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How the recession has changed US consumer behaviour

Companies waiting for a return to normality following the recession may be disappointed. Their customers have tried cheaper products—and actually like them.

While the downturn has certainly changed the economic landscape, it may also have fundamentally altered the behavior of numerous US consumers, who are now learning to live without expensive products. Many companies with strong premium brands are anticipating a rapid rebound in consumer behavior—a return to normality, as after previous recessions. They are likely to be disappointed.

Our research found that, in any given category, an average of 18 percent of consumer-packaged-goods consumers bought lower-priced brands in the past two years. Of the consumers who switched to cheaper products, 46 percent said they performed better than expected, and the large majority of these consumers said the performance of such products was *much* better than expected. As a result, 34 percent of the switchers said they no longer preferred higher-priced products, and an additional 41 percent said that while they preferred the premium brand, it "was not worth the money."

As a result, a growing number of consumers are now in play. The percentage up for grabs varies by category and depends on how many consumers switch from higher-priced brands, their experience with cheaper ones, and the way they revise their buying intentions. We found, for instance, that only 12 percent of beer buyers switched to cheaper brands. Of those, 31 percent said that their experience was more positive than they had expected, which means that only about 4 percent of customers are in play. Among buyers of cold and allergy medicines, however, we found that more than 20 percent tried a lower-priced option, and 48 percent of those consumers said the experience was better than expected. That means 10 percent of the people who buy cold and allergy medicines are now in play.

In industries where consumer shifts as small as 1 percent can severely dent the profitability of brands, these changes are significant enough to alter market dynamics and force brand leaders to respond. Earlier this year, P&G, for example, released Tide Basic, a cheaper version of its category-leading Tide laundry detergent, after Tide's sales began to decline as consumers switched to less expensive brands.

For companies attempting to address the change in consumer behavior, understanding the economic theory that explains why it is now shifting can help to inform decision making. Textbook theory posits that changes in the relationship between how much consumers are willing to pay, on the one hand, and their perception of the value they are receiving, on the other, underpins behavioural changes. As the exhibit shows, if consumers perceive enough value in a premium-brand product (Product A), they will favor it over the product of a more basic brand (Product B), despite the premium product's higher price. In a recession, though, consumers become less willing to pay more—the slope of the demand line flattens, and the preferences of some consumers begin to shift from Product A to Product B.