



Responsible Spending Is the “New Normal”

Recalibrating Expectations, Lifestyles, and Spending When Uncertainty and Anxiety Rule

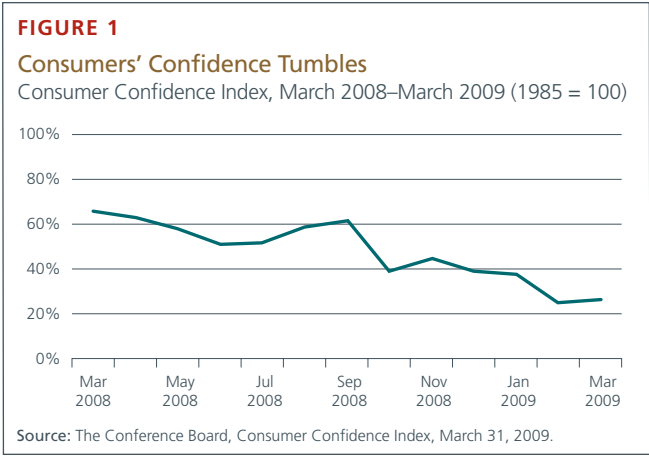
By Jeff Shaffer

The headlines are all too familiar: falling home values, crashing stock prices, lost jobs, and big global banks going bust or requiring government assistance. The daily barrage of bad economic news has created a negative feedback loop echoed in polls like the Conference Board’s Consumer Confidence Index. Falling in February 2009 to the lowest level since its 1967 inception, the Index remained relatively unchanged in March (see Figure 1).¹ Most consumers in the United States share a sense of foreboding, but the current recession affects different segments of the population in different ways.

GETTING USED TO IT ALL

Despite their concerns about the economy, most consumers do not consider themselves in immediate financial trouble. Looking ahead six months, only three out of 10 (29 percent) consumers told MasterCard in February 2009 that they were “somewhat” or “very worried” about their personal finances.²

When gas and food prices soared in June 2008, consumers pulled back on spending, and they continue to hunker down, buying fewer discretionary items. The spending cuts are part of a larger effort to increase savings and pay down debt. During this time, the savings rate among U.S. households climbed to



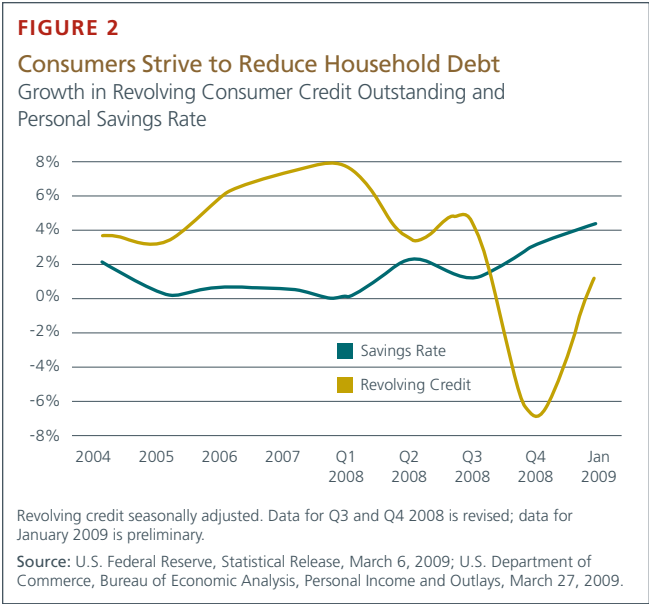
4.4 percent in January 2009, the highest level in years,³ while revolving credit fell to levels not seen since 2005 in Q2 2008 and dropped dramatically later that year⁴ (see Figure 2).

Although confidence in the direction of the economy fell steadily through 2008, consumers' level of anxiety about their own personal finances has stabilized since its high point in June 2008 (see Figure 3).

The credit crisis and the tumbling stock market made people nervous, but for most have not significantly affected household income. Only about half of Americans own stock and most do not depend on their investments for income. Long-term financial issues such as paying for a child's college education and having enough money to retire on are more worrisome than such near-term threats as losing one's job or having enough money to buy food (see Figure 4). Pocketbook issues affect consumers' anxiety more than events on Wall Street. This is not to say that all consumers are worried about the same things. For example, 63 percent of Baby Boomers (age 45–63) are concerned about the cost of healthcare, while only 48 percent of "Matures" (age 64+) are. Similarly, more of those with household incomes of \$50,000 to \$99,000 are concerned with paying for a child's college education (58 percent) than those with household incomes of \$100,000 or more (32 percent).⁵



Through it all, consumers experienced an exposure to risk they are not likely to forget. They're adjusting to a constrained economic reality by making changes to their lifestyles and how they spend. We have entered a new era of personal financial responsibility characterized by a return to such values as thrift, savings, and discipline to address the uncertainty and anxiety that have become part of the "new normal."



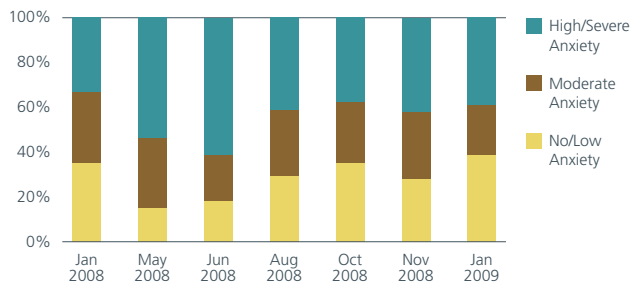
As we begin to understand how consumers are responding to challenging economic conditions, we recommend that issuers pursue three strategies:

1 Help Consumers Adopt New Wallet Strategies
 Armed with better information about products, services, and prices—thanks largely to the Web—consumers have gained much greater power over their spending. They now crave similar empowerment tools to help them cope with financial uncertainty and to reduce anxiety. *Suze Orman's 2009 Action Plan*, a guide to keeping money safe and sound, rocketed to Number 2 on *The New York Times* Best Sellers list for paperback advice books in only 10 weeks. Community colleges and universities offering free personal finance courses have seen a sharp increase in enrollment. We urge issuers to develop and/or enhance communications, products, and services that turn payment vehicles into financial management tools.

Consumers continue to reevaluate their spending habits and purchase decisions as they recalibrate their lifestyles. Now is the time to step up retention efforts among your most profitable customers through modeling and segmentation and to attract new customers with newly relevant value propositions.

2 Offer Good Value for Money
 Consumers are spending less, but they are not driven by price alone. Today's consumers want to save money without sacrificing quality or experience. Even companies that market to the well-to-do are stressing thrift. BMW is emphasizing the virtue of its free maintenance program, for example, while Lexus touts the lowest cost of ownership in its class.

FIGURE 3
Consumers' Anxiety Levels Are Stabilizing
 Concern About Personal Financial Situations



Source: Yankelovich, 2008–2009

Issuers must understand the price-sensitivity of their customer segments and tailor product and service offerings accordingly. Many customers will welcome a payment card that helps them control spending and pay lower prices. Those struggling to live on a budget might embrace a card product that rewards them for on-time payments—perhaps by offering a lower APR. More affluent cardholders who are devoted to rewards or miles may want to keep their rewards cards, even if it means maintaining minimum spend levels to do so. In either case, communications should promote value, not just a lower price.

3 Speak to Consumers' New Priorities

Conspicuous consumption has been replaced by living within your means. Even those who are relatively unaffected by the downturn are redefining acceptable consumerism. Robert Jones, a nightclub and restaurant owner who used to charter a private jet for business trips, explains: "A lot of us are downsizing not only because we have to, but because we think it is the right thing to do."⁶

Anxious about spending and saving, many consumers are making changes to the way they live and reconnecting with what's truly important to them—family, friends, and time at home together. One focus group respondent told MasterCard, "I've been getting together over the holidays with three of my friends for the last 15 years to exchange gifts. But with the economy the way it is, we decided...we're just getting together for dinner to enjoy each other's company."⁷

Issuers need to be sensitive to these new priorities and adjust their marketing messages and product offerings accordingly. High-end reward programs should be reevaluated and carefully targeted. Marketers whose messages and products address the intangible benefits of comfort, connection, and familiarity can win consumers' hearts and minds.

FIGURE 4
Consumers' Top Concerns
 Very Worried/Fairly Worried

	October 2008	January 2009
Cost of healthcare	66%	59%
Paying for child's college education ^a	—	57%
Keeping up with cost of living	56%	50%
Having enough money to retire	58%	48%
Decline in the stock market	53%	47%
Decline in value of your house	—	40%
Losing your job ^b	29%	28%
Having enough money to put food on the table	33%	27%

^a Among those financially responsible for one or more children
^b Among employed

Source: Yankelovich, *Dollars & Consumer Sense*, 2008–2009

HANDLE WITH CARE

The credit crisis has had a profound effect on consumers' confidence, attitudes, and lifestyles, in addition to their finances. It has caused consumers to rethink not just their spending patterns, but the financial decision-making criteria and lifestyle priorities that drive those patterns. The longer and deeper the downturn, the more likely these changes are to become a permanent feature of consumers' lives.

Understanding their customers' psychological and financial state of mind is critical if issuers are to weather the storm of the current credit crisis, as well as secure long-term growth. Success going forward requires careful segmentation of customers with corresponding messaging and value propositions. Helping people deal with tight budgets and smart spending choices will help allay anxiety, build good will and loyalty, and position your business for growth in the "new normal." ●

- 1 The Conference Board, Consumer Confidence Index, March 31, 2009.
- 2 MasterCard Tracking Study, conducted by Millward Brown, February 2009.
- 3 Bureau of Economic Analysis, U.S. Department of Commerce, Personal Income and Outlays, March 27, 2009.
- 4 U.S. Federal Reserve, Consumer Credit Statistical Release, March 6, 2009.
- 5 Yankelovich, *Dollars & Consumer Sense*, January 2009.
- 6 Associated Press, "The Wealthy Turn Stealthy as Economy Weakens," January 17, 2009.
- 7 MasterCard Worldwide consumer qualitative research, conducted by Greenfield Consulting Group, December 2008.



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