A New World Order of Consumption
Consumers in a Turbulent Recovery
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A New World Order of Consumption
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For several years now, BCG has been tracking an important phenomenon in consumer sentiment and spending behavior—a pattern that we call trading up and trading down. Our findings reveal how the recent economic crisis has affected consumers around the world, and how the uneven recovery that is now tentatively unfolding in many markets will shape intentions and patterns in consumer spending for the months and years ahead.

The first quarter of 2010 saw positive trends in many key economic indicators—and consumers suffering from “recession fatigue” clearly embraced these indicators as a sign of better days to come. Optimism is up in our Spring 2010 survey, compared to the very, very low levels seen a year ago, and intentions to cut spending are markedly down from peak levels. Consumers are even telling us that their willingness to splurge on “nonessentials” is recovering, albeit modestly.

Yet despite a general uptick in outlook, consumers said that they will not be so quick to abandon shopping behaviors that were forged or sharpened during the economic crisis. Our research points to a profound evolution in motivations and attitudes when it comes to shopping, especially in the more mature markets. Values and priorities are shifting—home and stability have taken on greater importance, while overt luxury and status have faded. The great hunt to find the best value at the lowest price remains firmly top of mind almost everywhere—particularly in Europe and the United States, where consumers “enjoy the feeling” of what they view as smarter shopping. As they return to spending again, don’t expect consumers in markets hit hard by the downturn to behave the way they did before the crisis.

The downturn has also sharpened the difference between the growth rates in China, Brazil, and India on one hand, and in the more mature markets on the other. Consumers in the former group of countries experienced a slowdown rather than a full-blown recession. Their economies are poised to grow at much stronger rates in the near term, so their future outlook and consumers’ spending intentions are much more optimistic.

By contrast, many consumers in the United States, Europe, and Japan expect the recovery to take several years. The “great deleveraging” of personal debt in the United States, which is still under way, could prevent the ever-important American consumers from spending their way to recovery as they have in the past.

Our researchers were in the field in March 2010, and the story about Greece’s looming insolvency was already starting to worry some consumers. Companies face a “new world order” of consumption as they head into a multispeed consumer recovery. It will require them to rethink their growth expectations and to develop a highly de-averaged approach to the recovery.

Our eighth annual consumer survey, taken in early 2010, uses original research to capture spending trends in 14 countries: the emerging markets of Brazil, China, India, Mexico, and Russia, as well as the developed economies of Canada, Japan, the United States, and six countries in Europe (France, Germany, Italy, Spain, Switzerland, and the United Kingdom). In all, once the survey data were adjusted by eliminating consumers in the bottom quartile of income, we surveyed approximately 12,000 consumers on approximately 50 trading-up and trading-down categories.
By taking a comprehensive, semiannual pulse of world markets over the past two years, we have been able to provide a dynamic picture of where consumer sentiment has been and where it is trending. We asked about attitudes on spending, environmental issues, and life in general. We also asked about trading up and trading down in the current economy, and what kinds of emotional satisfaction consumers find in goods and services. These findings will help companies answer such critical questions as:

- What (if any) lasting imprint has this economic crisis left on consumer behavior around the world? How have our growth prospects changed, and how should we serve consumers across regions whose economies are recovering at different rates?

- How fast can we expect demand to rebound across our portfolio of markets, brands, and categories—and which groups of consumers will power our recovery?

- Has the face of luxury really changed?

- Will differentiated products in the middle market attract consumers still downshifting from trading up?

- Will consumers become more open to innovations in green products and services—even at premium prices?

- What will it take to win in the still-thriving trading-down markets?

- How can we encourage tentative consumers to open their purse strings in our categories?

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Executive Summary

For most consumers, the recovery has arrived, but the future remains overcast.

- Job losses have begun to stabilize in many key markets thanks to strong government intervention. The International Monetary Fund now estimates world GDP growth for 2010 at around 4.2 percent. Although such a growth rate is not stellar, it is much better than the 1.9 percent predicted back in early 2009.

- But concerns are looming, including: the risk of insolvencies among member states in the euro zone, sustained economic instability in Spain and Mexico, and a U.S. unemployment rate that lingers around 10 percent—not to mention external shocks, such as the Icelandic volcano and the recent oil-spill disaster in the Gulf of Mexico.

- Inflation has added to consumers’ declining purchasing power in some markets, particularly in India and Mexico. And some companies fear that growth in China’s “overheated” market may slow.

- In the United States, where household debt remained at 95 percent of GDP in 2009, consumers continue to struggle with deleveraging.

Optimism is returning in most markets, but consumers remain cautious and tentative.

- Anxiety levels among consumers are down overall from peaks in early 2009, but they remain higher than before the crisis and are extremely high in Spain and Mexico. Confidence in the longer-term recovery has also eroded in the United States, Europe, and most notably in Japan over the past six months.

- Interestingly, in many countries, anxiety about the future far outweighs consumers’ sense of personal loss from the downturn (so far). Reactions to the crisis were, for many, driven more by anticipation of personal economic hardship than by the actual experience of any hardship.

- Although far fewer consumers than last year said that they intend to cut back on spending, not many said they plan to increase it. This “holding pattern” reflects uncertainty about the recovery.

- Retail sales are recovering in some markets: U.S. personal consumption grew an impressive 3.6 percent in the first quarter of 2010, although it remains below precrisis levels. The luxury sector, which had contracted sharply, is also rebounding from lows.

The downturn has affected consumers in many markets profoundly. We have been tracking eight trends in consumer sentiment and behavior that are proving quite persistent even as consumers in many markets embrace hope of recovery.

- Anxiety about the future and mistrust of big business have triggered a “back to basics” movement in which consumers continue to rank home, family, stability, and the environment high on their list of values.

- Still suffering from a backlash against overspending, consumers in the United States, Europe, and Japan continue to extol simplicity and denounce ostentatious luxury.

- Trading down is a powerful trend but has fallen from peak levels.
Consumers continue to purchase green products for practical budget-saving benefits. Their willingness to pay a premium for such products is recovering but remains constrained.

Intentions to significantly cut spending and defer major expenses are down in the United States and Europe, but consumers still need a good excuse to spend.

Increasing numbers of consumers are trying private-label and value brands—and are staying with them into the recovery.

Even in the recovery, consumers continue to seek relief for stressed budgets and emotions in the comforts of home—a trend known as “cocooning.”

Consumers fear big bills and will continue to avoid heavy debts.

The downturn and uneven recovery are driving a new world order of consumption. Familiar classifications such as BRIC markets (Brazil, Russia, India, and China) versus developed markets don’t apply when assessing the downturn’s impact or the recovery’s trajectory. De-averaging is more essential than ever across markets, categories, and consumer segments.

China, Brazil, and India remain bright spots, with consumers in these markets having experienced a slowdown rather than a recession. Therefore, their relative importance as growth engines for the future has intensified as the developed world braces for slower recoveries.

The United States, Canada, the United Kingdom, and Russia are all seeing consumer sentiment rebound but at varying speeds. U.S. consumers continue to struggle with very high levels of personal debt and constrained access to credit, making them cautious spenders. Canadians are embracing the recovery more forcefully than their American neighbors. Anxiety levels in Russia remain more in line with the United States and Europe than with China or India.

Recovery in the euro zone is still fragile. Except for those in Spain, the consumers we surveyed in Europe have yet to feel significantly affected in a personal way by the downturn. But anxiety among consumers in Germany was up considerably compared with six months ago, and the unfolding Greek insolvency promises to bring the crisis closer to their doorstep.

Japanese consumers have yet to embrace the recovery and are slow to recommit to spending.

For consumers in Spain and Mexico, recovery still feels distant, and anxiety remains extremely high.

Some categories, such as home appliances and even luxury products, are seeing a resurgence from consumers who are eager to release some of their pent-up demand.

Women, as “purchasing agents,” continue to be a force in the economy. Particularly in the United States, Canada, and Europe, they have been more likely than men to cut spending during the downturn. As the economy picks up, however, women are just as likely as men to keep spending levels stable or to increase them. Young singles, dual-income couples without kids (DINKs), and income-secure empty nesters remain more buoyant in their intentions to spend.

Bringing together the findings from our research and our experience in working with consumer companies around the world, we have identified six best practices for tapping into consumers’ evolving needs as the fragile recovery progresses.

Accelerate product innovations that feature quality and craftsmanship in order to fuel the recovery, especially in the categories of health and wellness, home furnishings and appliances, and affordable luxuries.

Upgrade capabilities in capturing consumer insight to pinpoint opportunities for differentiation and growth in the uneven recovery. Pockets of opportunity still exist. (See the sidebar “Hearing the Consumer’s Voice.”)

Rethink the business model and develop scenarios to anticipate the capabilities that will be needed in an uncertain future, such as supply-chain management, pricing, talent cultivation, and political lobbying skills.
De-average the go-to-market playbook to capitalize on areas of more robust demand. Where price pressure remains strongest, apply strategic pricing to reduce “perceived” price differences. For instance, increase list prices while also selectively offering steeper discounts, or unbundle offerings. Also continue to closely monitor the price spread between manufacturer brands and private labels.

Consider multiple channels and improve conversion rates by focusing on the “last three feet” (the space where consumers make their final purchase decisions), improving in-store presentations, and enhancing sales force effectiveness.

Continue to aggressively pursue cash and costs in order to free up resources needed for making essential consumer-driven investments and withstanding ongoing pressure on pricing. Keep reducing complexity by eliminating underperforming SKUs, divesting noncore assets, and simplifying processes.
A Return to Cautious Optimism—but Not Everywhere

After a sustained period of negative news on the economy, key indicators in many affected markets have recently been exhibiting more positive signs. As of April 2010, the International Monetary Fund (IMF) was expecting world GDP growth for the year to slightly exceed 4 percent, buoyed strongly by an expected 10 percent growth in GDP for China and 8.8 percent for India. Recession-weary consumers have embraced the news that a recovery may have finally begun. Our research in Spring 2010 found significant increases in optimism across most markets relative to levels from a year earlier. In recent recessions, it was consumers’ appetite for goods that ultimately pulled the economy out of the slump. It remains to be seen just how long that might take this time.

Consumers are still grappling with personal debt and tighter access to credit, particularly in the United States, where more than 6.6 million of them have lost their jobs since the collapse of Lehman Brothers. Housing values in the United States—as well as in the United Kingdom and Spain—remain down from precrisis levels.

Anxiety Is Down from Crisis Peaks

Although most consumers in most markets—and about three-quarters of consumers in Spain and Mexico—say they are worried about the future, anxiety about the economy is actually down sharply from the peak levels seen in 2009. (See Exhibit 1.) Furthermore, lower levels of anxiety about the future have held stable in most markets.

Exhibit 1. Anxiety About the Future Is Moderating in Most Markets

Note: Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
In Europe, most of the drop-off in anxiety actually occurred between the first and third quarters of 2009. Since that time, however, Germans have become more worried again, as concerns about Greece’s insolvency have mounted.

Overall, optimism is rebounding. Published consumer-confidence indices are trending more positive, climbing from the recent historic lows in the United States, Spain, and Japan. A year ago, as many as 33 percent of employed respondents in the United States and 26 percent in Europe told us that they felt insecure about their job, but those numbers declined in our Spring 2010 survey to 23 percent and 21 percent, respectively. (See Exhibit 2.)

However, confidence in the longer-term recovery still seems shaky. In fact, it has actually worsened in the United States: in the first quarter of 2009, 34 percent of U.S. respondents told us they did not expect the economy to improve for several years; 37 percent said they felt that way in our Spring 2010 survey. The emerging economies present a diverse picture: consumers in China are the most optimistic about the next 12 months (only 9 percent told us that things would not get better), whereas con-

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**Exhibit 2. In Most Countries, Fewer Consumers Are Worried About Jobs and Finances**

<table>
<thead>
<tr>
<th>How secure do you feel in your current job in the next 12 months?</th>
<th>Which statement best characterizes your feelings about your personal financial situation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>10</td>
</tr>
<tr>
<td>Europe</td>
<td>5</td>
</tr>
<tr>
<td>Canada</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
</tr>
<tr>
<td>Russia</td>
<td>5</td>
</tr>
<tr>
<td>Brazil</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
</tr>
<tr>
<td>China</td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3</td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>11</td>
</tr>
</tbody>
</table>


Note: Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.

1Percentage of employed respondents only.
consumers in Russia, Mexico, and India are the most pessimistic.

**A Holding Pattern in Spending Intentions**

Consumer spending is a function of real and perceived wealth as well as actual buying power. As consumers’ perception of being “better off” has picked up, so too has spending in many markets. Retail spending indices in the United States and the United Kingdom are trending positive, although per-capita spending levels are not expected to return to precrisis levels until 2014. In Japan, per-capita retail spending is still under pressure.

Spending intentions in our survey have also shown clear improvement. Far fewer consumers are now telling us that they intend to cut back further on spending. Overall, though, very few consumers in mature markets say they plan to spend more. (See Exhibit 3.) Intentions to increase spending were highest in Brazil and China, where 19 percent and 23 percent of consumers, respectively, told us that they intend to increase their spending in the coming 12 months.

Most consumers say they are taking a wait-and-see attitude on their spending plans. In the first quarter of 2009, a staggering 73 percent of U.S. consumers said they planned to cut back on spending, but that number fell dramatically to 46 percent in our Spring 2010 survey. Likewise, 41 percent of Europeans now say they intend to cut spending, whereas 63 percent made that statement a year ago. Intentions to spend on “nonessentials” are also on the rebound: 65 percent of Americans now say they plan to cut back versus 81 percent a year ago. Only 26 percent of Chinese consumers and 24 percent of Russian consumers told us they intend to further decrease their spending.

**Exhibit 3. Fewer Consumers Plan Cuts, but Not Many Plan Increases**

<table>
<thead>
<tr>
<th>Respondents’ discretionary-spending intentions over the next 12 months (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase from March 2009 through March 2010 (percentage points)</strong></td>
</tr>
<tr>
<td><strong>Decrease from March 2009 through March 2010 (percentage points)</strong></td>
</tr>
</tbody>
</table>

**Sources:** BCG Consumer Sentiment Survey, March 2010; BCG Consumer Sentiment Barometer, March 2010.

**Note:** Some percentages do not add up to 100 because of rounding. Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
spending in 2010—the lowest levels seen among the nations we have surveyed.

This marked decline is clearly good news for consumer companies, assuming consumers follow through on their intentions.

**Businesses Are Clearing Out the Debris**

The steep discounts many retailers offered in recent months delivered great value for consumers but little margin for retailers. The drop in consumer spending in the United States caused many retailers and restaurant chains in the country to declare bankruptcy in 2008 and 2009, including such long-standing brands as Circuit City and Sharper Image.

In the consumer sector, spending associated with vacation travel and deferrable bigger-ticket items such as automobiles has been, and continues to be, especially vulnerable. However, the private-label market has made inroads, as have select discounters; many consumers have come to see them in a more positive light.

The problems consumers have faced throughout this crisis were—and, for many, continue to be—unusually severe, even if that severity has been more anticipation and perception than reality. As nervous consumers gradually loosen their purse strings again, they will help fuel the recovery. But companies should not look for consumers in hard-hit markets like the United States, Japan, Russia, and parts of Europe to spend as they did before. Consumers on the road to recovery won’t easily forget the experience of the past 18 months. They will be more careful with their money and more deliberate with their purchases, and they will need to be convinced that they are getting good value for their money.
Uncertainty Drives Trends in Recovery Spending

In the past, consumers spent their way out of downturns, especially in the United States. There, consumer spending has played a significant role in GDP, accounting for an estimated 70 percent of U.S. GDP in 2009 and 58 percent of global GDP. Consumers remain the center of the global economy—but so far they are reluctant (and some are actually unable) to boldly spend themselves back to better times.

Consumers in many markets have already returned to spending at least a little more, but they are also exercising greater caution than before. Our research has been tracking eight powerful shifts in consumer attitudes and shopping patterns. Some were present even before the global economy weakened, but they’ve grown stronger during the downturn—and are clearly lasting into the early recovery.

Consumers Are Redefining Values

Recession anxiety has triggered a clear shift back to basics in what consumers say they value most. Home and family, stability and calm, saving, and the environment have all increased in importance for consumers over the past two years. By contrast, luxury and status continue to decline on their priority lists (See Exhibit 4.)

Furthermore, a strong majority of consumers in the United States and Europe (and more than 40 percent in Japan) still claim that the crisis has boosted their distrust of big business—especially financial institutions. In the United States, 47 percent of our respondents felt that companies are profiting at the expense of consumers and employees, up 11 percentage points from our Fall 2009 survey. Winning back consumers’ trust will continue to be a priority for many brands. Indeed, brands that have retained that trust during the downturn can wield it as a competitive weapon.

Trading Up Is Tempered with Caution

Luxury companies experienced a backlash against conspicuous consumption in 2009, as U.S. and European consumers blamed overspending for at least some of their suffering. Consumers are continuing to make amends by extolling simplicity and denouncing ostentatious luxury. Trading up remains an important theme, but consumers are becoming even more selective in the United States and Japan.

By contrast, consumers’ intentions to trade up remain stronger in some developing economies: 37 percent of survey respondents in China and about 25 percent in India and Russia plan to trade up, but only 13 percent of respondents in Europe and 18 percent in the United States plan to do so.

As cautious as consumers in the United States, Europe, and Japan may be, they still told us quite forcefully that they refuse to compromise in some categories, such as fresh foods. In these markets, consumers say they particularly value—and cite as reasons to trade up—functional and technical benefits that promote health, security, and comfort for the family. Consumers in developing markets also agree that health and wellness is a key driver for trading up, but—more frequently than their counterparts in the developed world—they justify paying price premiums with the rationale “I deserve it” or “It’s a better brand” (especially in China and India). (See Exhibit 5.)
Being selective when trading up doesn’t mean that consumers in developed markets won’t find room in their budgets for affordable spirit-lifters. And some consumers will even seek out luxury items (indeed, luxury sales are rebounding), but they are more likely to desire products that offer quiet elegance rather than showy status. The overall luxury and “masstige” sectors have clearly been hurt by the downturn, but the degree of that impact varies by category segment.

Trading Down Is Still Prominent but Off from Peak Levels

Even before the downturn, many consumers were devoted treasure-hunters—more for the thrill of finding a great deal than for the constraints of a tight budget. The market responded with a proliferation of products that performed well and were remarkably affordable. Then, in 2008 and into the first quarter of 2009, we saw an explosion in trading-down sentiment as it became more about necessity than fun. For those years, we saw the largest annual increases in consumers’ intention to trade down (and corresponding declines in plans to trade up) since we began tracking the data.

Our 2010 survey results show that trading down is still going strong in most markets, but it has fallen from the overall peak levels we found in late 2008. However, trading down continues to gain strength in the United States, where it is up 5 percentage points over 2008 levels—making U.S. respondents among the most avid about trading down of all the consumers we surveyed in mature markets. (See Exhibit 6.)

Still, finding fun in “smart shopping” is very much alive among both European and U.S. consumers, who said they will continue to hunt for the best prices and actively look

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**Exhibit 4. Among Consumers, Luxury Declined—and Savings Rose—in Importance**

“Do you see each value as more or less important to you than it was two years ago?”

**Sources:** BCG Consumer Sentiment Survey, March 2010; BCG Consumer Sentiment Barometer, March 2010.

**Note:** Percentages do not add up to 100 because exhibit excludes those responding “no change.” Europe is defined in this study as the Big 5 countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
Exhibit 5. Brand Is More Frequently Cited as a Reason for Trading Up in India, China, and Brazil


Note: Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.

Exhibit 6. Trading Up Is Becoming Increasingly Selective as Trading Down Remains Strong


Note: Some percentages do not add up to 100 because of rounding. Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.

1Data for 2008 were collected in the third quarter of 2008; 2010 data were collected in the first quarter of 2010 and cover selected categories only; no additional data were collected in 2009.
for sales and promotions. (See Exhibit 7.) That attitude contrasts sharply with other responses from consumers, mostly in developing markets where consumers feel they must trade down to balance their budget or to save money they want to spend elsewhere.

The “middle ground” between trading up and trading down, which had been under pressure recently in many categories in the United States and Europe, may benefit in this environment. Companies may try to attract consumers who want to step down from trading-up brands—but not as far down as private-label and value brands.

Consumers Still Care About Green Products, but Price Matters

Green products were hitting the mainstream as the downturn was heating up and continued to do well in many categories despite the gloomy economic times. Not surprisingly, our respondents remained especially attracted to green products that directly reduced their expenses or provided superior freshness, taste, or safety. They were less willing to pay premium prices for green products once the downturn hit, however.

Our Spring 2010 survey shows some clear recovery on this dimension. (See Exhibit 8.) Consumers’ willingness to purchase bigger-ticket green products such as energy-efficient home appliances is also on the rebound. In fact, in all countries, energy-efficient appliances ranked as the top category when we asked consumers which types of products they planned to exempt from the spending cutbacks they followed during the downturn.

Yet companies need to be cautious on this front: high prices and low levels of trust remain key reasons why consumers in many markets don’t buy green. Consumers are still quite confused about what green really means, and they are skeptical of green-product claims.

Companies looking to attract consumers with green offerings will need to continue proving the economic (as well as altruistic) value of those goods and services.

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Exhibit 7. Shoppers Focus on Promotions, Patience, and Research

<table>
<thead>
<tr>
<th>Spending tactic</th>
<th>United States</th>
<th>Europe</th>
<th>Japan</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cut spending on nonessential items</td>
<td>65</td>
<td>57</td>
<td>83</td>
<td>55</td>
</tr>
<tr>
<td>Defer major expenses that can wait</td>
<td>75</td>
<td>65</td>
<td>61</td>
<td>65</td>
</tr>
<tr>
<td>Buy more products on promotion</td>
<td>78</td>
<td>75</td>
<td>67</td>
<td>73</td>
</tr>
<tr>
<td>Spend more time in stores to find best prices</td>
<td>74</td>
<td>66</td>
<td>59</td>
<td>66</td>
</tr>
<tr>
<td>Shop in discount stores more often</td>
<td>65</td>
<td>51</td>
<td>67</td>
<td>52</td>
</tr>
</tbody>
</table>

Respondents who agree or strongly agree that they are using this tactic (%)

Sources: BCG Consumer Sentiment Survey, March 2010; BCG Consumer Sentiment Barometer, March 2010. Note: Percentages exceed 100 because respondents could select multiple choices. Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
While More Open to Spending, Consumers Still Need Permission to Buy

Reluctance to indulge oneself, natural in a downturn, hit a peak in our Spring 2009 survey, when consumers told us they would significantly cut spending on nonessentials. But there has been some easing up on this front over the past year. Our Spring 2010 survey shows those numbers significantly down for the United States (from 81 percent to 65 percent) and Europe (from 72 percent to 57 percent), and slightly down in Japan (from 87 percent to 83 percent). Intentions to defer major expenses have also fallen from last year’s peaks in all three of these markets. But for many consumers, spending still just doesn’t feel right now.

In most households, women are responsible for most of the daily spending. And when times get tight, it is women (typically mothers) who are tasked with making the budget stretch as far as possible. It’s a role many assume willingly, but it is a stressful one—especially during hard times. In Western markets in particular, women reported higher levels of stress and feeling underappreciated than men did during the downturn, and they were more likely to stick to seeking out bargains. They’ll cut back on products for themselves first (especially apparel and accessories), before sacrificing on products for their family members—often defined to include cherished pets. (See the section later in this report “No Two Segments Are Alike.”) Companies could help consumers better manage the balancing act between recession fatigue and indulgence guilt by offering products that contribute to a comfortable home and a sense of security.

Consumers Are More Willing to Switch

The downturn led more consumers to discover discount channels and value brands, and they have been pleased with what they have found. In past recoveries, many consumers remained loyal to these products, and that “stickiness” is likely to prevail again—especially since retailers are upgrading their retail brands and value offerings. Higher-priced brands will be challenged to justify their
premiums. Sixty-one percent of U.S. respondents, nearly half of Japanese and European respondents, and more than half of respondents in Spain and the United Kingdom claimed to have purchased more private labels during this downturn than before. (See Exhibit 9.) Around 40 percent of these consumers (57 percent in Spain) intend to stick to private labels into the recovery.

**Cocooning Still Thrives**

Over the past two years, many consumers have sought relief for stressed budgets and emotions in the comforts of home—a trend known as “cocooning.” Our research indicates that the emotions powering this trend are continuing into the recovery. “Insourcing,” the rediscovery of home and self-sufficiency, also remains a popular theme—both for the money it saves and the emotional rewards and quality time with families that it bestows. These trends spell continued opportunity for do-it-yourself and home-related products. Indeed, energy-efficient home appliances and housewares were again at the top of the list of categories on which Europeans and U.S. consumers said they would not continue to cut back. Companies have responded to this trend with innovative “enjoy-at-home” offerings in consumer electronics, home décor, household appliances, and ready-made meals.

**Consumers Are Reluctant to Seek Credit**

Excessive consumer debt in some markets was one of the major causes of the economic crisis. Now, the tighter access to credit (especially in the United States) and greater consumer focus on savings are expected to eliminate billions of dollars of spending power for the recovery.

These trends in consumer attitudes clearly won’t endure forever. But they are shaping behavior during this recovery. They also present companies with new opportunities to bring consumers back to spending in still-uncertain times by offering products and services that are positioned as sensible alternatives to luxury.

