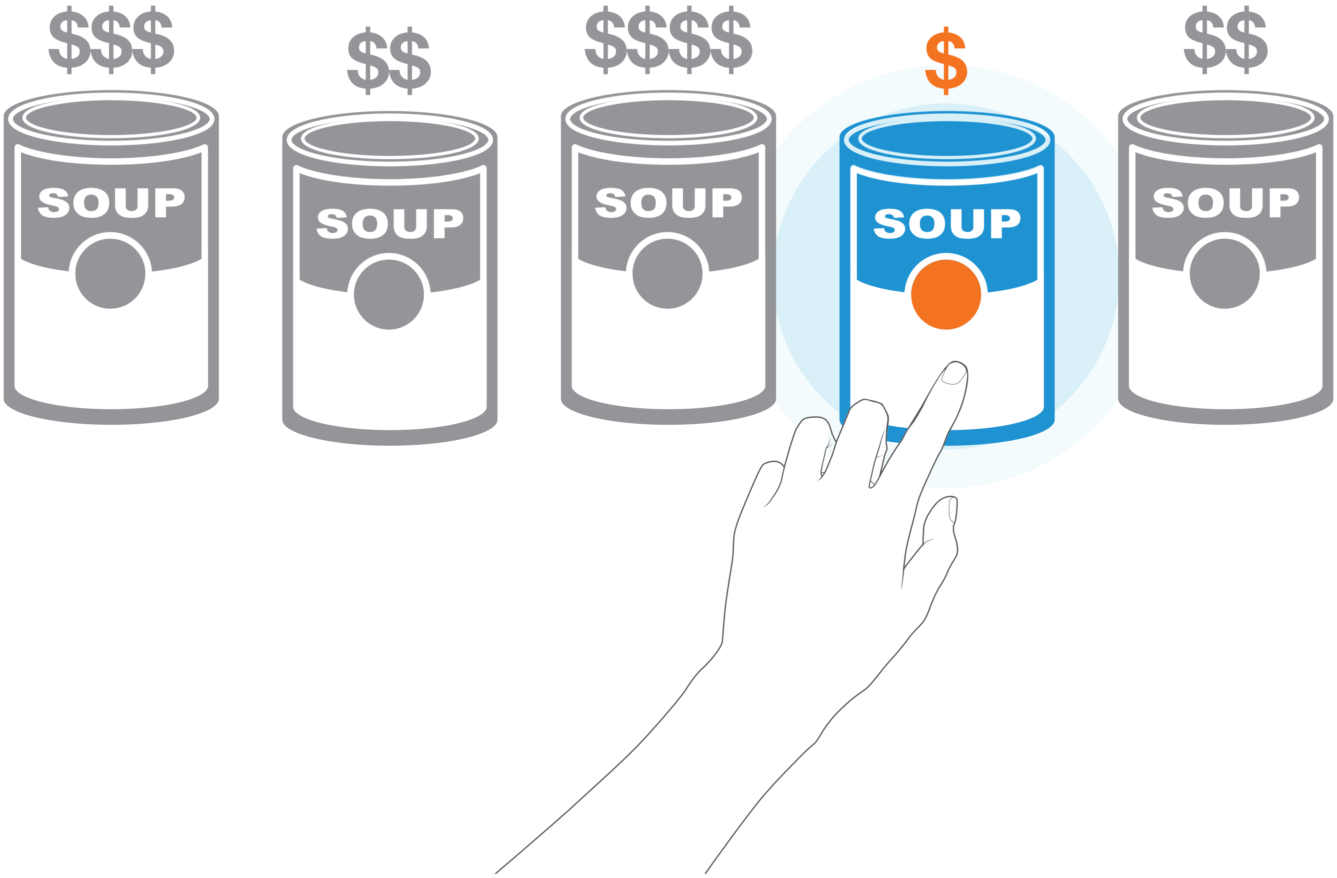
The Effects of the Recession on Brand Loyalty and "Buy Down" Behavior: 2011 Update

OCTOBER 2011



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Introduction

The Great Recession of 2008-2009 has truly lived up to its name. While the recession technically ended in mid-2009, its lingering effects are still very much being felt. According to the National Bureau of Economic Research, the recession in the U.S. economy lasted 18 months – the longest stretch of any recession since the end of World War II. In its aftermath, the economy continues to be plagued with high unemployment levels, a dismal housing market and anemic growth rates of GDP. A vivid illustration of the continuing effects of the recession comes from an October 2011 study from Sentier Research, which indicates that for the period from December 2007 through June 2011, real median annual household income in the U.S. has declined nearly 10 percent.

As these hard economic times endure in the U.S., consumers have been pressured to make hard decisions regarding their financial situations. As shoppers try to spend less and save more, these conditions inevitably affect brand purchasing behavior, which can lead to shifts in market share. Campbell's Soup CEO Doug Conant described the prevalence of this behavior in a quote from September 2010: "There is a palpable change in consumer buying behavior that is unlike anything we have experienced certainly for a few decades. Mom is not sending the teenagers out to go pick up the groceries now. She's looking at where the best deal is, and sort of surgically buying."

As consumers have been affected by the pressures of the economy and job market, they have shifted to a more price-conscious orientation. One result from this dynamic can be seen in the surge in market share for private label brands since the beginning of the Great Recession. According to SymphonyIRI, private label dollar share increased from 16.4 percent in 2007 to 18.5 percent in 2011. This increase is evidence of the "buy down" phenomenon, which is to say that consumers are buying less expensive products in order to save money. Leading retailer Wal-Mart was also recently quoted regarding this trend, citing a 24-percent increase in sales for Wal-Mart's 'Great Value' brand of canned tuna and a 7-percent decline for brand-name canned tuna in Q2 2011 versus Q2 2010.

While the effects of the economic downturn have presented challenges to marketers, there are strategies that can be used to not only soften adverse effects, but also create opportunity. In fact, history suggests that this type of economic decline can sometimes cause weaker brands to fail, while further strengthening category leaders. So, it is important for brands to take actions that will not only ensure their survival, but which will enable them to thrive during the recovery and beyond.

This paper seeks to study trends in "buy down" behavior since the beginning of the Great Recession, and to better understand how consumers who exhibit buy down behavior seek out the best price. In addition, some strategies that brands can undertake to combat buy down behavior will be examined.

Study Background

comScore has been studying buy down behavior since the beginning of the Great Recession, with an initial survey of consumers conducted in March 2008. Since then, annual studies have been conducted, with the most recent iteration fielded in July 2011. As with each of the previous studies, a survey among 1,000 female shoppers in the U.S. was conducted, with the objective of assessing the trend in buy down behavior. Following a series of screening questions (e.g., age, gender, etc.), participants were asked to respond to items that concerned their shopping habits and preferences. Past research has confirmed that the effect a recession will have on a specific brand is directly related to the category to which it belongs (Isakovich, 2009), so multiple categories in a variety of market segments were examined: Toothpaste, Mouth Rinse, Shampoo, Cough/Cold/Allergy Medicine, Jeans, Soup, Pasta Sauce, Fruit Juice, Laundry Detergent, Facial Tissue, Paper Towels and Small Appliances. Participants were asked to indicate how they shop for each product using one of four closed-ended responses: 1) "I buy the brand I want most," 2) "I sometimes buy a different brand if it is on sale," 3) "I buy less expensive brands to save money," and 4) "I do not buy products in this category". The twelve product categories belong to six broad market segments, allowing the data to be analyzed by product category, and more broadly by market segment. Figure 1 describes how each product category is grouped.

Figure 1: Product Category Groupings

Market Segment	Product Category
Health & Beauty Aids	Toothpaste
	Mouth Rinse
	Shampoo
OTC	Cough/Cold/Allergy
Apparel	Jeans
Food	Soup
	Pasta Sauce
	Fruit Juice
Household Products	Laundry Detergent
	Facial Tissue
	Paper Towels
Housewares	Small Appliances

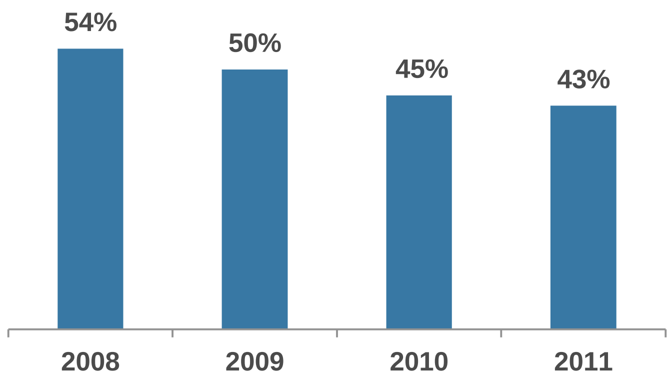
For the 2011 study, three additional questions were asked to help gauge: 1) whether or not consumers change their habits when brands reduce the amount or size of a product, 2) what methods consumers use to compare prices, and 3) which of three described methods they would prefer the brand to take if it had to take action to control costs.

Buy Down Trends and Price Seeking Behavior

"I Buy the Brand I Want Most" Sees Continued, but Diminishing, Decline

To analyze the shopping behavior of the participants, percentages were calculated for each of the first three responses for every product category, while responses indicating "I do not buy products in this category" were excluded. The topline results showed that as the economic downturn has continued, the percent of shoppers who typically buy the brands they "want most" steadily declined across the categories examined (See Figure 2).

Figure 2: % of Respondents Choosing "I buy the brand I want most"



The 2011 data reveal the percent buying the brand they "want most" has dropped 11 points since 2008 across the twelve categories examined. In 2011, just 43 percent of shoppers typically purchase their most-desired brands, indicating that more consumers continue to be motivated by economic factors compared to prior years. Optimistically, the year-to-year decline does show signs of decelerating.

The extent of the buy down behavior and the severity of the decline vary by both market segment and product category. Figure 3 shows the percent of respondents who purchase their most desired brand for each category. The net shift from 2008 to 2011 is also examined.

Figure 3: % of Respondents Choosing "I buy the brand I want most" by Product Category

Market Segment	Product Category	2008	2009	2010	2011	Net Shift 2008 to 2011
Topline Average Across Categories Examined		54%	50%	45%	43%	-11%
Health & Beauty Aids	Toothpaste	67%	64%	57%	55%	-13%
	Mouth Rinse	61%	59%	44%	47%	
	Shampoo	65%	64%	52%	53%	
OTC	Cough/Cold/Allergy	58%	59%	43%	41%	-17%
Apparel	Jeans	54%	49%	39%	42%	-12%
Food	Soup	56%	51%	52%	44%	-11%
	Pasta Sauce	53%	48%	45%	43%	
	Fruit Juice	51%	44%	40%	39%	
Household Products	Laundry Detergent	57%	50%	47%	48%	-6%
	Facial Tissue	43%	40%	39%	35%	
	Paper Towels	36%	34%	35%	35%	
Housewares	Small Appliances	45%	38%	34%	37%	-8%

It is interesting to note that many categories witnessed the most severe drop in percent of respondents between 2008 and 2010, with a smaller decline between 2010 and 2011, with one notable exception -- Soup. The Soup category saw a significant decrease in consumers buying the brand they want most between 2010 and 2011, while witnessing a comparatively small decrease in prior years. Noticeably, the 2010 percentage for Soup was higher than any other category outside of Health and Beauty Aids. The reason may be the dominance of Campbell's, which is not a premium-priced brand, and which had previously insulated the category from buy down behavior. However, the recent surge in food prices overall – up 5.3 percent in the first 8 months of 2011 – and Soup in particular – up 8.2 percent in the first 8 months of 2011 (August 2011 CPI Detailed Report) – now seem to be prompting shoppers to seek cheaper alternatives in this category as well. In fact, Campbell's lowered their earnings outlook in late 2010, citing competition from lower priced private label Soup brands.

Among the other product categories studied, Health and Beauty Aids have seen a substantial increase in buy down behavior. However, it is important to note that at the beginning of the recession, this category saw comparatively low levels of buy down behavior, and despite the large overall increase in buy down, in the most recent survey it remained the leader versus the other market segments in terms of shoppers buying what they want most. This may be because consumers are generally more reluctant to purchase lower cost alternatives in categories that are more personal in nature.

Overall, it is OTC Cough, Cold and Allergy products that show the largest decline since 2008 in the number of consumers buying the brand they want most. It is likely that the relatively high price of these categories is the key reason why the decline has been so severe. Although the decline was much less severe compared to 2010, it continued on a slight downward trend in the most recent survey.

Some Household Product categories (e.g., Paper Towels, Facial Tissue) have not seen large increases in buying down. While it is true that these categories already had comparatively high levels of buy down behavior before the recession began (which would tend to limit further decline), it is also true that such categories have led the way in brand tiering, allowing customers to remain with their preferred brand at a more attractive price point.

The largest ticket items in the survey, Jeans and Small Appliances, saw a slight bounce-back in terms of consumers buying the brand they want most in 2011, though each category has still experienced a substantial slide since the beginning of the recession.

The Buy Down Effect: Shopping Sales and Converting To Less Expensive Brands

Further analysis reveals that the drop in likelihood to shop for the "brand wanted most" is not only attributable to consumers buying a comparable brand when on sale, but also because of conversion to less expensive brands. The 2011 survey revealed that one in five shoppers converted to less expensive, generally private label, brands to save money (19% of consumers in 2011, up from 14% in 2008). Figures 4 and 5 below show the change by market segment from 2008 to 2011 for both types of buy down behavior discussed. OTC posted the largest net shift for both responses, up 7 percent for buying on sale and 10 percent for buying less expensive brands. Housewares (Small Appliances) realized no net shift for buying less expensive brands, but a prominent 6-point gain in buying other brands on sale. It is possible that in the case of durables (which are bought relatively infrequently) consumers are more hesitant to try a cheaper brand but are still looking to save money by buying premium brands when they are on sale.

Figure 4: % of Respondents Choosing "I sometimes buy a different brand if it is on sale"

Market Segment	2008	2011	Net Shift
Average Across All Segments	*33%*	*38%*	*+5%*
Health & Beauty Aids	28%	34%	+6%
OTC	26%	33%	+7%
Apparel	33%	38%	+5%
Food	35%	41%	+6%
Household Products	34%	37%	+3%
Housewares	39%	45%	+6%

Figure 5: % of Respondents Choosing "I buy less expensive brands to save money"

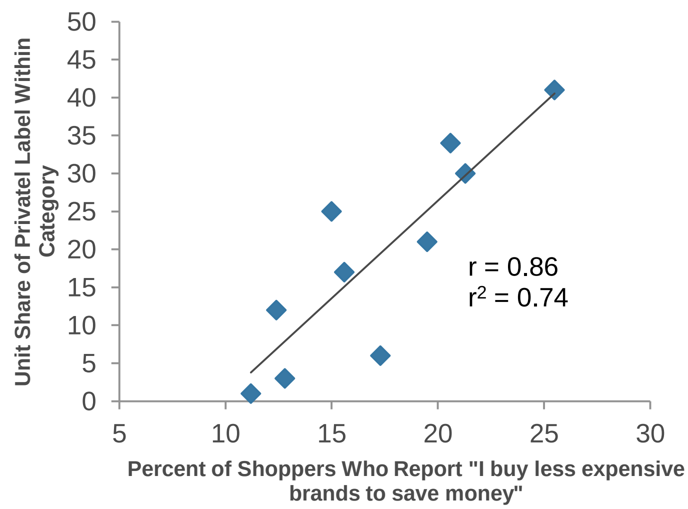
Market Segment	2008	2011	Net Shift
Average Across All Segments	*14%*	*19%*	*+5%*
Health & