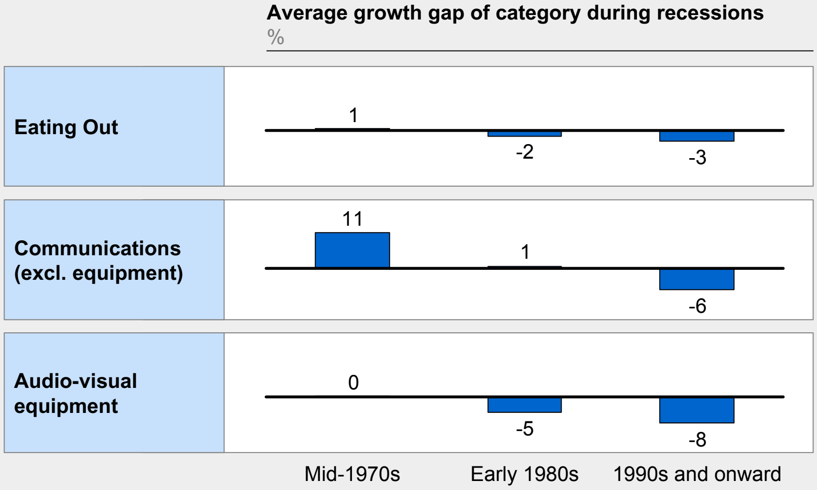
6 This analysis is based on data from the United Kingdom, the only country in our sample where quarterly consumption information at the required category level can be consistently found in official sources, such as national statistics agencies, since 1970.

7 This figure is an average. The full range of impact for automotive varies between minus 8 and minus 31 percent.

Exhibit 8

Eating out, communications and audio-visual equipment show increased growth gaps in recent recessions

UNITED KINGDOM, GERMANY, FRANCE, ITALY



SOURCE: Eurostat; Office for National Statistics, United Kingdom; McKinsey Global Institute analysis

BUSINESSES NEED TO ASSESS EARLY CONSUMER SAVINGS PATTERNS AND THEIR LIKELY EVOLUTION

Companies serving the European market should examine current evidence to determine not only the spending and savings trade-offs that consumers have begun to make but also how far and how they will be willing to pull back their spending in different product categories. While current sales figures are a first indication of how businesses are actually being affected by the crisis, our survey aims to develop an understanding of how the situation may evolve by focusing on the mind-set of the consumer and, even more specifically, consumers who are seeking to save on their expenditures. Rather than precisely quantifying the aggregate impact on different categories, we have attempted to build an understanding of how individuals approach saving, in terms of both the degree to which they cut back and the specific combinations of categories on which they choose to economize.[8]

In which product categories are consumers scaling back their spending?

Our survey finds that, by December 2008, 51 percent of those interviewed said that they had already begun saving in recent months in response to the economic crisis.[9] This declared retrenchment amounted to an average 7 percent reduction in recurring spending.[10]

8 The numbers that we report in this analysis reflect consumers' declared savings and do not include any increases in spending that may emerge as a result of consumers' shifting preferences in today's difficult economic conditions. Therefore, the figures that we detail in the next section should be seen not as representing an absolute impact on different categories but rather as a helpful reference for comparing the relative movements of different categories under scenarios of increasing pressure on consumers.

9 The survey interviewed 4,220 households with different socioeconomic characteristics; an age range between 25 and 70; average, middle-class, and affluent incomes; and retirees and those planning to retire in the near future.

10 In our analysis, recurring spending categories represent 73 percent of typical total household spending per month; categories excluded are cars (3 percent share of wallet), loans (5 percent), and housing (19 percent) that are not considered eligible for immediate savings.

These consumers have realized half of their savings in necessities—including 24 percent of total savings solely by cutting back on groceries, reflecting the large share of the average monthly budget (42 percent) that food spending comprises (Exhibit 9).

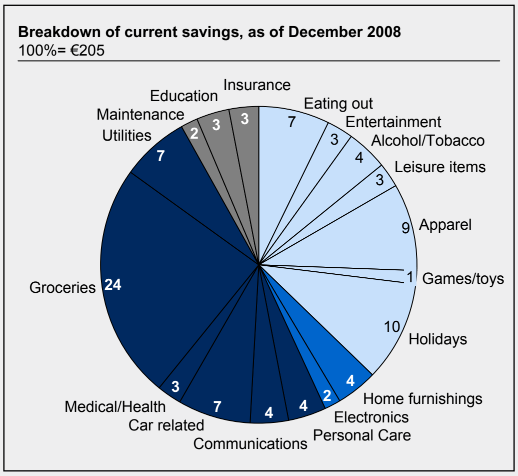
Exhibit 9

Groceries and holidays account for more than one-third of consumers' overall savings

Current scenario, all countries, all respondents, N = 4,220, €, %

Category summaries:
Share of wallet vs. share of savings

Category	Share of wallet[1] %	Share of savings %
Leisure	27	37
Equipment	6	6
Necessities	57	49
Other	11	8



1 Excluding spend on housing, other loans, and cars, which are not considered eligible for immediate savings.

SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

To estimate the impact on individual categories, we compare consumers' new level of spending to the amounts they used to allocate to each category. We see that eating out, medical and health spending (the portion that is not reimbursed), and games and toys have so far suffered the most in the current downturn, with cutbacks amounting to as much as a 13 percent reduction on the overall base spending in these categories. In comparison, other categories such as utilities and insurance have seen a less marked impact (Exhibit 10).

Exhibit 10

Eating out is consistently a top cut back priority and is joined by other leisure categories as income pressure increases

All countries, all respondents, N = 4,220, %

Leisure / Equipment / Necessities / Other

Global effect of savings on base category spend in the current situation[1] and implied category rankings under income pressure scenarios

Category	Current situation: Savings relative to base	Current situation: Ranking	Ranking under income pressure: 5 percent	Ranking under income pressure: 20 percent	Change
Eating out	13	1	1	1	=
Medical/Health	12	2	14	16	↓↓
Games/toys	11	3	4	9	↓
Apparel	11	4	5	5	=
Education	11	5	16	14	↓↓
Entertainment	11	6	2	2	↑
Personal Care	10	7	7	10	↓
Holidays	9	8	8	8	=
Alcohol/Tobacco	9	9	3	3	↑
Home furnishings	8	10	11	7	↑
Leisure items	8	11	6	4	↑↑
Groceries	7	12	15	15	↓
Electronics	7	13	9	6	↑↑
Car related	6	14	13	13	=
Communications	6	15	12	12	↑
Maintenance	5	16	10	11	↑
Utilities	4	17	17	17	=
Insurance	3	18	18	18	=

1 As of December 2008.

SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

To anticipate how consumers may respond were conditions to deteriorate further, we asked consumers to indicate their likely savings patterns under scenarios of increasing income loss.[11] As pressure mounts, consumers say they would continue to rein in spending on discretionary items such as leisure and equipment goods, with far more dramatic cutbacks than those they are currently making. Additionally, their declared behaviors lead to a reordering of the ranking of impact on each category, demonstrating how savings priorities change as financial strain increases.

Overall, these survey results map well with the trends we have observed during past recessions. For example, eating out consistently occupies the highest position in today's rankings, underscoring the ever-increasing size of consumer cuts in this category over time.

Equipment goods, on the other hand, have always been hit very hard in past recessions but so far appear to be faring better as consumers say they are focusing more heavily on leisure savings. However, when we ask consumers where they would focus their savings under deeper financial pressure, equipment goods steadily ascend the rankings. In short, if the recession were to deepen, these categories would likely show a greater similarity to their performance in the past.

We observe similar rankings across countries, with only a few notable differences (Exhibit 11). Nonreimbursed medical and health spending suffers more in the United Kingdom than in any other country. Perhaps surprisingly, personal care fares worse in both France and Italy. Finally, Italian consumers also report less willingness to trim spending on electronics and home furnishings, placing these equipment goods much lower on their list of savings targets than any other country.

Exhibit 11

Category rankings are largely similar across countries, with Italy reporting the most significant deviations from average

Ranking[1] of impact of recession on category performance

Most significant differences (shown in bold)

Category	Average					
Eating out	1	1	2	1	1	1
Entertainment	2	2	1	2	2	2
Alcohol/tobacco	3	6	4	4	3	3
Leisure items	4	7	3	3	7	4
Apparel	5	4	6	7	6	9
Games/toys	6	8	9	9	4	6
Electronics	7	3	7	6	**17**	5
Holidays	8	11	11	8	8	8
Home furnishings	9	9	8	5	**16**	7
Personal care	10	10	**5**	11	**5**	13
Maintenance	11	12	10	12	10	12
Communications	12	14	12	10	9	10
Car-related	13	16	13	13	13	11
Medical/health	14	**5**	15	15	11	16
Groceries	15	15	14	14	14	15
Education	16	13	17	18	12	18
Utilities	17	17	16	17	15	14
Insurance	18	18	18	16	18	17

1 Ranking: 1 = Hit hardest, 18 = Least impacted

SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

11 To assess the evolution of trade-offs under growing pressure, all respondents are split into four distinct scenarios: 25 percent face a 5 percent income loss; 25 percent face a 10 percent income loss; 25 percent face a 20 percent income loss; the last 25 percent is free to cut by the amount they see fit (control group).

These aggregate figures for spending reductions disguise the variation in categories that individuals choose for retrenchment. In most categories, just a fraction of consumers who say they would cut deeply are responsible for the hit taken. Even in groceries, the category with the smallest average cutbacks, consumers report reductions of 40 percent of their base spend (Exhibit 12).

Exhibit 12

Consumer cut backs are typically deep, only marginally less so for necessities

All countries, all respondents, N = 4,220, %

Leisure
Equipment
Necessities
Other

	Categories	Cut vs. base spend	% of savers
Moderate spend cut 40–50 percent	**Groceries**	41	52
	Utilities	44	36
	Maintenance	48	21
Deep spend cut 50–60 percent	**Car related**	52	42
	Insurance	58	14
	Communications	62	51
Drastic spend cut 70–90 percent	**Apparel**	67	60
	Alcohol/Tobacco	71	47
	Personal Care	72	46
	Holidays	75	38
	Education	77	6
	Eating out	78	52
	Medical/Health	80	13
	Leisure items	80	44
	Games/toys	81	16
	Entertainment	85	45
	Home furnishings	89	37
	Electronics	94	31

SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

It is therefore vital for businesses to determine who is likely to cut back on their specific category.

Who are the new savers?

We uncovered four key groups of households—or segments—that display distinct patterns for cutting back their spending (Exhibit 13). While the majority of consumers tend to focus on clamping down on their leisure expenses, some pinch pennies on basic necessities. Of those who tighten their belt on leisure items, two clear camps emerged:

- The "Party's Over," a segment that looks to eliminate everyday indulgences such as eating out, leisure purchases, and alcohol and tobacco

- "Domestic Downsizers," a segment that focuses on cutting back on bigger-ticket discretionary items such as holidays and home furnishings

For consumers who look to save on necessities, a separate set of savings habits emerged:

- A "Food Scrooge" segment that realizes approximately half of its total savings from groceries alone

- "Basics Bargainers," a segment that emphasizes new thriftiness in utilities, communications, and the use of cars

Exhibit 13

**Four consumer segments display different savings patterns;
a Party's Over Group accounts for almost 50 percent of savings**
Average of all groups[1], N = 4,220, €, %

	Profile	Description	Respondents %[2]	Share of savings %	Euro equivalent €	Average household net income €/month	Share of cluster who have already begun saving[3] %
Focus on leisure	Party's Over	▪ Over half of savings on leisure, mostly eating out apparel, and alcohol and tobacco	46	46	250	2,700	52
Focus on leisure	Domestic Downsizers	▪ 45 percent of total savings on holidays alone ▪ Over 10 percent of savings on home furnishings and electronics combined	14	18	330	3,300	55
Focus on necessities	Food Scrooge	▪ 70 percent of savings on necessities ▪ Almost half of total savings comes from groceries alone	18	21	280	3,000	40
Focus on necessities	Basic Bargainers	▪ 70 percent of savings on necessities ▪ Mainly utilities, communications and car-related expenses	20	15	190	2,100	60

1 Average composed of responses of following groups: ¼ facing 5% income decrease, ¼ facing 10% income decrease, ¼ facing 20% income decrease, and ¼ in free response group.
2 Totals to 98 percent because 2 percent of respondents do not save in worsening scenario.
3 As of December 2008.

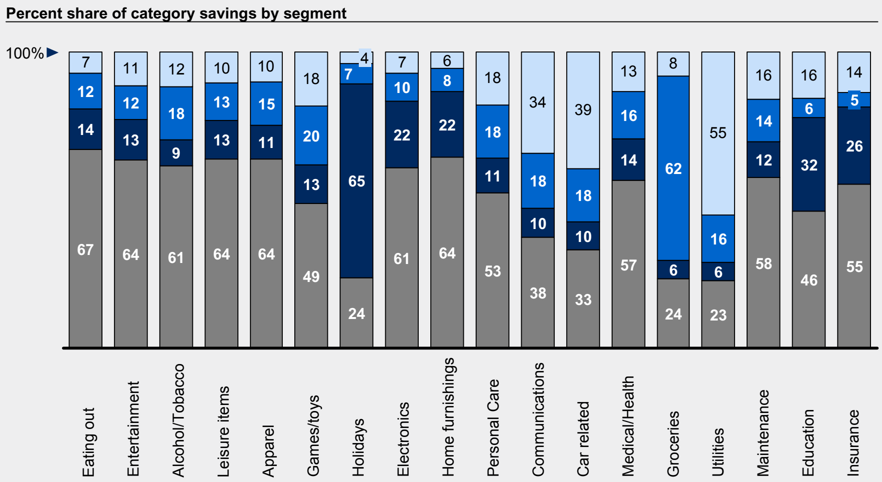
SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

The unique savings patterns of each segment amount to a different degree of impact on individual product categories. For instance, Domestic Downsizers will affect the holiday business more than any other segment. The Party's Over segment—accounting for the largest portion of consumers (46 percent)—makes savings decisions that collectively have a large impact on all categories of spending (Exhibit 14).

Exhibit 14

The Party's Over group is pivotal in leisure and still quite large in most other categories
All countries, all respondents, N = 4,220, %

Basic Bargainers
Food Scrooge
Domestic Downsizers
Party's Over



SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

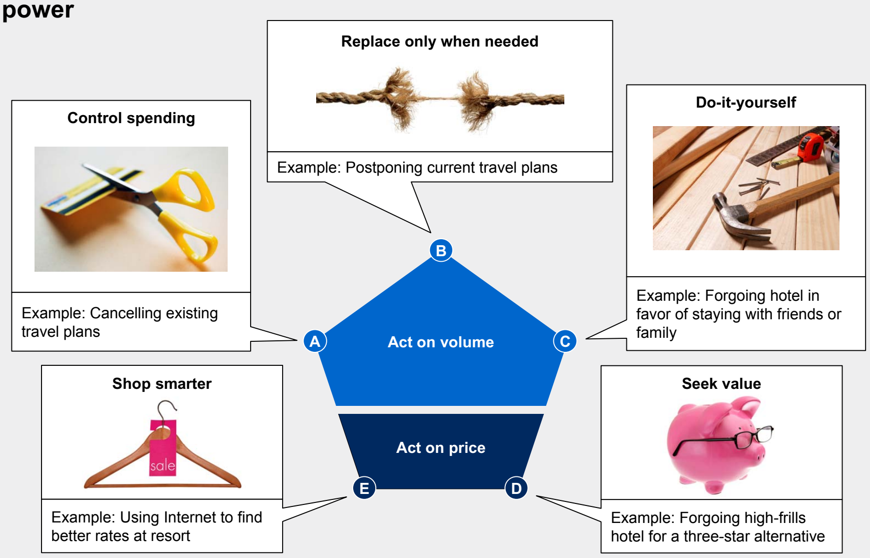
Companies should investigate the degree to which their particular offerings are sensitive to these four segments as they think through their response.

COMPANIES NEED TO BUILD INTELLIGENCE ON CONSUMER BEHAVIOR IN RESPONSE TO CRISIS

In addition to analyzing the priorities consumers are adopting, we have examined the kinds of tactics that consumers use to achieve their savings. Understanding new consumer behaviors enables companies to better design an effective response. We have identified five typical consumer reactions to the recession, the first three relating to the volume of consumption and the others to price (Exhibit 15).

Exhibit 15

Consumers use five typical tactics in response to reduced purchasing power



SOURCE: Household interviews; Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

Of these five reactions, we can see patterns in the "tactic of choice" that emerges for different consumption categories, although consumers sometimes mix a variety of tactics, as observed in groceries. (Exhibit 16).

Exhibit 16

Consumers tend to favor controlling their spending in leisure and replacing only when needed in equipment goods

Breakdown of most likely tactic per category, % of savers

☐ Significant tactic(s)

	Category	Control spending	Replace only when needed	Do-it-yourself	Seek value	Shop smarter	Total
Leisure	Eating out	**78**	N/A	11	5	6	100
	Entertainment	**47**	N/A	24	5	24	100
	Alcohol/tobacco	**60**	N/A	6	11	23	100
	Leisure items	**57**	9	N/A	16	18	100
	Apparel	31	N/A	N/A	3	**66**	100
	Toys and Games	**36**	19	N/A	10	**35**	100
	Holidays	**56**	1	10	24	9	100
Equip-ment	Car	27	**54**	N/A	16	3	100
	Electronics	**32**	**38**	N/A	2	**28**	100
	Home furnishings	27	**41**	8	6	18	100
Necessities	Personal Care	**54**	N/A	N/A	21	25	100
	Communications	**52**	N/A	N/A	**48**	N/A	100
	Car-related	27	N/A	**63**	10	N/A	100
	Medical/health	29	17	N/A	**38**	16	100
	Groceries	**38**	N/A	8	17	**37**	100
	Utilities	**73**	N/A	N/A	27	N/A	100
Oth-er	Education[1]	**29**	**25**	N/A	**24**	N/A	100
	Insurance	**43**	15	N/A	**37**	5	100

1 Twenty two percent chose to obtain finance to delay payment, which has not been integrated into the represented tactics.

SOURCE: Household interviews; Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

Control spending. This is the most used tactic. As of December 2008, 69 percent of consumers said that they had significantly increased control of their expenses in the previous three months. Control is the key as European consumers attempt to reduce their overall expenditure, motivated by a desire for predictability in uncertain times. Consumers say they are setting, and adhering to, personal budgets with a new vigilance and devising rules to limit their spending. Those without the will to create or adhere to rules instead try to excise temptations to spend, avoiding large stores or refusing to buy on credit. At its most extreme, control of spending amounts to the total withdrawal from consumption of a category. This is a threat for all goods, but particularly so for discretionary items such as eating out and holidays.

Increased focus on budgeting

"I make rules. At a restaurant, I won't spend more than €50 for two."
(French man, 59, retired)

"I cannot bear the thought of having less than €10,000 in my account: I must not go below this figure at any cost."
(Italian woman, 42, caterer)

Focusing on checks to constrain consumption

"I used to buy whatever I wanted, but now I've imposed some internal controls. I say: 'Do we really need this?' I try to buy only when necessary."
(German man, 60, physician)

"With cash, you have a feeling of control. With a card, one gets lost; it's easy to go negative." (Polish woman, 37, working)

Avoiding the choices offered by supermarkets by switching to smaller shops

"We used to go to huge supermarkets, but now we go to a small one and, honestly, I don't think we are affected by this change. You are far less intrigued; you are less tempted by impulsive purchases."
(English woman, 35, retail manager)

Replace only when needed. Accompanying their new conservatism in spending, consumers may turn a more prudent eye to the goods already in their homes. This tactic is especially prevalent for big-ticket items such as cars, electronics, and furniture, where many consumers have declared a willingness to delay new purchases or use current devices longer. Consumers are also looking for ways to increase the value or lifetime of their current possessions, which can sometimes mean buying or selling used goods. For fast-moving (or frequent) purchases, which consumers cannot delay buying altogether, this tactic translates into a strict avoidance of waste. From food and drink to cleaning supplies and medication, consumers say they are focusing on buying only the quantity they need.

Selling or buying used goods

"My clothes are well kept, so I sell them and buy new ones."
(Italian woman, 59, retiring)

Looking for ways to stretch value/increase product lifetime

"I'll be renting out a room in this flat in just a few weeks. I like living on my own, but right now I could use some help with the bills."
(English woman, 37, fashion designer)

Preventing waste by purchasing smaller quantities or doing so more frequently

"I buy only what I need; I'll buy a bunch of grapes instead of buying a kilo because I don't want to waste. I shop more on a day-to-day basis."
(French woman, 65, retired)

Do it yourself. While the do-it-yourself ethic has long resounded in furniture and home improvement (where 44 percent of respondents said they would opt for do-it-yourself solutions), consumers are beginning to apply this motto to a range of products and services they routinely used to outsource. The "cheap is chic" refrain of the crisis has inspired consumers to favor self-made alternatives. They are canceling restaurant reservations in favor of in-home dinner parties, indulging in DVDs as an alternative to theaters, and picking up the brooms and rags they had happily abandoned to household help. Some are even leaving their cars in the garage if their destination is within walking or biking distance. As the impact of the crisis increases, it's likely that consumer creativity will, too, extending the reach of this tactic to new categories.

Retrenching to the home for social activities such as entertainment and eating

"We have cut down on our leisure activities because of the cost. We don't go to the restaurant so often, and we have started to rent films rather than go to the cinema."
(Italian woman, 54, part time)

Downsizing on certain areas of the budget, using alternatives

"I used to drive everywhere, but with petrol costs what they are, I've started to bike to get around."
(German woman, 50, dental technician)

Forgoing services in favor of doing it yourself

"I now dedicate myself more to the house. I do small jobs such as painting the walls, drilling holes, mending sockets."
(English man, 60, retired)

Seek value. Consumers under pressure not only think more critically about where they spend their money, but also about what, exactly, they are getting in return. Pinched times call for more prudent measures, so consumers are adopting a new zeal in determining precisely which features they deem worthy of their cash. They are approaching high frills with a new degree of skepticism and carefully scrutinizing the exact product features they need so they don't overpay. For larger purchases, consumers may turn to the Web or other information channels to better assess the specific product options in which they are interested. For fast-moving goods such as food items, where product offerings are easily understood, the unbranded solution often emerges victorious as consumers prioritize functionality over frills. Beyond groceries, consumers are particularly hungry for value in other necessities, such as communications and medical/health spending.

Value of luxury brands challenged; extreme value is in

"I'm in the garment business, and I know that some of these things are a complete rip-off. There's enough good stuff on the high street that's far cheaper."
(English woman, 37, fashion designer)

Buying cheaper brands or private label, particularly for fast-moving goods

"Before I used to buy national brands, but now I only use discount brands. I go to Lidl. Diapers are only €7 there compared to €20 at Carrefour."
(French woman, 38, lawyer)

More carefully selecting product features that match their needs

"It's rare that one of us will just come home with something new. When we buy something, we normally look for information beforehand."
(Polish man, 54, equipment inspector)

Buying private-label instead of branded goods

"Sometimes I avoid buying branded because the important thing is the product and not the brand name. I'll take something I like and purposely not buy the brand."
(German woman, 37, communications)

Shop smarter. Recession-stressed consumers who want to continue to consume the products they value may begin looking more aggressively for a good price. Many consumers said they have begun to devise ways to shop more "smartly," looking out for special bargains or promotions. While this tactic appears across categories, it is particularly prevalent in the case of apparel, where 66 percent of respondents ranked smarter shopping as their top tactic for savings. Smarter shoppers take advantage of new channels, such as the Internet and hyper discounters in order to find the same product at a lower cost and are often content to delay their purchase until sales and promotions are offered.

Searching for bargains

"Shopping in Waitrose is not really a luxury, not if you do it carefully. There are times when there are great special offers. That's what I look for." (English woman, 56, retired)

Comparing prices at different stores or using the Internet

"Before, I used to do all of my shopping in one single place. Now I visit two or three different places, and I compare prices." (Italian woman, 59, retiring)

Experimenting with new channels such as hyper discounters and the Internet

"I buy a lot on the Internet. It's fun, almost like a game. You choose the price you want to pay, and there are always good bargains!" (French woman, 38, lawyer)

To better understand how these tactics are deployed, we looked at how our four previously identified segments of consumers combine them. Each segment follows a similar pattern, except for the "Basic Bargainers," who favor price strategies more than the others (Exhibit 17).

Exhibit 17

Segments use similar tactics when saving, except for the "Basic Bargainers"

Breakdown of most likely tactic per category, % of savers

Main differences (highlighted): Basic Bargainers – Control spending 38, Seek value 24, Shop smarter 22

	Segment[1] % of respondents	Control spending	Replace only when needed	Do-it-yourself	Seek value	Shop smarter	Total
Focus on leisure	Party's Over 46	47	9	8	18	18	100
Focus on leisure	Domestic Downsizers 14	47	10	7	17	19	100
Focus on necessities	Food Scrooge 18	47	11	7	19	16	100
Focus on necessities	Basic Bargainers 20	38	9	7	24	22	100

1 Totals to 98 percent because 2 percent of respondents do not save in worsening scenario.

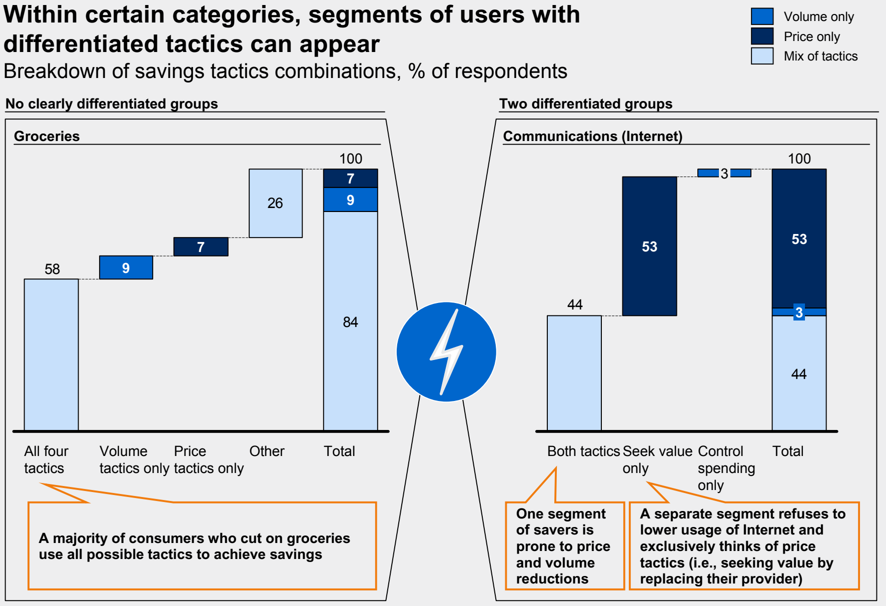
SOURCE: Household interviews; Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

At the category level, we observe that consumers tend to use a mix of tactics, however in some categories we can identify distinct consumer groups pursuing a particular mix of tactics. For Internet subscriptions, one group of consumers would consider only price tactics, while another would consider both price tactics and decreasing their Internet usage (Exhibit 18). Businesses would be wise to adopt differentiated marketing mixes to appeal to the savings behaviors of each group.

Exhibit 18

Within certain categories, segments of users with differentiated tactics can appear

Breakdown of savings tactics combinations, % of respondents



SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute EU Consumer Team analysis

COMPANIES NEED TO CALIBRATE THEIR MARKETING MIX TO CONSUMER TACTICS TRIGGERED BY THE ECONOMIC CRISIS

The findings of this qualitative survey demonstrate the resourcefulness and wide range of reactions of consumers. Although one should be prudent about extrapolating these trends forward, consumer-facing companies can view them as an opportunity to develop new offerings and solutions and reposition themselves in the face of economic pressures that may well be sustained in the long term, even after the global economy has recovered from the current downturn.

Companies may find the five tactics that arise out of our survey a useful framework for determining the direction in which their marketing strategies should evolve—indeed many companies are already adjusting their approach to appeal to these new behaviors (Exhibit 19).

Exhibit 19

Companies should consider new volume-related consumer tactics when calibrating their marketing response to the crisis

		Examples of levers		Company examples
Control spending	Avoid temptations	▪ Assist consumer budget making ▪ Optimize store layout	netSpend	▪ Offers prepaid reloadable debit cards which cannot go into overdraft
	Avoid big-ticket purchases	▪ Offer flexible payment schemes ▪ Increase visibility on usage costs	Sears	▪ Has revived its layaway plan to allow consumers to pay by installment over 1-3 months
Replace only when needed	Avoid waste	▪ Promote incentives for replacement ▪ Create product buyback program	gazelle	▪ Launches buyback and recycling program for used technology, including PCs, cell phones, digital cameras, and other devices
		▪ Adapt packaging/ SKUs to avoid waste	Coca-Cola	▪ Sells smaller package size (16 oz rather than 20) at a cheaper price (99 cents)
Do-it yourself	Retrench home and use "do-it-yourself" solutions	▪ Promote opportunities to use products in home environment ▪ "Outsource" part of product manufacturing/assembly to consumers	TARGET	▪ Has launched a marketing campaign touting everyday products as low cost, home made solutions for troubled times
		▪ Adapt communication to include tips on home-use of products	The Home Depot	▪ Expands offering of do-it-yourself classes across a number of home-improvement topics

SOURCE: McKinsey Global Institute EU Consumer Team analysis

Control spending: Propose managed consumption offers

To appeal to consumers searching for control, businesses must develop an understanding of whether any aspect of their offering might today be a turnoff to their customers. Regardless of the sector, companies need to help consumers feel they can work comfortably within their new system of controls rather than abandon consumption altogether.

- Retailers could rethink what they put on their shelves, making value products more accessible and attempting not to overburden consumers with temptation.
- In telecommunications, where unseen usage costs might deter consumers from purchasing, companies could more clearly communicate the costs of service or ensure predictable prices through fixed-rate plans.
- For expensive items such as equipment goods, companies could offer leasing programs or more systematic warranties to help ease the sense of lost control that may accompany handing over large sums of cash.
- In the United States, Sears has revived a simple solution for helping consumers take a firm hold of their expenses—the layaway. The company originally introduced the program more than 20 years ago, allowing consumers to have merchandise "laid away" or set aside in the store until they complete a series of installment payments for it, rather than having to use credit or pay the full price upfront. Sears recently brought the idea back to help cash-strapped consumers. "The customer who needs to manage their money and stay within a budget hasn't changed," said Tom Aiello, vice president of public relations for Sears Holdings.[12]

Replace only when needed: Help consumers make the most of their purchases

Even in this slow period, businesses can still go on the offensive but with a new message.

- In fast-moving goods, where customers may be shying away from immediate consumption, companies could introduce smaller packages that may better appeal to consumers who realize they need less. Though Coca-Cola's 20 ounce (55 cl) bottle remains its best seller in the US, the beverage company has recently introduced a 20 percent smaller bottle that sells at a lower price. "Early read is very good consumer acceptance of it," said Steve Cahillane, President of Coca-Cola North America.[13]
- Companies that sell or produce durable goods but face cold-footed consumers may consider an interim solution to keep cash flowing—in this market, longevity and security sell. Now could be the time to innovate and introduce product accessories that help consumers further enjoy or stretch the life cycle of what they already own.
- To appeal to customers who may be looking for assurances that what they purchase will last, companies should offer to stand firmly behind their products. A large car manufacturer recently offered to guarantee the retail value of its vehicles if returned within the first two years after purchase.

Do it yourself: Follow your consumers to their home turf

The consumer's retreat to self-made solutions does not necessarily have to be an obstacle to businesses.

- Companies should pinpoint the advantages of their products compared with homemade alternatives and also consider where their offering can be positioned as a lower-cost alternative.

---

12 *Reuters*, January 15,2009.

13 Coca-Cola earnings call Q42008.

- In addition, companies could achieve a big win by better communicating how to use their products in the home. US retailer Target is showcasing the do-it-yourself approach in a new advertising campaign that celebrates how products on their shelves can be used as cheap homemade alternatives (e.g., home-baked cookies instead of store-bought ones, in-home pedicure rather than a salon trip). Companies that have long played to the do-it-yourself trend should continue to do so and consider whether further opportunities exist to “outsource” all or part of product assembly to the consumer.

While lowering the volume of their purchases is a surefire way for consumers to reduce expenses, many also report they are looking to continue buying but at a lower price, creating opportunities for companies to rethink their offering (Exhibit 20).

Exhibit 20

Companies also need to align their marketing mix with new price-related consumer tactics

		Examples of levers		Company examples
Seek value	Increased interest for simple offerings	▪ Extend offer breadth by introducing simpler, "low frills" products	ASUS	▪ Has introduced netbooks, a new class of small, light and inexpensive laptop computers with reduced specifications and processing power
Seek value	Switch to private labels	▪ Introduce private label/low cost products if possible ▪ Clear differentiation of private label offering	TESCO	▪ Has extended its private label offering to a full spectrum of categories and price points
Shop smarter	Search for best price	▪ Ensure price competitiveness of products ▪ Enable visibility of best prices in all channels	P&G	▪ Is using coupons to retain increasing numbers of consumers switching to private labels alternatives
Shop smarter	Experiment with new channels	▪ Diversify channel strategy to include hard discounters and the internet	Lifebooker	▪ Has launched an online marketplace where spas and salons advertise discounted appointments

SOURCE: McKinsey Global Institute EU Consumer Team analysis

Seek value: Put the spotlight on value

Knowing that consumers are looking for value, companies can aim to make the search easier by clearly articulating the features, benefits, and availability of their products on all channels.

- Regardless of the product, clear, simple messages about its attributes should appeal to a value-conscious consumer who wants to know exactly what he or she is getting. Longtime value player McDonald’s is capitalizing on people’s hunger for a good deal by preserving its low prices on value menus. According to an industry analyst, McDonald’s is faring better in this recession than it has in past economic downturns. “This time around, McDonald’s is focusing very well on providing value. Their brand is in a very good place, providing variety and a low-entry price point.” The company is expanding the number of its outlets and even going head-to-head with coffee stalwart Starbucks with its new concept McCafé.[14]

- Other businesses can follow McDonald’s price-focused approach by promoting their own collections of low-cost private-label goods or introducing basic versions of products at a lower price point, taking care not to tarnish their brand. UK supermarket Tesco has broadly expanded its private-label offering; its trademark competes with branded players across the full range of the value spectrum, from its frills-free “Value” label to its “Finest” collection, which takes on the superpremium competition. The retailer is taking the concept one step further by putting its stamp on nonfood items and even services: Tesco broadband comes in “Value” and “Finest,” too.

14 *Forbes*, February 27, 2009.

Shop smarter: Win the price war

Smart shoppers are abundant even at times of healthy economic growth, but companies can look to the current circumstances as an opportunity to improve their targeting of bargain-seeking customers. The key to reaching smart shoppers is to make sure the message gets to them. Promotions, therefore, need to be targeted at the right consumers and be visible across marketing channels.

- Businesses across all sectors should take advantage of the new tools consumers use to find a deal. This may mean winning the search-engine war on price criteria, offering Internet promotions to stimulate online growth, or spinning off a discount outlet to compete with hyperdiscounting channels.

- Even in the Internet era, companies must not forget about tried-and-true tactics to reach consumers. Procter & Gamble, the consumer packaged-goods giant and largest US advertiser, recently shifted some of its advertising budget to coupons. "Consumers are more open to that kind of message than they would have been 18 months ago, and we're trying to resonate with them," said David McCracken of P&G in the United States.[15]

* * * * *

European consumers are proving to be consummate innovators, forging new strategies to cope with the economic squeeze. With long-term trends pointing to continued pressure on their purchasing power, it is likely that many of these new approaches will become permanent features of the consumption landscape. Those companies that look beyond mere survival and adapt their products and marketing to these new strategies will position themselves most effectively not only to retain customers during the squeeze but to attract new ones as the recovery arrives. Now is the time to build up the deep market intelligence necessary to get ahead of the curve during a period of intense pressure and rapid change.

15 *Financial Times*, February 11, 2009.

Methodological aspects

Useful questions—and answers—for better understanding our analysis

I. PAST RECESSIONS ANALYSIS

I. A Why do you use growth gaps and not actual growth numbers?

We use growth gaps in order to provide a context-based picture of how each category fares during the recession in question. The growth gap analysis allows us to understand the change in category performance relative to each category's long-term trend during that period. For example, slow positive growth during a recession could be interpreted as good or bad depending on how the category typically performs. If long-term growth is quite rapid (as is the case with communications), then slow positive growth might mean a significant impact. If growth is normally fairly slow (e.g., as observed with tobacco), then the number signifies little overall impact. Only the growth gap allows us to understand these contextual clues.

I.B How do you define and compute the long-term trend?

The long-term trend is computed using the Hodrick-Prescott filter, a mathematical tool to obtain a smoothed non-linear representation of a time series that allows us to differentiate the fundamental stable trend of a category's growth from its short-term peaks and valleys. This long-term trend can be understood as the basis of future growth expectations.

I.C Why did you use whole calendar years and not quarterly data as a time frame to assess the impact of recessions?

For the period of interest (recessions since the 1970s), official sources, such as national statistics agencies, only consistently report historical consumption data at the required category level on the basis of calendar years. We recognize that in some cases this may underestimate the impact of recession on consumption as the largest peak-to-trough decrease over a 12-month period does not always coincide with the exact calendar year.

I.D How do you capture the full impact of recessions when they exceed one calendar year?

We first aim to compare the impact of past recessions across categories on an even field. To do this, we identified each year defined as a recession year by the Center for Economic Policy Research's criteria and determined a category's growth gap in that specific year.

When assessing the full impact of recessions, we observed that approximately two-thirds of categories considered exhibited a clear peak-to-trough difference that typically begins before the recession year and finishes after. The average maximum growth gap over the full extent of a recession is typically larger than the growth gap on an annual basis: for instance, minus 18 percent for vehicles (as compared to minus 11 percent) and minus 16 percent for audio-visual equipment (as compared to minus 6 percent).

I.E Why is the average length of impact computed on UK numbers only?

The average length of recession impact requires data at a quarterly level. Of the countries analyzed, only the United Kingdom consistently reports consumption on a quarterly basis for the period under review.

II. CONSUMER SURVEY ANALYSIS

II.A What methodology did you use in the survey? How representative is it?

For the consumer survey, we partnered with TNS Sofres. Our survey was Web-based, allowing us to adapt our line of questioning according to consumers' previous answers. The research was carried out in five countries (France, the United Kingdom, Germany, Italy, and Poland), with a total sample size of 4,220 interviews, constituting a representative sample of consumers aged between 25 and 70 years old. Average figures are weighted by country population.

II.B Why do you survey only the five countries mentioned ?

Our survey countries were picked to represent a significant share of the European economy and also reflect the many cultural and geographic differences of the European landscape. Germany, the United Kingdom, France, and Italy, the four largest economies in Europe, together comprise almost two-thirds of EU27 GDP. Poland has been included to represent the growing block of Central and Eastern European economies.

II.C The impact of current savings in your survey is 7 percent on average, although actual consumption figures are more in the range of 3.5 percent for Q4 2008. Why is that?

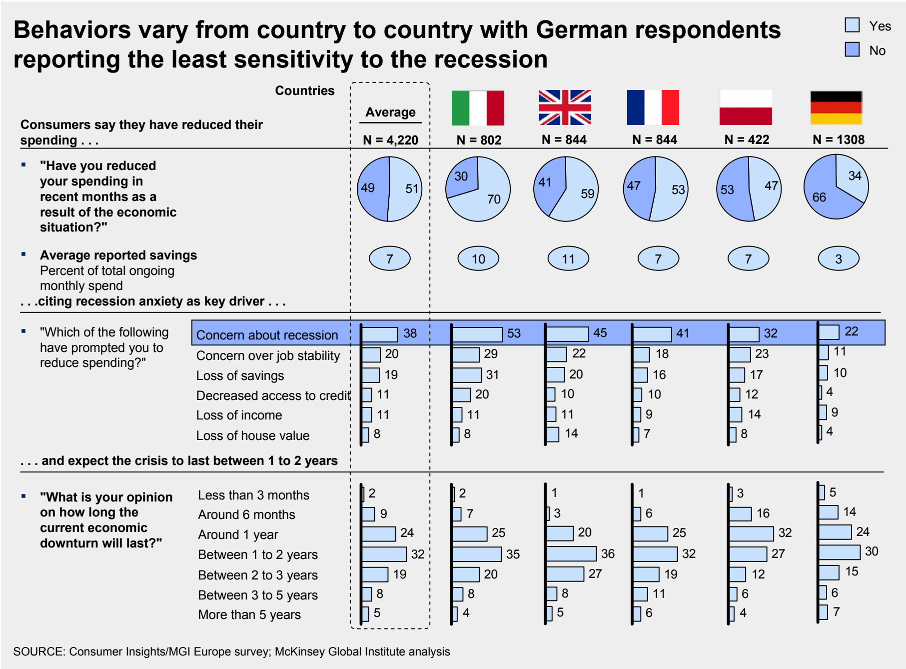
The numbers that we report reflect consumers' declared savings not actual savings. They do not include any increases in spending that may accompany consumers shifting preferences in these harder times. Also, while the 3.5 percent number reflects only one-quarter of impact, consumers may have considered a longer period when they reported their savings in recent months. Therefore, the overall impact number, as well as individual category numbers, should not be understood as a prediction of absolute performance, but rather as a helpful reference for comparing the relative movements of different categories under scenarios of increasing consumer pressure.

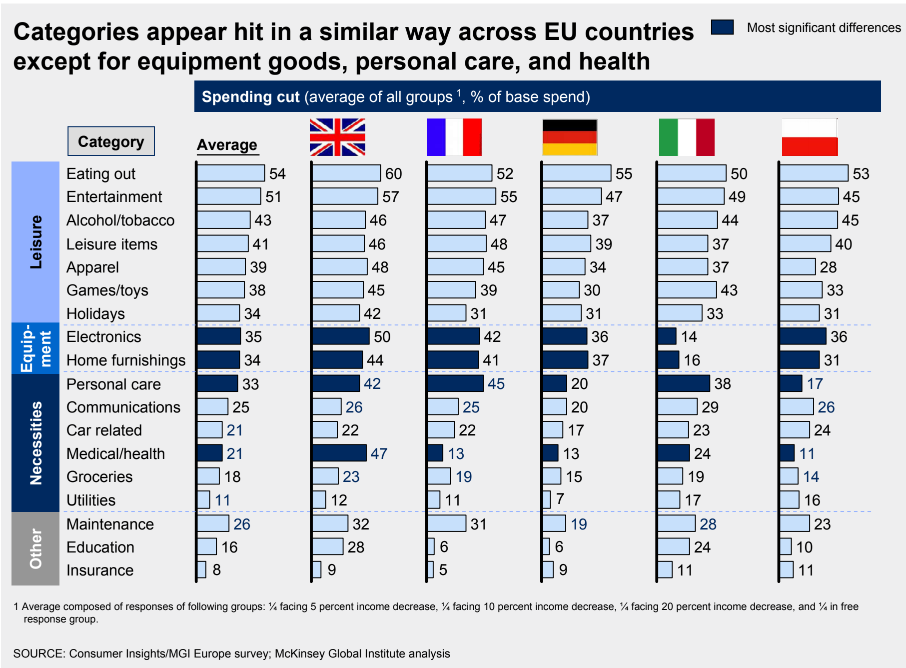
II.D Do the four segments of savers that you have identified cut back only on the categories mentioned? (i.e, does the "Party's Over" segment cut back only on restaurants and leisure?)

The four segments identified cut back on more than just the categories mentioned. Each segment represents the composite behavior of several individuals who realize their savings across a number of different categories. What is unique about the individuals within each segment is the type of category where they realize the greatest share of their own savings. "Party's Over" savers make up the most of their savings in leisure categories like restaurants, but may simultaneously (though to a lesser extent) be reining in their spending on necessities.

II.E What are the main differences between countries?

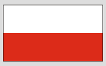
We found that individual countries vary in their sensitivity, so far, to the recession, with different percentages of respondents reporting that they have already begun to cut back their spending. However, the degree to which respondents cut on individual categories follows a similar pattern across countries. The representation of our four consumer segments also remains somewhat consistent across the five countries surveyed. Please refer to the charts below for a better understanding of where the main differences lie.





"Domestic Downsizers" are more prevalent in the United Kingdom, while "Basic Bargainers" savings patterns are observed in Poland and Italy

Average of all groups, N = 4,220, %

Country	Breakdown of segments per country, Percent of respondents				Total
	Party's Over	Domestic Downsizers	Food Scrooge	Basic Bargainers	
	43	19	19	18	100
	46	12	22	18	100
	49	13	20	16	100
	46	13	12	25	100
	42	10	16	29	100
Average	**46**	**14**	**18**	**20**	**100**

SOURCE: Consumer Insights/MGI Europe survey; McKinsey Global Institute analysis

McKinsey Global Institute
April 2009
Designed by Visual Aids Brazil

www.mckinsey.com/mgi