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**Exhibit 9. Even During the Recovery, Interest Has Remained High in Private-Label Products**

<table>
<thead>
<tr>
<th>Did you increase or decrease your private-label purchasing in the last 12 months?</th>
<th>Will you continue to buy more private labels into the recovery?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Did not change</strong></td>
<td><strong>Respondents who agree or strongly agree (%)</strong></td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>27</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>42</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>28</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>51</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>35</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>36</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>40</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>41</td>
</tr>
</tbody>
</table>


Note: Percentages do not add up to 100 because respondents represent only those who actually purchased private-label products. Europe is defined in this study as the Big 5 countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
A New World Order

Whether consumers are trading up, trading down, or looking to find a compromise in the middle, the recovery will follow very different paths and speeds depending on the starting point of consumers in different countries. Therefore, such traditional classifications as “mature versus emerging markets” or “West versus East” are too imprecise to diagnose what’s happened to consumers, or to determine the path to recovery.

Our research offers a very different way of looking at consumers’ starting points across markets; and it paints a picture of a multispeed consumer recovery. (See Exhibit 10.) Our findings underscore the importance of de-averaging the recovery toolkit for maximum impact.

Brighter Spots for Now: China, Brazil, and India

Some emerging markets have not felt the full brunt of the global downturn, and consumers there are much more open to spending and trading up. The importance of these emerging markets as frontiers for growth and expansion in many categories has intensified through the downturn.

China: Full Steam Ahead. Optimism in China remained comparatively high during 2008 and 2009, a period that Chinese consumers experienced as more of a slowdown than a recession. It has continued even stronger in 2010, with Chinese consumers on average reporting a more positive outlook on the economy, lower levels of stress and anxiety, and an even higher sense of job and personal financial security than they did a year ago.

Respondents in China reported the strongest desire to trade up among all consumers in the countries we surveyed. And that desire is rising—an average of 37 percent of Chinese consumers intend to trade up across survey categories versus only 34 percent a year ago.

Despite feeling even better than last year, Chinese consumers still profess to be cautious in how they will spend. In 2007, a peak growth year for China’s economy, more than 60 percent of Chinese consumers said they planned to increase their spending. In Spring 2010, about half of our Chinese respondents expected their discretionary spending to remain the same, while the other half split almost evenly between expecting to spend more and expecting to spend less.

The perceived need to save more money—primarily for retirement, housing, and children’s education—is one of the key reasons Chinese consumers cited when they said they intended to stabilize their spending in the future. This comes not from fear of job loss, but rather from lack of a local social safety net, as well as sharp increases in some costs of living. For instance, residential property prices have skyrocketed in major Chinese cities—in Beijing, they have more than doubled since 2007. Although average incomes have also been growing at double-digit rates, the rising property costs continue to be watched closely.

However, in China, as elsewhere, it is critical to de-average the picture to see the full story. Although the Chinese remain generally much more optimistic than everyone else about the economy, some parts of the country are more optimistic than others. A de-averaged analysis of consumers, by income and city tier, shows three distinct segments emerging. (See Exhibit 11.)
Exhibit 10. Markets Are Getting Ready for the Consumer Rebound at Different Rates

Annual GDP growth forecast (CAGR 2010–2013, %)

Downturn-related anxiety among consumers (%)


Note: Downturn-related anxiety was calculated by using the average of the responses to “I am affected by the downturn” and “I am anxious about the future.”

Exhibit 11. Three Distinct Segments of Chinese Consumers Exhibit Very Different Spending Patterns

Percentage intending to increase spending

Percentage intending to trade up


1We categorized bigger cities as tier 1 and tier 2 cities; all other cities were categorized as smaller cities.
Middle-class and affluent consumers (MACs) with monthly household incomes greater than RMB 5,000 in lower-tier cities are the brightest spot of optimism among Chinese consumers. They feel the most financially secure and show the strongest willingness to spend and trade up. The attitude of these smaller-city MACs seems to be “positive as always.”

By contrast, their income peers in the bigger cities—a group we call “recovering but cautious”—are more sensitive to the global downturn and have become more cautious spenders. While their sentiment has improved since last year, MACs living in bigger cities still claim to be more careful shoppers; for example, 38 percent of these consumers said that they would continue buying cheaper brands after the slowdown passed. By contrast, only 28 percent of MACs in smaller cities said they would do the same.

A third group is emerging in big cities: we call them “pressured” urban lower-income consumers. Their spending power is more constrained given the rising costs of living in these major cities, and their current sentiment is correspondingly less buoyant that the other two segments outlined above. (See the vignette “China’s Emerging Middle and Affluent Classes.”)

China’s Emerging Middle and Affluent Classes: Lin Isn’t Affected Much by the Downturn and Is Optimistic About the Future

Lin’s story
- “I’ve been living in Shanghai for 16 years—since I came here to study when I was 18.”
- “I ran my first company for five years and started my second business, an Internet company, in 2004. This company is a professional social-networking company.”
- “I bought an apartment at the end of 2004 and I own a car. So I don’t have much financial pressure now.”
- “Family is very important to me. I cherish the time I spend with my child and my family. As I’m very busy with work during weekdays, I try my best to spend more time with my family and to play with my child on weekends.”

His dreams
- Entrepreneurship: “My dream is to have an influential Internet company that can bring more value to people and make their lives better.”
- Bring commercial value to Internet users: “I hope to be able to create a new Internet model that users will not use to kill time. This model will create more commercial value for people.”

His fears and concerns
- Talent shortage: “My concern is shortage of talent. It’s not easy to find skilled people now. The talent war is getting more and more fierce.”
- “Creative people are more attracted by profitable, powerful companies with good brands.”

Views on the downturn
- Thinks the Internet business is more immune to the downturn
- Feels that export-oriented and traditional businesses have been harder hit by the downturn
- Sees the downturn as a good opportunity for social-networking companies, since visits to Web sites usually increase during a crisis

How he copes
- Maintains the same consumption behaviors as before, since the family has always been very rational spenders and cares about brand and quality

Reasons to trade up and down
- Trades up for consumer electronics like the iPad because his profession is IT-related
- Trades down for household supplies like detergent powder because there’s little quality difference among brands
- Would trade up for “green” products because he is concerned about the environment
Brazil: Leaving Doubts Behind. Since 2000, Brazil has enjoyed moderate growth in GDP—at a rate of about 3 percent a year. Private consumption rates among an emerging middle class have been rising steadily, driven primarily by falling interest rates and easier access to consumer credit. Inflation was stabilized in the mid-1990s, and since then, the government has been successful in keeping inflation in check.

Although there were some concerns back in early 2009 about higher unemployment and reduced wages, Brazilians actually weathered the storm rather well. Current IMF forecasts put GDP growth for Brazil at 5.5 percent for 2010. Private consumption began rebounding in the first quarter of 2009, in response to government stimulus and an increase in the minimum wage, and consumer confidence has risen to near precrisis levels.

Only 16 percent of consumers in Brazil now claim to feel insecure in their jobs—although 35 percent said that they are anxious about the future. That number is low compared to the sentiment expressed in the other markets in our survey. On average, 29 percent of Brazilians said they were willing to trade up across the categories in our survey, the second-highest level (behind China) in our study. Quality foods and products that offer personal gratification topped the list of categories in which Brazilians are willing to trade up.

Still, 41 percent of Brazilians in our survey claim that the downturn has personally affected them—more than in China or India—and many say they intend to decrease their spending, especially on discretionary categories, although the amount varies depending on the demographic segment. (See Exhibit 12.) Despite a rising economy, Brazilians continue to be cautious.

Brazilians also continue to be price sensitive, but their intentions to trade down have eased off dramatically compared with levels of one year ago. An average of 34 percent of respondents across categories now say they will trade down—to balance the budget, save money, and find a good deal. That is nearly in line with Chinese and Russian consumers, who had the lowest trading-down inten-

Exhibit 12. Across Markets, the Personal Impact of the Downturn Is Perceived Differently

Respondents who say they feel “personally affected” by the economic downturn (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>0</th>
<th>20</th>
<th>40</th>
<th>60</th>
<th>80</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>25</td>
<td>29</td>
<td>31</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>Germany</td>
<td>41</td>
<td>45</td>
<td>48</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Canada</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>India</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
</tr>
<tr>
<td>France</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Brazil</td>
<td>31</td>
<td>32</td>
<td>35</td>
<td>41</td>
<td>45</td>
</tr>
<tr>
<td>Italy</td>
<td>48</td>
<td>49</td>
<td>50</td>
<td>60</td>
<td>71</td>
</tr>
<tr>
<td>Japan</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>United States</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
</tr>
<tr>
<td>Spain</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Russia</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Mexico</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
</tr>
</tbody>
</table>

tions among our survey nations. (See the vignette “Brazil’s Next-Billion Consumers.”)

**India: Growing Strongly but Facing Worries.** India’s economy is relatively healthy—the IMF forecasts GDP growth for 2010 at around 8.8 percent. Its levels of household and corporate debt are low, as is the country’s reliance on international trade, which accounts for approximately 18.6 percent of GDP. Just 15 percent of survey respondents said they feel insecure in their jobs.

Yet, high inflation and budget deficits continue to affect consumer sentiment. Price inflation for food reached an 11-year high in December 2009, with the consumer price index showing retail prices increasing at almost twice the rate of inflation for wholesale prices. Overall, 58 percent of Indian consumers feel anxious about the future in general, 30 percent expect the economy to get even worse in 2010, and 42 percent think the economy will not improve over the next few years. Although Indians in general may have suffered less in this downturn than consumers in other markets, nearly one-third claim to feel personally affected. Moreover, nearly one-third of the respondents in our survey worried about their personal finances; these data most likely reflect a fear of inflation. In this concern, they are more in line with consumers in Europe and the

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### Brazil’s Next-Billion Consumers: José and Raquel Dream of Owning a House and Giving a Better Life to Their Children

<table>
<thead>
<tr>
<th>Married for 16 years with four children</th>
<th>José and Raquel’s story</th>
</tr>
</thead>
<tbody>
<tr>
<td>She is a cleaning lady, and he is a janitor at the school where they live</td>
<td>Raquel: “My mother had ten children. It was difficult to raise us; we suffered a lot.”</td>
</tr>
<tr>
<td>Family is a central part of their life</td>
<td>José: “I am one of six siblings. My mother died just after I was born. I was six or seven years old when my father died.”</td>
</tr>
</tbody>
</table>

**Their dreams**

- **Their own house**
  - “For our happiness to be complete, we lack only a house. We have wonderful children. Thank God, they are healthy.”
- **A better life for their children**
  - “[We dream] that our kids will finish their education and be someone in life.”
  - “We would give everything to our kids. We would say, ‘Today you can ask for anything because we can afford it.’ ”

**Their fears and concerns**

- **Financial worries**
  - “We split all the bills. In the middle of the month, the money starts to fall short.”
- **Lack of appreciation at work**
  - “We think people don’t value cleaning people. We feel we are less than the others.”
  - “We’ve been working here for 11 years and have never moved up in our jobs.”

**Views on the downturn**

- Experienced some employer-driven delays in receiving their pay
- Enjoy using credit cards, but they stopped using the cards after they fell behind on payments
- Find it difficult to save, as there are always unexpected expenses, such as illness

**How they cope**

- Cut expenses by:
  - buying half as much
  - staying home to avoid expenses
- Purchase only what is necessary
- Manage debts to avoid bankruptcy

**Reasons to trade up and down**

- Trade down for meat and for household supplies—such as paper and cleaning products
- Trade up for hair products because Raquel says she simply cannot live without them
- Willing to spend more on the baby—for milk, clean clothes—because of his greater need
United States than with those in China, where only 12 percent of the consumers we surveyed said that they felt financially insecure.

Although 54 percent of Indians aren’t ready to cut back on spending, almost all claim to be very selective in their purchases and sensitive to prices. Indian consumers still agree strongly with this statement: “Whether I can afford to or not, spending just doesn’t feel like the right thing to do right now.”

For 67 percent of Indians surveyed, the preferred method for stretching the budget is buying fewer things. Only 32 percent said they bought on sale more often.

Among all the countries we surveyed, consumers in India were the most committed to saving: 72 percent cited saving more as their primary motivation for spending less. (See Exhibit 13.) And many consumers told us in interviews that savings on discretionary items (especially vacations, personal-care products, and accessories) would be used mainly for children’s education and for retirement. However, Indians seem unlikely to maintain their caution in spending once the economy stabilizes. They agreed more strongly than any other consumer group in our survey with this statement: “When the crisis ends, I will resume spending and buying like before.”

Indian consumers trade up and down very actively. An average of 58 percent said that they trade down actively across the categories in our survey, and 25 percent trade up regularly. Health and wellness remains a key driver of trading up. Even when times are tough, Indians are reluctant to cut back on fresh foods or brands.

Fully 65 percent claimed “better brand name” as one of the primary reasons to trade up—the highest level of any country in our survey. (See the vignette “India’s Hard-Working, Emerging-Market Singles.”)

### Exhibit 13. Saving More Remains a Key Reason Consumers Intend to Spend Less

<table>
<thead>
<tr>
<th>Top reasons for decreasing spending</th>
<th>United States</th>
<th>Europe</th>
<th>Japan</th>
<th>Canada</th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Mexico</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expect to be saving more</td>
<td>26</td>
<td>18</td>
<td>31</td>
<td>25</td>
<td>43</td>
<td>53</td>
<td>72</td>
<td>18</td>
<td>32</td>
</tr>
<tr>
<td>Expect to be earning less in salary</td>
<td>9</td>
<td>11</td>
<td>23</td>
<td>9</td>
<td>6</td>
<td>22</td>
<td>14</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>Expect to have less access to credit</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>13</td>
<td>5</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Worried about job loss</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>6</td>
<td>11</td>
<td>13</td>
<td>7</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td>Expect to be earning less in dividends and capital gains</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>4</td>
<td>5</td>
<td>18</td>
<td>13</td>
<td>7</td>
<td>15</td>
</tr>
</tbody>
</table>

**Percentage of respondents with intentions to decrease their discretionary spending**

**Sources:** BCG Consumer Sentiment Survey, March 2010; BCG Consumer Sentiment Barometer, March 2010.

**Note:** Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
Recovering at Varying Speeds: The United States, Canada, the United Kingdom, and Russia

The United States, Canada, the United Kingdom, and Russia suffered in varying degrees during the downturn, and most of their consumers are just beginning to entertain the idea of spending again, albeit with caution. Although some are more eager to exercise pent-up demand than others, the memory of the downturn is still fresh.

The United States: More Confident but Still Deleveraging. As we have noted, the U.S. economy has recently been showing some signs of recovery. Still, the high level of consumer debt remains troubling; it now accounts for about 95 percent of GDP—up considerably from 66 percent in 1997. Even inching toward past levels will mean considerably less debt-fueled consumption than we’ve seen in the recent past.

Despite this hard truth about the magnitude of the recovery challenge in the United States, recession-weary consumers have been quick to embrace even the smallest signs of an improvement. And how consumers in this critical market feel matters a lot given the past correlation between U.S. consumer confidence and spending. Anxi-

India’s Hard-Working, Emerging-Market Singles: Avinash Spends to Reinforce His Independence from Traditional Norms

Avinash’s story

“I was born in Kota, a small town in Rajasthan, where students are encouraged to study and prepare for engineering-school entrance exams.”

“I wanted to be a fashion designer, but my parents insisted that the only way I could leave home was to study more. So I said, if not Mumbai and fashion, then let me go to engineering college in Tamil Nadu.”

“I have lived in Bangalore for six years now, and I like it here. Going back would be difficult, as I am used to my way of life here and the lack of any restrictions.”

“I work until about 9 or 10 p.m. every day. My job responsibilities have greatly increased. Every day, I love to wrestle with problems and challenges. That keeps me going.”

His dreams

Having enough money to spend without thinking about price

“A calm, peaceful life with no worries about money. If I like something, I should just be able to buy it, without thinking.”

Owning a restaurant

“My hobby is cooking, I love cooking. In five to ten years, with the right investments, I hope to open my own restaurant.”

His fears and concerns

Not saving enough

“Nearly half of my salary goes to monthly installment payments. While I am secure in my job, I always think, ‘What if I want to leave?’”

“I believe that you should always have enough in your account to live on for six months. I do not have that.”

Starting to save more

“The question for me is always, ‘What next?’ I am currently happy with my job, but I constantly think about what I want to do. That’s why I have started trying to save some money so that I can pursue my dream in the next ten years.”

Views on the downturn

Has seen people around him lose jobs

Was asked as a team leader to evaluate performance on much more stringent scales than normal

Believes that the recession was caused by excessive consumerism and careless banking

Feels that the core of the economy is not strong and that complete economic recovery is several years away

How he copes

Feels that the current crisis has had no impact on him. He has received a raise from his company

Has not tried to change his spending patterns or his way of life

Has, however, become more aware of the need to save and invest

Reasons to trade up and down

Trades up on personal grooming products, looks for better brands as he cannot compromise on quality

Aspires to own a bigger car and a better house as reflections of his status

Has not had to trade down, but believes he could trade down on branded clothes and groceries

Believes he could also cut down on out-of-home entertainment
ety about the future is down 9 percentage points from the peak seen a year ago. Only 23 percent now feel insecure in their jobs, whereas 33 percent felt insecure a year ago. Thirty-seven percent are concerned about their financial security, down from 53 percent last year. Intentions to cut spending are also significantly down: in 2009, 73 percent of U.S. consumers surveyed told us they intended to cut their spending, whereas only 46 percent made that claim in 2010.

But consumers in the United States have by no means forgotten the sting of this downturn—fully 49 percent claim to have been personally affected by the crisis. And their confidence in the recovery has experienced a setback from six months ago, when fewer consumers said they thought the economy would get worse in the coming year. They also expect improvement to take several years. And they remain very cautious in how they will spend, still committed to the budget-stretching mechanisms they have been employing during the past 18 months.

Although the intention to cut back on “nonessentials” is down from peak levels—65 percent of consumers still claim they will cut back, down from 81 percent a year ago—plans to spend more time hunting for the best deals or to buy on promotion continue unabated. Trading down is still on the rise in the United States: 53 percent of consumers on average across all categories told us in our Spring 2010 survey that they intend to trade down. (See Exhibit 14.) Only Spain and Mexico have a higher percentage of consumers committed to trading down.

Many U.S. consumers still plan to trade up, but they are becoming much more selective. An average of 18 percent

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**Exhibit 14. Trading Down Is Still on the Rise in Many Categories in the United States**

<table>
<thead>
<tr>
<th>Trend 2008–2010</th>
<th>U.S. average across all categories (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(country trend)</td>
<td></td>
</tr>
<tr>
<td>2 Trade up</td>
<td></td>
</tr>
<tr>
<td>3 Neither</td>
<td></td>
</tr>
<tr>
<td>5 Trade down</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of category buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper products</td>
<td>10</td>
</tr>
<tr>
<td>Mobile phone contracts and services</td>
<td>11</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>12</td>
</tr>
<tr>
<td>Bottled water</td>
<td>13</td>
</tr>
<tr>
<td>Personal clothing</td>
<td>14</td>
</tr>
<tr>
<td>Children’s clothing</td>
<td>15</td>
</tr>
<tr>
<td>Home decor and remodeling</td>
<td>16</td>
</tr>
<tr>
<td>Haircare services</td>
<td>17</td>
</tr>
<tr>
<td>Sporting equipment</td>
<td>18</td>
</tr>
<tr>
<td>Frozen food</td>
<td>19</td>
</tr>
<tr>
<td>Over-the-counter health remedies</td>
<td>20</td>
</tr>
<tr>
<td>Liquor</td>
<td>21</td>
</tr>
<tr>
<td>Beer</td>
<td>22</td>
</tr>
<tr>
<td>Athletic shoes</td>
<td>23</td>
</tr>
<tr>
<td>Chilled products</td>
<td>24</td>
</tr>
<tr>
<td>Vitamins and supplements</td>
<td>25</td>
</tr>
<tr>
<td>Shoes</td>
<td>26</td>
</tr>
<tr>
<td>Furniture</td>
<td>27</td>
</tr>
<tr>
<td>Dairy products</td>
<td>28</td>
</tr>
<tr>
<td>Washers and dryers</td>
<td>29</td>
</tr>
<tr>
<td>Home or apartment (including renovations)</td>
<td>30</td>
</tr>
<tr>
<td>Organic food</td>
<td>31</td>
</tr>
<tr>
<td>Frozen food</td>
<td>32</td>
</tr>
<tr>
<td>Prepared meals</td>
<td>33</td>
</tr>
<tr>
<td>Facial skin care and cosmetics</td>
<td>34</td>
</tr>
<tr>
<td>Wine</td>
<td>35</td>
</tr>
<tr>
<td>Sit-down restaurants</td>
<td>36</td>
</tr>
<tr>
<td>Travel and vacations</td>
<td>37</td>
</tr>
<tr>
<td>Cars</td>
<td>38</td>
</tr>
<tr>
<td>Prepared meals</td>
<td>39</td>
</tr>
<tr>
<td>Facial skin care and cosmetics</td>
<td>40</td>
</tr>
<tr>
<td>Wine</td>
<td>41</td>
</tr>
<tr>
<td>Sit-down restaurants</td>
<td>42</td>
</tr>
<tr>
<td>Travel and vacations</td>
<td>43</td>
</tr>
<tr>
<td>Cars</td>
<td>44</td>
</tr>
<tr>
<td>Prepared meals</td>
<td>45</td>
</tr>
<tr>
<td>Facial skin care and cosmetics</td>
<td>46</td>
</tr>
<tr>
<td>Wine</td>
<td>47</td>
</tr>
<tr>
<td>Sit-down restaurants</td>
<td>48</td>
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<tr>
<td>Travel and vacations</td>
<td>49</td>
</tr>
<tr>
<td>Cars</td>
<td>50</td>
</tr>
</tbody>
</table>


Note: Data reflect 629 responses from U.S. category buyers only. Only categories covered in both the 2008–2009 and 2010 surveys were included.

1Data for 2008 were collected in the third quarter of 2008; 2010 data were collected in the first quarter of 2010.

2Trend reflects overall country trend and may differ slightly from the average for categories shown here.
of Americans intend to trade up across the categories in our survey—far more than in Europe.

**Canada: Lower Levels of Anxiety.** Canadians are less anxious about the economy than are respondents anywhere else in the developed world. Only 13 percent of employed Canadian respondents said that they worry about losing their jobs, whereas 23 percent of employed U.S. respondents said the same. In fact, they feel more secure in their jobs than do consumers in any other developed market in our survey. Canadians feel better-positioned than U.S. consumers do when it comes to financial concerns in the recovery, and their lower levels of household indebtedness and exposure to falling property values reinforce that view.

Still, Canadians continue to follow the fate of their largest trading partner to the south with some trepidation, and they remain committed to spending more cautiously and embracing the back-to-basics movement. They also continue to have relatively high consumer-debt levels—another reason for their caution in spending.

**The United Kingdom: Election-Influenced Optimism?**

Election fever was gripping the United Kingdom as our survey was conducted during the first quarter of 2010. The media was heralding the arrival of the recovery, citing as evidence, among other signs, a return to very modest growth in GDP and rebounds in retail sales. Consumers there clearly heard the news, and their anxiety levels have fallen off sharply from a year ago. Forty-four percent of them now claim to be anxious about the future, one of the lowest levels we observed among the European Union’s Big 5 markets. Although 50 percent of U.K. consumers claim to feel personally affected by the downturn (among Europeans, only Spaniards reported higher levels of personal impact), their sense of job and financial security has also improved in the past 12 months. Their outlook on the near- and longer-term economic prospects is now among the most positive in Europe. Only the Italians were more optimistic.

But the election hype has not succeeded in pushing the downturn experience entirely out of the minds of consumers in the United Kingdom. They remain more prone than respondents on average to agree with the statement “This crisis just goes to show you can’t trust big business,” and more committed now than they were even a year ago to hunt around for best prices and shop for deals. When asked what it would take to get them to spend more, the top response among U.K. consumers was “lower prices.” Clearly the great hunt for value in the United Kingdom is still very much under way. (See the vignette “The United Kingdom’s Roller-Coaster I-Bankers.”)

**Russia: Yearning to Spend Again After an Unexpected Blow.**

Russian consumers had been enjoying significant real wealth and GDP growth in excess of 5 percent a year before the economic downturn, but growth and confidence took a beating when the crisis hit the economy. Expectations for annual growth in GDP have fallen from more than 6 percent before the crisis to between 2 and 4 percent. Consumer credit remains scarce.

Although questions remain about the future of the Russian economy, we have seen a marked improvement in Russian consumer sentiment over last year. When we asked these consumers a year ago whether they felt anxious about the future, 71 percent answered in the affirmative (up 10 percentage points from 2008). But that number fell sharply to 48 percent in our Spring 2010 survey. Twenty-five percent of employed Russians now feel insecure about their jobs (down from 43 percent a year ago), and only 27 percent are worried about personal finances. Just 24 percent said they intend to decrease their spending this year, the lowest level observed anywhere in our research. Most Russians we surveyed said that they plan to hold their spending to last year’s levels. However, they were more willing than other consumers in our survey to admit that they wish they were spending the way they were able to before the crisis. In terms of personal consumption, Russians—more than their Eastern European neighbors—are still playing what they perceive to be a game of “catch up,” and they are eager to close the gap.

