

Meet today's American consumer

Consumer Packaged Goods June 2016



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US consumers feel better about their financial situation than they did a year ago, but they're still hesitant to spend too much.

Compared with the rest of the world, Americans are feeling pretty good about their finances. While many consumers in other countries are living paycheck to paycheck and worrying about becoming unemployed, American consumers are comparatively unconcerned about their household's financial future. This isn't to say that US consumers are exuding confidence: financial-market volatility and the political uncertainty surrounding the upcoming presidential election are stoking fears of another downturn. Still, most Americans are staying loyal to their favorite brands instead of downgrading to cheaper options, and some are even splurging on certain types of purchases.

These are among the findings of our latest US Consumer Sentiment Survey, the 11th in a series we launched in 2008 (see sidebar, "Our survey methodology"). Our aim was to track how consumers feel about their financial prospects and how these sentiments are affecting their buying behavior. These insights have important implications for consumer-goods companies and retailers as they seek to meet consumers' ever-changing needs and preferences.

Still cautious after all these years

Whereas in our 2014 survey 40 percent of Americans said they were living paycheck to paycheck, only 28 percent made that claim in 2015. Only 23 percent of survey respondents, down from a high of 48 percent in 2009, said they are finding it harder to make ends meet than they did a year ago. Most Americans—65 percent—expressed no concern about losing their job. In general, fewer American consumers are feeling economic pressure today than at any time since 2008 (Exhibit 1).

But it's still no bed of roses. Only 20 percent of Americans expressed optimism about the country's economy. That number has shown little improvement since 2011, when a mere 18 percent of respondents said they were optimistic about the nation's economic prospects. Slightly more than 30 percent of Americans said they're cutting back on spending or delaying purchases—although, encouragingly, that fraction is significantly down from the almost 60 percent who were cutting back or delaying purchases in 2009.

Would higher incomes spur US consumers to loosen their purse strings? Only a little. Consumers said that if their incomes were to rise by 10 percent, they'd spend only about 21 cents out of every dollar of that extra money; the rest would go into savings and toward paying off debt. Americans appear to be taking a more conservative posture toward spending than the rest of the world. On average, global consumers said they'd spend 35 cents out of every dollar of additional income.

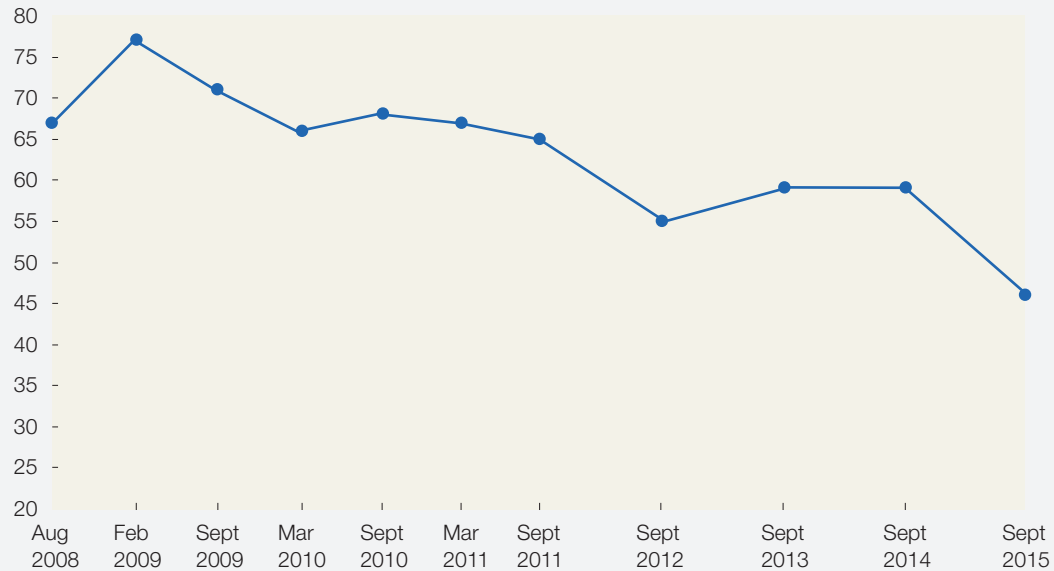
Among US consumers who said they'd spend a portion of their extra income, most—57 percent—would buy everyday necessities such as food and household items. More than half of these respondents said they'd also allocate some of the money toward vacations. More than 40 percent would spend some of their money on clothing, eating at restaurants, and entertainment.