Russian consumers remained more avid about trading up than their developed-market counterparts; an average of 24 percent of them said they intend to trade up across the categories in our survey. Fresh foods and skin-care products top their list of categories in which they plan to trade up. The Russians we surveyed also were the least likely to trade down of any national group of consumers in our survey this year. Just 26 percent of Russians, on average,
The Boston Consulting Group said they trade down across categories whereas more than 50 percent of consumers in the United States, Europe, Japan, and even India made that claim. (See the vignette “Russia’s Frugal Youth.”)

**Handle with Care: Japan and the Euro Zone**

The recovery mindset has yet to take firm hold in Japan, where consumers have been very anxious through this downturn and remain so for now. We also singled out the euro zone for special caution (excluding Spain, covered further below). European consumers have not yet felt the downturn’s impact as severely as their counterparts in the United States, and they were already becoming more optimistic in our Fall 2009 survey. But Greece’s unfolding debt crisis introduces more risk into their recovery and may be one of the reasons behind an uptick in German consumers’ anxiety levels over the past six months.

**Japan: A Slow Recovery and Even Slower Return to Spending.** Japanese consumers are more pessimistic about timing prospects for an economic recovery than are any other group in our survey. Half of Japanese respondents expect the recovery to take several years. Worries
about job and financial security have fallen off from peak levels observed in 2009, but a full 56 percent of consumers said they intend to cut spending in the coming 12 months. This is a higher percentage than in any other developed market, and a complete reversal from a year ago when Japanese consumers’ intention to cut spending was the lowest among developed markets. Per-capita retail spending in Japan is not expected to return to precrisis levels within the next four years. Clearly, Japanese consumers are still very much in the throes of this downturn.

When compared with their U.S. and European counterparts, Japanese consumers are more selective and consider a much smaller number of categories when trading up. For example, 5 percent of Japanese claim to trade up on average across the categories in our survey, whereas 18 percent of Americans and 13 percent of Europeans do so.

So how is it that Japan remains one of the world’s largest markets for luxury goods overall? The answer lies in distinguishing between the total amount spent by Japanese consumers on luxury goods and how many luxury goods categories they choose to participate in. Although Japanese consumers purchase in a smaller number of luxury categories, they are more willing to “rocket” their spending in the categories that matter most to them. Winning
categories have been consumer electronics, fresh foods, and travel. (See the vignette “Japan’s Choosy Young Consumers.”)

**The Euro Zone (Germany, France, and Italy): Risk of Aftershocks.** Concerns about the insolvencies of member states in the euro zone were just starting to heat up as we fielded our survey in early 2010. The full implications of the Greek bailout and concerns that it might not be the last of its kind were therefore not yet fully reflected in our sentiment findings in the region. However, a spike in anxiety compared to the levels observed just six months ago was already evident among German respon-

dents—likely a result of Greece’s sovereign debt issue, as well as mounting dissatisfaction with the new government in Germany. Clearly, this unfolding story will continue to affect consumers in the euro zone and the sustainability and pace of recovery in the region.

So far, German consumers have been anxious about the downturn, but have not yet felt directly affected by it. Just 29 percent claim the downturn has hit them personally so far. (Only Chinese consumers expressed lower levels on this dimension, with just 25 percent of these consumers citing personal impact.) Although more than 60 percent of German consumers told us a year ago that they

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**Japan’s Choosy Young Consumers: Akiko Doesn’t Compromise Her Lifestyle but Hunts for Discounts Across Channels**

<table>
<thead>
<tr>
<th>23 years old</th>
<th>Unemployed</th>
<th>Getting married this year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lives in an upscale residential and shopping area with her family, who support her financially and emotionally</td>
<td>No full-time work experience since graduating from nail-art academy</td>
<td></td>
</tr>
</tbody>
</table>

**Akiko’s story**
- “After I left junior high, I took a high-school-correspondence course and went to nail-art school. I also did part-time work as a clerk and an exhibition hostess.”
- “My parents and fiancé helped me with the rent [of an upscale studio], and I lived there for two years, but I moved back home in November 2009.”
- “I get up around 9 a.m. and have breakfast. In the morning, I go grocery shopping with my mom, pick up my fiancé’s dry cleaning, because he lives near us, and I do the laundry. I have lunch with my mom, then I watch soap operas on TV and read.”
- “My dad worked for an industrial conglomerate, but now he is at a subsidiary. My mom is a housewife.”

**Her dreams**
- A comfortable life with her family
  - “My dream is to lead a comfortable life with my family in Tokyo, although my fiancé and I will have to relocate regularly for his job.”
  - “The most important thing for me is my family. My philosophy is to take care of the people who also take care of me.”

**Her fears and concerns**
- No fears or concerns
  - A little skeptical about the country’s social support in the future
    - “The government is trying to stimulate the economy by giving out a child allowance and making highways toll free, but I am not a targeted beneficiary. I wonder whether those allowances will be available in the future when I become a mother or buy a car. I have no idea how the national deficit will affect our future. That’s a nationwide concern.”

**Views on the downturn**
- Has experienced no direct impact on the finances of her family or her fiancé

**How she copes**
- Waits for online discounts and auctions if in-store prices are too high
- Manages two bank accounts for purposes of bookkeeping and avoiding overspending
- Spends less on entertainment and more time and money on cocooning
- Handcrafts jewelry and does her own nails

**Reasons to trade up and down**
- Is willing to trade up in well-being categories, such as transportation
- Trades up to luxury when justified
- Tries to trade down on luxury when possible by looking for good deals
intended to cut their personal spending in 2009, retail sales actually held up in Germany relatively well. Trading-down sentiments in Germany have eased off from peak levels, but remain high overall, as long-trained bargain hunters remain committed to looking for deals and shopping around for the best values. But big questions remain on how consumers will respond now that the Greek bailout has brought economic turmoil a little closer to home. (See the vignette “Germany’s Frugal Retirees.”)

French consumers are showing a strong rebound in optimism. Only 35 percent claim to have been personally affected by the downturn, only 16 percent currently feel insecure in their jobs, and their anxiety about the future is trending back down near precrisis levels. Interestingly, intentions to trade up are on the rise in France—a shift that runs counter to the trend observed in all other European markets in our survey. French consumers, however, remain highly sensitive to prices heading into this recovery, and 77 percent of them expect higher prices to come. (See Exhibit 15.)

Italian consumers are among the most optimistic in Europe. Despite feeling more personally affected by the downturn than other Europeans on average, their anxiety about the future is low relative to that of consumers in

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**Germany’s Frugal Retirees: Ruth Has Always Lived—and Always Will Live—a Frugal Life**

Ruth’s story

- “I’ve been living here on the beautiful Lüneburg Heath since 1936. I also met my husband here. He was born in this house.”
- “After the war, the big house was so rotten. The windows held together with paint until we finally saved up enough to start modernizing the house and make it into what it is today.”
- “I’m not the kind of person who says, ‘I can’t do that.’ First I try; if it doesn’t work, too bad.”
- “Sometimes my monthly pension isn’t enough, but the next month I have a little left over, and it balances out.”
- “My two grandchildren are my pride and joy. I’m happy with them, we get along, and they come to visit often.”

Her dreams

- A job for her granddaughter
  - “Most important, I hope that my granddaughter will find a good job.”
- Many more healthy and happy years
  - “I’m actually just as happy as I could possibly be. I have my health—I’m 100 percent healthy.”
  - “I would like to be allowed many, many more healthy years on this beautiful earth.”

Her fears and concerns

- No worries at all
  - “I don’t have any worries or fears about the future at all. Not one bit. All is well in my family, and the family sticks together.”
  - “I’m not actually afraid of anything. I think I’ll always remember what we went through during the tough years.”
- Saving just in case
  - “Something could happen to me tomorrow and then I’d have to live in a home and somebody would have to finance everything. That’s why I want to have a little set aside.”

Views on the downturn

- Feels the most negative impact is her granddaughter’s difficulty finding a job
- Believes the impact is harder on younger generations because they are used to prosperity and have never experienced difficulties like wartime
- Is convinced that the economic situation will get better in Germany in the next 12 months—believes that the German government will manage

How she copes

- Believes that the current crisis has had no impact on her because she is used to living a frugal life
- Tries in general to achieve economies on electricity and heating costs

Reasons to trade up and down

- Trades up for foods like meat and bread because she wants good quality
- Trades down for household supplies like paper and cleaning products because she cannot keep up with all the new product introductions and she does not need them
- Is willing to trade up for furniture because she buys it once and wants to make sure the quality is good
most of the European Union’s Big Five markets. Furthermore, only 38 percent of Italian consumers said that they intend to cut spending in 2010, and only 31 percent of those who said that they purchased more private labels in the downturn also said that they intend to stick with private labels. That’s the lowest level of “stickiness” recorded in our European survey. (See the vignette “Italy’s Working Students.”)

What Recovery? In Search of a Rebound: Spain and Mexico

Consumers in Spain and Mexico suffered great distress in the downturn, and they see no signs of a near-term recovery. Consequently, they are the most reluctant to return to optimism and spending among our survey respondents.

Spain: Still Stormy. Spanish consumers were hit hard by this downturn. Housing values took a significant tumble, unemployment spiked, and consumers responded by closing their wallets. Retail sales are still trending negative, although declines are less extreme now than we saw a year ago.

In response to this continued economic turmoil, Spanish consumers remain extremely unsettled—77 percent say they are anxious about the future, more than in any other country we surveyed. And 60 percent claim to have been personally affected by the downturn to date.

However, their feelings of job and personal financial insecurity have improved over the levels seen a year ago. Only 22 percent said they felt insecure in their jobs, whereas 28 percent of Germans made that claim. Although 44 percent said that they plan to cut spending in 2010, that value is down sharply from 70 percent one year ago. And intentions to cut nonessentials are also down sharply from last year. But don’t expect Spanish consumers to return to precrisis spending patterns any
time soon: an overwhelming majority claim they will stick to their budget-stretching practices as long as storm clouds continue to circle over their domestic market. (See the vignette “Spain’s Unemployed Professionals.”)

**Mexico: Extreme Anxiety Continues.** After a period of relative stability and economic development, Mexico faced a recession that many in the media are billing as a potential setback for the country’s economic future. Mexican consumers have reacted with extreme anxiety and pessimism, which was already quite evident in last year’s survey and continued to appear strong in Spring 2010. Seventy percent of Mexicans we surveyed said they feel anxious about the future. Fully 80 percent of Mexican consumers said the downturn had a personal impact on them. Heightening these concerns is a sense of inevitability, as consumers look back to the country’s volatile political and economic history.

Thirty percent of Mexican consumers in our survey reported feeling insecure about their jobs, and 42 percent felt insecure about their financial futures, down from 47 percent of consumers a year ago, but still among the highest of any country in our survey. Forty-three percent say they intend to decrease their spending in the coming year, and this after one-and-a-half years of steady declines
Spain’s Unemployed Professionals: Luis Used to Spend a Lot on Leisure but Has Cut Back Drastically Since the Crisis

Luis’ story
- “I’m getting €1,000 in unemployment benefits, and that’ll last eight months.”
- “I get up around 10 a.m. I try to find things to do, and I look for work for 1.5 to 2 hours every morning. Then I try to play paddleball or go out with friends who are unemployed too, grab something to eat, do something.”
- “I don’t have many expenses really.”
- “I’m saving in case I run out of unemployment benefits. The months go by, and I still can’t find any work. I keep looking, but you never know when you’ll find something.”
- “I was happy in the sense that the last job I had was interesting, but I felt underpaid, especially compared to what I would have earned in another country.”

His dreams
An interesting job
- “I’d ask for a good job doing something I’ve done before and something I really like, for instance, international sales and marketing in a multinational environment. I’d ask for something in Spain because I like to live here, but I wouldn’t mind if it were someplace else. I just want the opportunity to work.”

His fears and concerns
Staying unemployed
- “I’m saving in case I run out of unemployment benefits. The months go by, and I still can’t find any work. I keep looking, but you never know when you’ll find something.”

Views on the downturn
- Says losing his job has had a serious impact
- Has not seen the downturn affect his family, but has seen it affect some friends who have also lost their jobs
- Is convinced that the financial situation in Spain will get better (but not much) because it can’t get any worse
- Believes that recovery will come by itself from the economic cycle

How he copes
- Has not changed his grocery-shopping patterns (private labels, discount stores) and is making a big effort to cut back on leisure activities
- Tries to cut down on going out to dinner; goes to cheaper clubs; takes fewer trips, and visits places that are close by; buys no new clothes

Reasons to trade up and down
- Is willing to trade down in clothes and electronic devices
- Trades down also in food when possible and in leisure
- Isn’t talking about trading up in anything while he is unemployed

in retail sales. It is important, however, not to take extreme claims at face value. When confronting sustained economic turmoil, consumers’ resolutions to forgo spending are often made in response to a sense of helplessness.

But such resolutions aren’t always followed through in full force. (See the vignette “Caring Stewards of the Family in Mexico.”)
Caring Stewards of the Family in Mexico: Gabriela Does Everything in a Frugal Way for Her Large Family

Gabriela’s story
- “I was born in Michoacán, where I met my husband. We moved to Mexico City just before we got married.”
- “With a lot of sacrifice, we have gradually been building our house.”
- “I am a plain, common woman. I don’t need extravagant things and I don’t have big needs, just normal ones.”
- “My husband is unemployed at the moment; right now one of my daughters is working to keep the house running. She is recently divorced and she lives with us with her two daughters.”

Her dreams
- Having her granddaughters attend college

If she got €10,000 she would:
- Restock the pantry
- Replace a broken microwave
- Travel to the beach
- Save the rest

Her fears and concerns
- Is not fearful about the downturn because her needs are very few
- “I feel sad because I would like to provide more things to my family, but I am unable to do so.”
- “I feel insecure about my children’s jobs.”

Views on the downturn
- Does not believe that the economic situation will improve soon
- Is highly affected by price increases
  - “The money that comes to me is the same, but prices are higher, so I have to buy less.”

How she copes
- “We don’t ask for luxury; all we ask for is well-being.”
- Has moved beyond buying only essentials for living; now resorts to spending even less on food, personal-hygiene products, and house cleaning products
- Has become more frugal and substitutes cheaper purchases

Reasons to trade up and down
- Trades up for basic foods because she thinks quality is important
- Trades down for clothing and nonessentials
- Can’t think of any product she might trade up or down for after the crisis

~60-year-old housewife
- Married for 37 years, with three daughters, one son, and six grandchildren
- Lives in Mexico City with her husband, her recently divorced daughter, and two grandchildren
- Family is the central part of her life

Lives in Mexico City with her husband, her recently divorced daughter, and two grandchildren

Family is the central part of her life
Looking at averages alone across categories and segments can be misleading. Levels of spending can differ significantly depending on the individual product category and unique demographic segment. By scrutinizing product categories, for example, we see that products for the home, and even some luxury categories, are experiencing a resurgence. Among consumer segments, companies can target women, young singles, and couples without children as groups exhibiting the most buoyant attitudes for continued spending.

Categorical Imperatives

An average of 45 percent of consumers in developed markets said that they intend to cut their spending this year. Indeed, trading down is a prominent shift that is gaining ground in categories consumers view as “commoditized” or less important to them personally. Basic services (such as car rentals, postal and courier services, and Internet services) and pantry staples (such as household cleaners and paper products) have long topped lists of categories that consumers trade down for in the United States, Europe, and Japan.

But the nervous 2009 market triggered further trading-down gains in nearly half of the approximately 50 categories in our survey in the United States. And some categories experienced astounding surges in trading down from 2005 to 2009. But the situation revealed by our Spring 2010 survey varies greatly depending on the category. We asked consumers where they have made spending cuts so far during this downturn, and where they feel they are most likely to continue doing so in the coming year. (See Exhibit 16.) Consider the following examples of more resilient and hard-hit categories, as determined by spending intentions.

More Resilient Categories. Consumers said that they have been most reluctant to cut back on products that make their homes a nicer place to spend time. Indeed, sales of home entertainment equipment (video games and movie systems) proved relatively resilient during the downturn, as many consumers sought shelter in their own living rooms from the economic chaos. Video games sales in the United States exceeded $20 billion in 2009 and grew at an impressive average annual rate of more than 20 percent from 2007 to 2009. This growth was in line with annual growth rates in U.S. sales of 24 percent from 2005 to 2007.

Consumers also said that they would continue to spend on high-quality fresh foods and health foods. The total sales value of the health food category in the United States exceeded $19 billion in 2009. Almost all its subcategories showed continuous year-on-year growth before and during the crisis, with pasta experiencing the highest overall growth rates.

Hard-Hit Categories. When times are tough, consumers cut back on what they perceive to be nonessentials. In our survey, consumers said they were most likely to cut back on luxury, dining out, fashion accessories, and snack foods. Even as the economy improves, there is still much reluctance to recommit to spending in these categories. (See the sidebar “Competing in the New World of Luxury.”)

The dining-out segment was particularly devastated by the downturn. U.S. sales in the “cafés” segment, one of the most impulse-driven segments within the dining-out category, illustrates this point best. The annual precrisis
growth rate approached 5 percent, but by 2009, the growth rate had dropped to below 1 percent, and it is expected to stay depressed through 2012.

The automotive sector also suffered. From 2007 to 2009, annual growth in sales dropped to a negative 20 percent in the United States and a negative 6 percent in Europe. Rather than trading down to a less-expensive vehicle, many consumers chose instead to defer buying until the economy felt more stable. The good news for this sector is that intentions to cut back on cars have fallen off in our recent survey, and more consumers are starting to feel that now might be the right time to get back into the market for a new car. Indeed, industry experts expect near-term demand to rebound and even exceed precrisis levels.

The travel category was also sharply affected by the downturn, in particular hotel room prices, which fell on average between 10 and 44 percent from 2008 to 2009. Room rates in Moscow and Mumbai experienced some of the biggest rate declines as hotels cut prices in response to a drop in business-traveler volumes. Other cities with substantial decreases in average hotel room rates were Warsaw and Prague (with 35 percent and 27 percent declines, respectively).

In addition to this pricing pressure, the hotel industry has also struggled with scarce development capital. Since December 2008, the number of domestic hotel rooms under construction has declined by 14 percent.

### No Two Segments Are Alike

Although consumers continue to hunt for bargains, they are also becoming more willing to indulge in nonessential purchases. This is good news for companies, but not all
The global recession took a heavy toll on the luxury goods industry as a whole. But like many sectors, it now seems to be on the road to recovery. Still, as encouraging as the signs of a revival are, they do not indicate that the industry is returning to precrisis normalcy.

Rather, the world of luxury has changed. It is no longer the exclusive domain of iconic brands, elite consumers, and traditional markets. The Great Recession was more than a drag on demand; it was the tipping point for several trends, described below, that had been steadily eroding the mystique of luxury.

**From Conspicuous to a More Conscious Consumption**

Conspicuous consumption was in full swing in the late 1990s and early 2000s. Once widespread access to information made it easier for luxury consumers to compare luxury goods, however, quality began to matter more than brand image. The crisis sent this trend into overdrive in mature markets, where people became less interested in acquiring status symbols and more interested in the actual worth of a purchase. Interestingly, our research shows that, despite this trend, the visibility of a brand name remains quite important for some consumers, particularly in China.

**Blurring Boundaries Between Luxury and Masstige**

When mass-market competitors borrowed tactics used by luxury firms—such as celebrity endorsements, trendy logos, and well-known designers—the line between luxury and masstige retail began to fade. The crisis aggravated the problem by triggering massive discounts of high-end goods. Fully 53 percent of luxury buyers in the United States told us that “getting a discount” was very important to them when making luxury purchases. Many luxury producers have now extended their product ranges—and prices—in order to reach more consumers.

**Game-Changing Technologies**

As recently as a few years ago, the communication of luxury remained a top-down directive from brands to consumers. With the proliferation of new technologies and communication platforms, however, luxury has become more of a dialogue. New media are giving consumers everywhere a virtual seat at a table once reserved for a handful of illustrious, well-paid image-makers.

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**The Lure of Emerging Markets**

Mature markets still account for the lion’s share of sales, but there has been a shift toward nontraditional markets, notably China and Russia. The change was evident before the crisis, but the events of the past two years have lent even more weight to developing markets.

Yet as dynamic as “new growth” markets are, they still account for only a small part of the global luxury market. Companies that devote too much time and effort to penetrating these markets could end up weakening their presence in the traditional centers of demand.

Here are four steps that luxury companies can take to make these trends work for them.

**Showcase the value of your goods.** By reemphasizing the quality and craftsmanship of their goods and highlighting the creativity of designers and their teams, luxury companies can further distance themselves not only from ordinary retail but also from their competitors.

**Provide a luxurious experience.** In the new world of luxury, consumers are looking more to “be” than to “have.” The trend toward experience-based luxury (spas, hotels, and travel) provides an opportunity for all luxury companies to offer value-added services, including home delivery, custom tailoring, personal shopping, and concierge services.

**Embrace new media.** The rise of new media like social-networking sites and mobile applications has led to a revolution in the fashion world. Consumers do not want to be walled off from their favorite brands. Luxury companies could showcase new online commercial portals, live feeds of fashion shows, and consumer-generated visual content.

**Refresh the retail experience.** Although consumers know on sight whether a product appeals to them, the probability of their making a purchase increases if they spend more time in a store. Luxury consumers, in general, will be drawn to stores that exude a sense of authenticity and originality.

Luxury companies need to make fundamental changes in every major aspect of the business: their target markets, consumer segments, product portfolios, and distribution channels. Players that skillfully manage these tensions will find opportunities for growth in both mature and emerging markets—even as economic times remain turbulent.
segments are rebounding at the same rate. Here is a look at some segments that offer growth opportunities.

**Essential for the Recovery.** Women control about $12 trillion in global spending and about 64 percent of household spending, which makes them a force in consumption to be reckoned with. Not only do women often act as the family “purchasing agent” by managing budgets through times of crisis and recovery, but they also have a unique set of needs and suffer overwhelming demands on their time. Companies hoping to capture this opportunity must understand how women’s values have shifted and how consumption patterns have changed during the downturn.

In all of the developed markets we surveyed, women seemed to feel particularly stressed by having to make ends meet in their daily shopping during the downturn. Although the anxiety gap between men and women has lessened somewhat in the past 12 months, across all the countries we surveyed, more women than men still feel anxious about the future and worried about personal finances. (See Exhibit 17.)

Consequently, women are somewhat more hesitant to loosen their purse strings—especially for nonessential items and major expenses that can wait. On average, they also remain more committed than men to reducing their personal spending. Across all regions, they are more likely to seek out sales promotions, spend time shopping around for the best prices, and shop in discount stores. In Japan, 7 percent more women than men say they will shop in discount stores over the next 12 months; likewise, in the United States, 7 percent more women than men say they will pay more attention to promotions in the year ahead.

To attract more female consumers in the recovery, companies will have to be sensitive to women’s feelings of stress, anxiety, and self-sacrifice. Products that offer an af-

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**Exhibit 17. Women Are More Pessimistic About the Recovery**

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Europe</th>
<th>Japan</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I feel anxious about the future.”</td>
<td>55</td>
<td>54</td>
<td>54</td>
<td>49</td>
</tr>
<tr>
<td>“I feel financially insecure.”</td>
<td>39</td>
<td>35</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>“I have a great deal of stress in my life.”</td>
<td>46</td>
<td>37</td>
<td>42</td>
<td>32</td>
</tr>
<tr>
<td>“I need more respect/recognition at home.”</td>
<td>30</td>
<td>24</td>
<td>26</td>
<td>15</td>
</tr>
<tr>
<td>“I don’t think the economy will improve in the next six months.”</td>
<td>38</td>
<td>37</td>
<td>39</td>
<td>39</td>
</tr>
</tbody>
</table>

**Respondents who strongly agree (%)**


Note: Europe is defined in this study as the Big Five countries in the European Union: France, Germany, Italy, Spain, and the United Kingdom.
fordable indulgence, that provide the assurance of a smart choice, or make life easier will continue to have strong appeal.

**Leading the Rebound.** The gloom that settled over high streets, main streets, and shopping malls during this downturn led many companies to wonder whether consumers were spending on anything beyond the basic necessities. In fact, some segments did prove to be resilient among spenders, whose attitudes suggest continued enthusiasm for spending going forward. But even enthusiastic consumers have to be convinced of a product’s value before they deem a splurge worthwhile. We identified three life-stage groups that are more likely to spend: young singles, DINKs (dual-income couples with no kids), and empty nesters with secure incomes. (See Exhibit 18.)

Most young singles, it seems, remain interested in losing their single status. They will spend on whatever they think it takes to find affinity and a sense of connection with others. Typically, they focus on apparel, electronic gadgets, entertainment, and gifts for friends and loved ones. Products and services that cleverly target these needs are still proving successful. Young singles—especially women—in developed markets were most likely to say that they have actually increased their spending in the downturn and plan to maintain spending or spend more in the coming year. In the United States, 21 percent of the young single women we surveyed felt this way, compared with only 7 percent of their male counterparts. In Japan, 11 percent of young single women said they increased their spending, compared with 8 percent of young single men.

DINKs are more flush with cash than are most other segments. They live without the financial obligation of children, and often without mortgages, since many rent apartments—making their spending attitudes more buoyant in tough times. Still, DINKs were affected by the downturn. Although their need to cut back is comparatively less pressing, many DINKs spoke to us about con-

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**Exhibit 18. Spending Intentions in Japan Vary Widely Across Consumer Segments**

<table>
<thead>
<tr>
<th>Recent spending and intentions</th>
<th>Young single men</th>
<th>Empty nesters</th>
<th>DINKs</th>
<th>Silvers</th>
<th>Divorced or separated women</th>
<th>Young single women</th>
<th>Married with kids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have already cut and will cut further</td>
<td>26</td>
<td>36</td>
<td>40</td>
<td>44</td>
<td>37</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Have not cut but will cut</td>
<td>26</td>
<td>7</td>
<td>10</td>
<td>9</td>
<td>20</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Have increased but plan to cut</td>
<td>3</td>
<td>13</td>
<td>4</td>
<td>2</td>
<td>9</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Have already cut but will not cut further</td>
<td>36</td>
<td>37</td>
<td>30</td>
<td>30</td>
<td>21</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Have not cut and don’t expect to</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Have increased and will not cut</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Respondents who have not cut spending and have no plans to do so (%):

<table>
<thead>
<tr>
<th>Young single men</th>
<th>Empty nesters</th>
<th>DINKs</th>
<th>Silvers</th>
<th>Divorced or separated women</th>
<th>Young single women</th>
<th>Married with kids</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>43</td>
<td>35</td>
<td>35</td>
<td>28</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>


Note: Data are from 746 respondents from Japan. Some percentages do not add up to 100 because of rounding.

*We defined empty nesters as all respondents who were married or living together, older than 50, and without kids.

*We defined silvers as all respondents who were older than 50.
continuing to be more cautious in their spending because everyone else seems to be cutting back, and they said they would feel guilty if they didn’t do the same.

Empty nesters are a diverse group. Those with secure incomes were more likely to spend during the downturn. Most of their financial goals have already been realized, which leaves more room for spending flexibility. In the United States, Europe, and Japan, empty nesters are the segment most likely to say that they spend as always and intend to keep doing so. But very few of them said they planned to increase spending in the early recovery.

How can companies appeal to these more resilient segments? Perhaps more than other segments, these consumers are buying “emotions” rather than products—so marketers need to focus on the right emotional cues and the best ways to tap them. By catering to their specific needs, marketers can create that “I must have it” dynamic even in the gloomiest of times.

Companies seeking to do more than just survive the recent shift in consumer behavior need to see beyond the fact that most consumers are spending less and trading down. They must consider whether the potential consumers of their particular products, in their specific categories and regions, are engaging in these behaviors—and then they must determine which technical, functional, and especially emotional connections might encourage these consumers to return to their markets. Throughout the rest of the recovery, the key to profitability and enhanced market share will be understanding how open various segments are to spending, which specific cues can entice them (such as reassurance or permission to spend), and how to de-average the market so as to not miss out on attractive pockets of demand.
It will take time and a string of sustained good news for consumer anxiety to fully return to pre-crisis levels and for purse strings to loosen again. But companies should not expect a return to “business as usual” from a consumer standpoint. This downturn has made a deep impression on consumers in many markets, one which will not be quickly erased by a slow return to prosperity.

To stay afloat on the rising tide of recovery, companies will find it essential to understand how long this altered reality will endure and how it will play out in various markets, categories, and consumer segments. Companies that embrace this challenge and offer focused, meaningful products will gain the advantage. We’ve looked across the consumer industry and identified seven best practices to help companies stimulate and capture recovering consumer demand, capitalize on slower competitive responses, and lay the foundations for a faster recovery.

**Accelerate Innovation for the Rebound**

The downturn has left consumers naturally inclined to think in terms of *less*; in its wake, they have been asking themselves, “What can we cut back on to save money?” Savvy marketers understand that the early recovery is a time to get consumers to start thinking of *more*—not wastefully or lavishly, but with offerings that dispel the feelings of doing without while not taxing consumers’ elevated sense of caution. Consumers remain open to compelling stories about technical, functional, and emotional benefits that provide reasons and incentives to return to the markets and buy. Innovation remains a powerful lever in protecting margins, and pockets of more robust demand and openness to trading up exist everywhere.

Although they may not always be conscious of their value calculations, consumers determine how much they are willing to pay for a particular product or service according to a ladder of increasing benefits. (See Exhibit 19.) To move them up the ladder, companies must uncover consumers’ latent dissatisfactions and introduce solutions that address them. So what themes are having broad appeal with recovering consumers these days?

*“My home is my castle.”* Products that make home more comfortable or entertaining—affordable appliances, take-home meals, board games—are increasingly popular.

*“I am making a smart choice.”* Consumers today need a good reason to part with their money. Companies can help by providing messages about product benefits that support consumers’ need to be practical.

*“I am fed up with doing without and deserve a little treat.”* Coax consumers back to the market by offering small indulgences and everyday luxury. One example: video game products that make an at-home workout a compelling alternative to a pricey gym membership.

*“I feel underappreciated and on my own in this chaos.”* Women continue taking the lead in shopping for the household, and they have shown higher levels of stress during the downturn. Many said they feel as if they have sacrificed their own needs and have borne the lions’ share of making ends meet. Although mistrust of business is high in the West, consumers can still react favorably to credible offers of empathy from companies that understand their stress and help make their lives easier.

Yet many investments made today in product development will only bear fruit after the recession is long past,
A New World Order of Consumption

so it is also critical to have a view on the postdownturn landscape and what consumers will be looking for then. Delaying investments until the recovery is in full force will compromise a company’s ability to capitalize on future opportunities.

**Upgrade Capabilities in Consumer Insight**

This downturn has changed consumers’ shopping behaviors and their attitudes about spending. Although the lingering effects will vary across markets and categories, it is important for companies everywhere to look more closely at how the downturn has affected their heavy spenders in their targeted markets and specific categories—and determine what products and services these high-value consumers are still willing to spend on.

Everyone knows how important consumer insight is, yet many companies still find themselves woefully under-equipped to leverage insight as a competitive weapon. (See the sidebar “Hearing the Consumer’s Voice.”)

The winners coming out of the downturn will be companies that can develop a capability for consumer insight and integrate it directly into go-to-market decisions, such as pricing and product development.

**Rethink the Business Model and Develop Alternate Scenarios**

Five years from now, most industries and sectors will look vastly different than they do now. As a result of cyclical and structural changes—some coming in the form of government interventions—companies in many industries will need to find fundamentally new ways to compete.

Forces such as globalization, increasing environmental concerns, accelerating technologies, and protectionism create challenges for incumbents—and opportunities for companies capable of seizing them. Companies need to consider how (and how fast) their business models and strategies need to change if they are to win in the long term. Is evolution or transformation required?

Smart companies looking to prepare for a highly uncertain future will start thinking now about the various scenarios that could play out in their sectors. They will anticipate the skills and assets that will be required to win in different circumstances.

We recommend developing at least three scenarios for the postdownturn marketplace and understanding the changes in consumer needs that would result from each in light of the likely pace and duration of the recovery. In order to stimulate “out-of-the-box” thinking on how to re-

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*Exhibit 19. The Consumer Value Calculus Is Subtle and Often Unconscious*

At a time when many consumers are being more deliberate in their buying decisions, it is critical for businesses to know as much as possible about the gears that really turn demand for their products and services.

Most companies recognize the importance of the market research function—commonly known as consumer insight—but they struggle to unlock its value. This was one of the findings of a recent BCG report, *The Consumer’s Voice—Can Your Company Hear It?* The study benchmarked the consumer insight capabilities of 40 global companies by surveying more than 800 executives across a range of industries and conducting nearly 200 interviews.

While all companies see consumer insight as a major contributor to financial performance and growth, only 35 percent of the executives we surveyed in our study described their consumer-insight capabilities as best in class. Frustrations were evident among the recipients of market research—the line managers—and those who generate the output.

- When asked whether consumer insight teams consistently answer the question “So what?” about the data they provide, only 34 percent of line managers said that they do.
- Fewer than half (41 percent) of insight staff thought that the business leaders in their organization could pass a pop quiz on important facts about consumers.

If companies are not hearing the consumer’s voice, it is often because they follow a hemmed-in approach to market research. Many companies structure their consumer-insight functions as somewhat isolated units, walled off from critical business decisions about pricing or marketing, for example. Those who make sure that their insight organizations are best in class take a fundamentally different approach: their mandate spans the organization, and findings influence cross-firm decisions such as acquisitions, prioritization of brands and markets, and resource allocation.

Budget affects the development of this function—only 28 percent of executives believed they spent enough on market research—but more money will not ensure better output. In fact, the best-practice companies spent less on consumer insight per full-time insight employee than other companies did. What matters most is how they spent it—not on tactical research (geared toward a specific project) but rather on probing, incisive research that can be translated into strategic implications for the business.

To capture the full potential of consumer insight, companies must focus on two factors. First, they need to improve the engagement model. This involves getting senior managers involved and expanding the scope of the function. Second, companies need to improve the performance of the consumer insight function by upgrading capabilities and talent and focusing the team on the right activities and deliverables.

**De-average the Go-to-Market Playbook**

As consumers change, so do their perceptions about prices, their beliefs about which actions constitute trading up, and their attitudes toward channels. Despite all the price-slashing and discounted prices that consumers saw during the downturn, the majority of consumers feel they have endured price increases during the past year and they expect more to come in the months ahead. Although consumers in many markets will continue to be price-sensitive, there are ways to communicate value beyond just “cheapest price.”

**De-average pricing to tap price-resilient segments.** Some companies are commanding full prices for products that offer features consumers are willing to keep spending on while simultaneously lowering prices on other highly visible items to attract budget-conscious consumers. Some leading luxury-jewelry brands have extended their lines to include items with “more approachable” price points (that is, below $1,000) to draw in a broader group of consumers. Such brands seek to continue to at-
tract the wealthy while also drawing middle-class consumers who want to treat themselves.

**Continue defending high-margin businesses against private-label offerings.** Actively manage the price-value relationship against cheaper alternatives and private labels. Make sure your products stack up favorably and keep a constant eye on how things are trending in the marketplace; stakes are high and players move fast.

**Communicate and redefine value.** Make sure consumers know your value proposition and why your brands are worth a bit more. Many leading consumer-goods firms have already turned up the dial on their value messages; therefore, to be heard over all the noise, it is critical to ensure that your message has both the credibility and volume.

**Apply intelligent pricing techniques.** Certain approaches can allow you to capture pockets of resurging demand while still demonstrating value. Popular techniques include the following:

- Reduce your perceived price point by offering smaller package sizes or volume discounts.
- Adopt a discounting strategy: raise list prices and discounts to prepare for higher-frequency promotions.
- Optimize trade spending to align with current market and brand positioning.
- Monitor your relative price position frequently because the landscape is changing.
- Fit consumers’ pockets. Even as the desire to spend is rebounding, a good way to protect margins and deliver savings to customers is to eliminate features that customers don’t value, such as excess packaging.

**Create a renaissance in the middle.** Brands with mid-market positions may benefit from the fact that consumers are becoming more selective about where they trade up while also curtailing their trading-down activities somewhat. When consumers care about a category and regularly purchase upscale offerings, they rarely descend all the way to a private-label or value brand. Rather, they are more likely to consider a strongly positioned brand in the middle that allows them to save on price without making too much of a compromise. By emphasizing “premium” benefits at an affordable price, companies may be able to capture these consumers as they move away from both ends of the price spectrum.

**Think About Multiple Channels—and Improve Customer Conversion in the “Last Three Feet”**

Given the turmoil of the past two years, many companies have come to once again embrace the importance of the “last three feet”—that is, the space in which shopping consumers make their final purchase decisions. In this space, you can drive up average purchase totals and sway shoppers in favor of your brands.

Consumers will remain careful about their purchases into the recovery, and that means every dollar of marketing investment must count. Companies need to get as much return as they can from point-of-sale displays, from making the consumer’s total purchase experience as easy and enjoyable as possible, and from improving the ability of sales personnel to close a sale with customers who visit a store or ask for help online.

During the downturn, consumers also became accustomed to visiting more channels, including low-cost channels such as online discounters. Marketers need to reassess their own channel mixes in light of such shifts. Although channel conflicts remain a concern, the overall level of shake-up in the marketplace creates a unique opportunity to put new channel considerations on the table.

**Replenish Your War Chest with a Sustained Focus on Cash and Costs**

Bold action on cash and costs have been imperative for companies throughout the downturn—for some, such action created a cushion to fund price decreases; for others, it enabled them just to survive. Although many executives are no doubt tired of cutting back, these steps are very important through the recovery. Companies need to free up the resources required to accelerate much-needed
consumer innovations and endure sustained pricing pressure in many categories.

**Cash.** To increase liquidity, manage the top line by finding better ways to retain your most valuable customers—and by targeting consumer and market segments that are rebounding more quickly. Improve working capital by accelerating receivables and inventory turns and consider divesting any noncore assets.

**Costs.** Most companies have already acted to reduce costs by focusing on the low-hanging fruit, such as spending on advertising, voluntarily reducing head count, limited de-layering, and cutting back on corporate travel. Although necessary, such moves are insufficient to create a powerful war chest for accelerating a recovery. Now is the time for more thoughtful action, a deeper examination of your business model’s appropriateness for the current economy, and a stronger focus on reducing complexity by pruning underperforming SKUs, businesses, and assets.

It is also time to take a scalpel to investments in advertising and promotions. Many companies are discovering that they can cut marketing costs by as much as 30 percent without compromising their impact, in part by engaging in smarter targeting of messages and channels. Nontraditional media (such as Internet-based community sites) are proving to be a precise and cost-effective way of reaching specific segments of consumers.

Closer scrutiny of marketing activities helps companies identify which vehicles offer the greatest returns. But maintain a balance. Don’t ignore the broadcast media, since they are vital for building and sustaining mass-market consumer brands.

It has been a long couple of years, and uneasy consumers are happy to finally be hearing some better news. The downturn has touched many of them deeply, and even as things start to look up, they will not be quick to abandon the sentiments and behaviors that were triggered or intensified by the economic crisis.

The smartest players will accelerate their recovery by investing early in innovation for the future, when consumers will certainly return with much larger appetites for spending than they exhibit even now in the early days of recovery. Companies that seize the opportunity to offer consumers better value—in design and ingredients, functional improvements, and especially emotional benefits for still-jittery shoppers—will accelerate their recovery far ahead of the rest.
Appendix
Methodology and Product Categories Covered in the BCG Consumer Sentiment Survey

The BCG Consumer Sentiment Survey that underpins this report took place between March and April 2010. The countries surveyed were Brazil, Canada, China, India, Japan, Mexico, Russia, the United States, and six countries in Western Europe—France, Germany, Italy, Spain, Switzerland, and the United Kingdom. Survey results for Europe’s Big Five markets (France, Germany, Italy, Spain, and the United Kingdom), weighted by population, served as a summary for Europe. In all, more than 15,000 consumers were surveyed; responses from Chinese consumers reflect a composite of two studies.

To capture the distribution of real income and to reflect the population of potential consumers in each market, income was adjusted and the sample reweighted. As adjusted, the sample size was 12,057 respondents (or 11,562 when results from one of the two China studies were excluded). For the individual markets, the adjusted sample size was as follows: Brazil = 682; Canada = 778; China = 2,585 (or 2,090 when results from one of the two China studies were excluded); Europe’s Big Five markets = 3,735; India = 1,067; Japan = 746; Mexico = 743; Russia = 313; Switzerland = 779; and United States = 629. Respondents were allowed multiple selections on some survey questions.

Consumers were asked about a total of 17 product groups covering 70 product categories, 49 of which were trading-up and trading-down categories. Not all categories were covered in all countries. (See the exhibit “Product Categories Covered in the BCG Consumer Sentiment Survey.”) For an itemized list of categories included in a specific country’s survey, please contact one of the authors.

<table>
<thead>
<tr>
<th>Product Categories Covered in the BCG Consumer Sentiment Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Apparel and Footwear</strong></td>
</tr>
<tr>
<td>◦ Athletic shoes</td>
</tr>
<tr>
<td>◦ Children’s clothing</td>
</tr>
<tr>
<td>◦ Fashion accessories</td>
</tr>
<tr>
<td>◦ Jewelry and accessories</td>
</tr>
<tr>
<td>◦ Luxury products</td>
</tr>
<tr>
<td>◦ Personal clothing</td>
</tr>
<tr>
<td>◦ Shoes</td>
</tr>
<tr>
<td>◦ Women’s and men’s clothing</td>
</tr>
<tr>
<td><strong>Automotive Vehicles</strong></td>
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<tr>
<td>◦ Cars</td>
</tr>
<tr>
<td><strong>Beverages</strong></td>
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<tr>
<td>◦ Beer</td>
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<tr>
<td><strong>Fresh and Organic Foods</strong></td>
</tr>
<tr>
<td>◦ Dairy products</td>
</tr>
<tr>
<td>◦ Eggs</td>
</tr>
<tr>
<td>◦ Fresh fish and seafood</td>
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<tr>
<td>◦ Fresh foods</td>
</tr>
<tr>
<td>◦ Fresh fruits and vegetables</td>
</tr>
<tr>
<td>◦ Fresh meat</td>
</tr>
<tr>
<td>◦ Organic foods</td>
</tr>
<tr>
<td><strong>Communication Services and Television</strong></td>
</tr>
<tr>
<td>◦ Mobile-phone contracts and services</td>
</tr>
<tr>
<td><strong>Health and Beauty Services</strong></td>
</tr>
<tr>
<td>◦ Hair-care services</td>
</tr>
<tr>
<td><strong>Health Care and Nutritional Products</strong></td>
</tr>
<tr>
<td>◦ Over-the-counter health remedies</td>
</tr>
<tr>
<td>◦ Vitamins and supplements</td>
</tr>
<tr>
<td><strong>Bottled water</strong></td>
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<tr>
<td><strong>Coffee</strong></td>
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<tr>
<td><strong>Energy and sports drinks</strong></td>
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<tr>
<td><strong>Juices</strong></td>
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<tr>
<td><strong>Soft drinks</strong></td>
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<tr>
<td><strong>Spirits and other alcoholic beverages</strong></td>
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<tr>
<td><strong>Tea</strong></td>
</tr>
<tr>
<td><strong>Wine</strong></td>
</tr>
<tr>
<td><strong>Dairy products</strong></td>
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<tr>
<td><strong>Eggs</strong></td>
</tr>
<tr>
<td><strong>Fresh fish and seafood</strong></td>
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<td><strong>Fresh fruits and vegetables</strong></td>
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<td><strong>Fresh meat</strong></td>
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<tr>
<td><strong>Organic foods</strong></td>
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<tr>
<td><strong>Hair-care services</strong></td>
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<tr>
<td><strong>Over-the-counter health remedies</strong></td>
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<tr>
<td><strong>Vitamins and supplements</strong></td>
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</tbody>
</table>
### Product Categories Covered in the BCG Consumer Sentiment Survey (continued)

<table>
<thead>
<tr>
<th>Category</th>
<th>Subcategories</th>
</tr>
</thead>
</table>
| **Home Appliances**             | ◦ Energy-efficient appliances  
                                 ◦ Large home appliances  
                                 ◦ Small home appliances  
                                 ◦ Washers and dryers        |
| **Home-Related Products**       | ◦ Furniture  
                                 ◦ Home décor and remodeling  
                                 ◦ Home or apartment (including renovations)  
                                 ◦ Housewares (such as kitchen utensils)     |
| **Household Products**          | ◦ Environment-friendly home-cleaning products  
                                 ◦ Home-cleaning products  
                                 ◦ Household cleaners  
                                 ◦ Laundry detergents  
                                 ◦ Paper products        |
| **Other Products**              | ◦ Pet food and pet-care products  
                                 ◦ Sporting equipment  
                                 ◦ Sporting goods        |
| **Out-of-Home Entertainment**   | ◦ Entertainment  
                                 ◦ Quick-service restaurants  
                                 ◦ Fast-food restaurants  
                                 ◦ Sit-down restaurants    |
| **Personal Care and Skin Care and Cosmetics** | ◦ All-natural cosmetics and body-care products  
                                 ◦ Baby food and baby-care products  
                                 ◦ Baby and children’s food  
                                 ◦ Facial skin-care products and cosmetics  
                                 ◦ Fragrances and perfumes  
                                 ◦ Hair- and body-care products     |
| **Processed and Frozen Food**   | ◦ Baked goods and pastry products  
                                 ◦ Breakfast cereals  
                                 ◦ Canned foods  
                                 ◦ Chilled products  
                                 ◦ Chocolate  
                                 ◦ Dry and canned foods  
                                 ◦ Food seasonings, ketchup, and sauces |
| **Toys and Games**              | ◦ Toys and games       |
| **Vacation Travel**             | ◦ Travel and vacations    |
For Further Reading

The Boston Consulting Group publishes other reports and articles on the topic of trading up and trading down that may be of interest to senior executives. Recent examples include:

**Collateral Damage: In the Eye of the Storm—Ignore Short-Term Indicators, Focus on the Long Haul**
BCG White Paper, May 2010

**Collateral Damage, Part 8: Preparing for a Two-Speed World—Accelerating Out of the Great Recession**
BCG White Paper, January 2010

**Collateral Damage, Part 7: Green Shoots, False Positives, and What Companies Can Learn from the Great Depression**
BCG White Paper, June 2009

**Collateral Damage, Part 6: Underestimating the Crisis**
BCG White Paper, April 2009

**Collateral Damage, Part 5: Confronting the New Realities of a World in Crisis**
BCG White Paper, March 2009

**Collateral Damage, Part 4: Preparing for a Tough Year Ahead—The Outlook, the Crisis in Perspective, and Lessons from the Early Movers**
BCG White Paper, December 2008

**Collateral Damage, Part 3: Asia, Advantage, and Action**
BCG White Paper, November 2008

**Collateral Damage, Part 2: Taking Robust Action in the Face of the Growing Crisis**
BCG White Paper, October 2008

**Collateral Damage, Part 1: What the Crisis in the Credit Markets Means for Everyone Else**
BCG White Paper, October 2008

**Megatrends: Tailwinds for Growth in a Low-Growth Environment**
A Focus by The Boston Consulting Group, May 2010

**Keys to the Kingdom: Unlocking China’s Consumer Power**
A Report by The Boston Consulting Group, March 2010

**Pricing Fluency: A Program for Pricing Excellence**
Opportunities for Action in Marketing and Sales, December 2009

**The Consumer’s Voice—Can Your Company Hear It?**
A Report by The Boston Consulting Group, November 2009

**China’s Luxury Market in a Post-Land-Rush Era**
A White Paper by The Boston Consulting Group, September 2009

**Crisis Pricing for the Downturn and After**
A White Paper by The Boston Consulting Group, September 2009

**Seven Myths of the Downturn**
Opportunities for Action in Consumer Markets, September 2009

**Women Want More**
Opportunities for Action in Consumer Markets, August 2009

**Winning with Durables: Through the Current Economic Cycle and Beyond**
A White Paper by The Boston Consulting Group, July 2009

**Realizing the Multichannel Promise**
A Focus by The Boston Consulting Group, July 2009

**Fast-Moving Consumer Goods: Accelerating Out of the Downturn**
A White Paper by The Boston Consulting Group, April 2009
Winning Consumers Through the Downturn
A Report by The Boston Consulting Group, April 2009

Winning in a Downturn: Rapid Cash Generation
Opportunities for Action in Operations, April 2009

Planes, Trains, and Automobiles: Crossing Paths in European Travel
Opportunities for Action in Consumer Markets, March 2009

Sourcing Consumer Products in Asia
A Focus by The Boston Consulting Group, March 2009

Capturing the Green Advantage for Consumer Companies
A Report by The Boston Consulting Group, January 2009

Upend the Downturn with Strategic Pricing
Opportunities for Action in Consumer Markets and Marketing and Sales, December 2008

Coping with the Commodities Crisis
Opportunities for Action in Consumer Markets, November 2008

Trading Up and Down Around the World
A Report by The Boston Consulting Group, September 2008

The Multichannel Imperative
Opportunities for Action in Consumer Markets, September 2008

Consumer Segmentation: A Call to Action
A Focus by The Boston Consulting Group, July 2008

Foreign or Local Brands in China? Rationalism Trumps Nationalism
A Focus by The Boston Consulting Group, June 2008

Trading Up, Updated
Opportunities for Action in Consumer Markets, March 2008

Decoding the Next Billion Consumers
Opportunities for Action in Consumer Markets, November 2007

Winning the Hearts and Minds of China’s Consumers
A Focus by The Boston Consulting Group, September 2007

Looking for Patterns
Opportunities for Action in Consumer Markets, November 2006

What Women Want (in Financial Services)
Opportunities for Action in Financial Services, November 2006

Cheap Is Good (Geiz Ist Geil)
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Books by Michael J. Silverstein

Women Want More: How to Capture Your Share of the World’s Largest, Fastest-Growing Market
Kate Sayre, coauthor

Treasure Hunt: Inside the Mind of the New Consumer
(New York: Portfolio, 2006)

Trading Up: Why Consumers Want New Luxury Goods—and How Companies Create Them
Neil Fiske, coauthor
Note to the Reader

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As an advisor to companies in many industries, BCG has long recognized the fundamental value of identifying and leveraging insights into consumer behavior, both for strategy development and as a key source of sustainable competitive advantage.

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