Five truths

The behavioral shifts among Americans mirror those of consumers around the world, to an extent. Certain consumer segments are exhibiting more of these shifts than others, but collectively, they underscore the challenges and opportunities that

Exhibit 1 Feelings of economic pressure among US consumers have eased significantly since the global recession.

% agreeing that they are “adjusting spending to make ends meet,” “having a really hard time,” or “in crisis”



Source: McKinsey US Consumer Sentiment Survey

consumer-focused companies will face in the near term. Companies would do well to keep in mind the following five truths about today’s US consumers.

1. In the search for savings, millennial moms lead the pack.

American consumers are reducing their spending in a variety of ways. Overall, 49 percent agreed that they’re “increasingly looking for ways to save money.” Among millennial women (ages 21 to 34) who have children, 72 percent agreed with that statement. Indeed, millennial moms are much more likely than the average American consumer to engage in belt-tightening behaviors such as comparing prices, using coupons or loyalty cards more often, seeking out sales and promotions, shopping at several stores to find better deals, and

buying more products in bulk. They are also more apt to change their eating habits: more than 40 percent of millennial moms said they’re eating at home and cooking from scratch more often, and about one-third said they’re eating leftovers and packing lunches more often.

2. They are brand loyal but look for ways to spend less on their brands of choice.

Among US survey respondents, 52 percent—down from 64 percent in 2012—said they’ve modified their buying behavior when it comes to their favorite brands. The trend is most pronounced among Hispanics: 61 percent of Hispanic consumers said they’ve changed their buying behavior. Many American consumers have remained loyal to their preferred brands but are

watching their budgets more closely: buying only with discount coupons or when these brands are on sale, shopping around to find retailers that sell the brands at lower prices, or purchasing in smaller quantities (Exhibit 2).

3. They're now much less likely to 'trade down.'

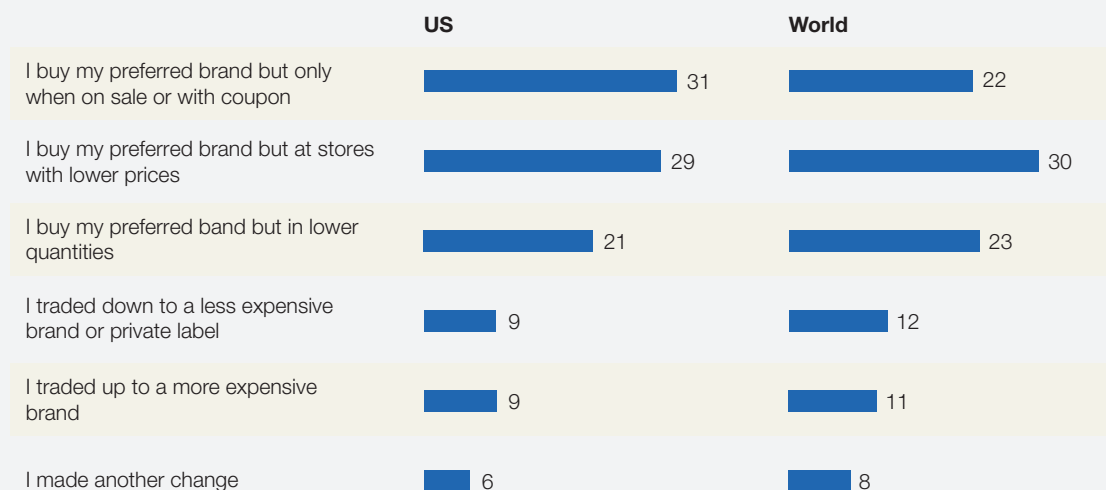
Only 9 percent of consumers reported trading down—that is, buying cheaper brands or private-label products instead of their preferred brands. Millennial moms, consistent with their money-saving tendencies, had the highest percentage of down-traders, with 14 percent. The most vulnerable product categories (those with the highest trade-down rates) were bottled water, household-cleaning supplies, pasta, and rice—perhaps indicating that branded products in these categories haven't differentiated themselves enough.

Compared with past survey results, a slightly larger percentage of down-traders reported being pleased with their experience—46 percent in 2015, up from a steady 42 percent since 2012. More than two-thirds said the less-expensive brand exceeded their expectations with regard to quality and value for money. And most down-traders didn't regret their decision: 74 percent said they intend to stick with the less-expensive option and won't return to the brand they bought previously. Interestingly, half of those who said they'd stick with the cheaper option still preferred the more expensive brand but weren't willing to pay more for it.

Among US down-traders, 62 percent opted for private-label products. But the shrinking pool of down-traders has slowed private-label revenue growth. Witness what's happening in the over-the-

Exhibit 2 Consumers look for ways to spend less on their preferred brands.

Changes in buying behavior in the past year among those who changed buying behavior,¹
weighted average for categories in consumer basket, Sept 2015, %



¹Multiple answers possible.

Source: McKinsey US Consumer Sentiment Survey, 2016

Our survey methodology

Every 6 to 12 months beginning in August 2008, we have asked a representative sample of at least 1,000 Americans about their views on the economy and their household's financial future, and about how these views are shaping their buying decisions. The result is a unique data set that tracks how US consumer attitudes and behaviors have changed since the global recession.

In 2015, we expanded the survey's geographic scope. The online survey was in the field from September 3 to 27, 2015, and garnered responses from at least 1,000 consumers in each of 21 countries including the United States, plus another 1,000 consumers across the Middle East and 250 consumers in Taiwan. Because the survey was administered online, the

sample largely reflects the characteristics of the typical online population—younger, urban, and more affluent.

The country results are weighted by age based on census data, and weighted by income based on panel data. The category-specific results are weighted by purchase incidence. The weighting of region- and country-specific data aligns with the procedures used by the McKinsey Global Institute. In particular, responses to survey questions on consumer confidence are weighted according to the size of the consuming class; responses to questions on consumer behavior are weighted according to both the size and per capita consumption of the consuming class.

counter (OTC) drugs category: the percentage of consumers claiming to have traded down in OTC products has steadily fallen from 21 percent in 2009 to a mere 8 percent in 2015. And, in the past four years, the market share of private-label OTC products has been gradually declining.¹ A similar pattern is playing out in other consumer-packaged-goods (CPG) categories as well. After years of share increases, US private-label products saw their share fall slightly in 2015.²

4. Some splurge on alcoholic beverages and personal-care products.

As Exhibit 2 shows, the percentage of US consumers who traded down is equal to the percentage who traded up. In 2015, 9 percent of consumers—compared with only 6 percent in 2013 and 2014—decided to upgrade their purchases in certain categories. Alcoholic beverages and personal-care

products had the highest trade-up rates (Exhibit 3), suggesting that higher-end brands in these categories were able to persuade consumers that their products are worth the price premium.

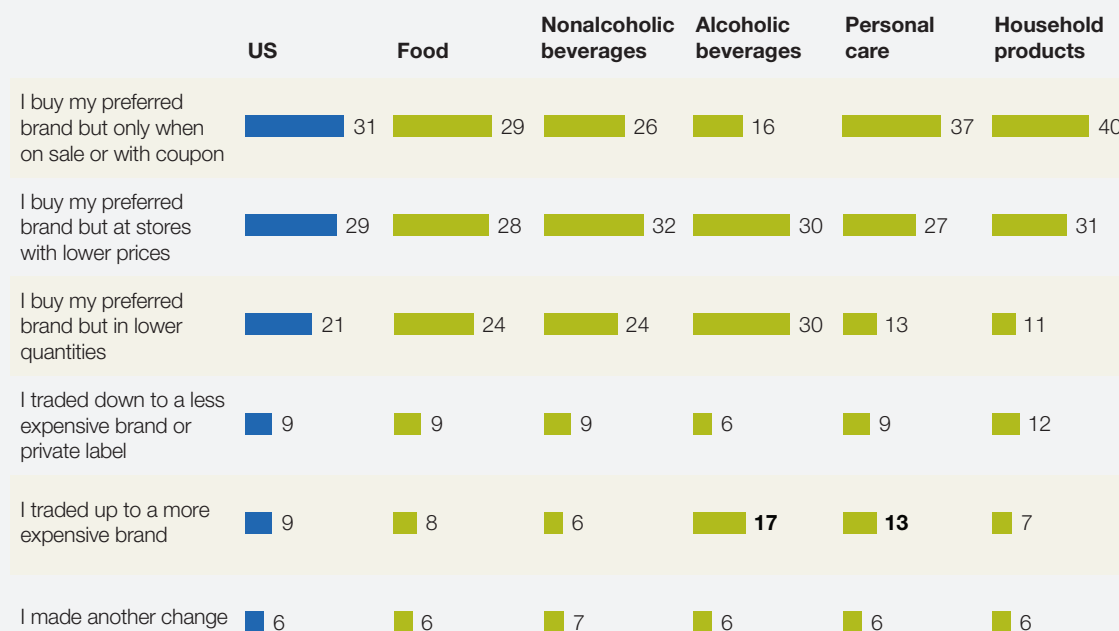
Trade-up rates varied by consumer segment as well. Millennial moms proved just as willing to trade up as they were to trade down—14 percent of them said they've traded up. Baby boomers (Americans between the ages of 55 and 74) were the least likely to trade up; only 5 percent of boomers said they did so.

5. They're willing to shop across channels.

Another important change in spending habits has to do with where people shop. US consumers claimed to have shifted as much as one-fifth of their spending toward each of three channels: online pure-play retailers, hard discounters, and club stores. Their stated behavior aligns with actual

Exhibit 3 US consumers are most likely to trade up when buying alcoholic beverages and personal-care products.

Changes in buying behavior in the past year among those who changed buying behavior,¹
 weighted average for categories in consumer basket, Sept 2015, %



¹Multiple answers possible.

Source: McKinsey US Consumer Sentiment Survey, 2016

retail sales figures; in the US market, those three channels have had the highest growth rates since 2009. (Online grocery’s share in US retail remains low, but—in light of increasing consumer interest and the channel’s rapid growth in other markets such as China, France, and the United Kingdom—sales in online grocery may very well rise in the US market in the near future.)

Imperatives for consumer companies

In light of these new consumer behaviors, what actions should consumer-goods companies

and retailers take? How can they best position themselves for future success in the US market? In our view, they would do well to consider the following imperatives, each of which addresses one or more of the behaviors discussed above.

Create strong propositions for both the high end and low end

Particularly in product categories with high trade-up and trade-down rates, companies must create propositions and pricing strategies to capture the top and bottom of the market. Crafting tailored

propositions requires investments in advanced analytics and in sophisticated revenue-growth-management (RGM) capabilities. These allow leading companies to arrive at data-driven answers to critical questions such as: What role does each brand and each SKU play in the assortment? How, if at all, does that role differ by channel and by geographic region? Which promotions are most effective and why? Based on these insights, companies devise detailed strategies for their brands, portfolio, pricing, and promotions—and refine these strategies for each channel, customer segment, and geographic region. For instance, RGM analytics helped an alcoholic-beverage manufacturer shift its portfolio toward more favorable price points in one of its most important geographic regions, boosting revenues by \$600 million in four years despite declining industry-wide volumes.

Understand the variety of needs and behaviors within the most important consumer segments

It's not enough for companies to do general research on the core demographic groups in the US market, namely millennials, boomers, and Hispanics. Within each of these groups are subsegments that behave very differently from other consumers in the same segment. For example, the majority of millennial women—but only 30 percent of millennial men—say they're increasingly using coupons and loyalty cards. The most successful companies will be those that develop a nuanced and detailed understanding of the various subsegments' specific needs and preferences.

Make assertive moves in high-growth channels

In e-commerce and other high-growth retail channels, too many large consumer companies lag smaller, faster-moving competitors. In categories such as skin care and cosmetics, for instance, new players are capturing online share that is disproportionately large compared

with their offline share. CPG companies need a comprehensive channel strategy—one that maximizes reach and minimizes channel conflict. The strategy should include aggressive investments in the highest-growth channels, partnerships with winning formats, and the development of a robust digital play, which entails not only creating digital assets but also building a strong presence on the websites and mobile apps of leading multichannel retailers. As manufacturers sell their products across multiple channels, they must ensure that their prices for identical SKUs are consistent across channels—or else they risk losing consumers' trust. As for channel conflicts, companies must identify and quantify these conflicts, then design and implement containment strategies (for example, different packaging for each channel or coordinated promotional calendars) that they monitor and refine on a regular basis.



After years of economic uncertainty, American consumers are feeling less financial pressure. However, much can change in the coming months, particularly in the run-up to and aftermath of the presidential election. Companies should therefore stay in tune with how consumer sentiment is changing. That said, they shouldn't wait to act on the imperatives discussed above, which will help position them for success regardless of what happens. ■

¹ Based on US multioutlet sales data from IRI InfoScan Reviews.

² Ibid. Private-label share decreased from 17.7 percent in 2014 to 17.6 percent in 2015.

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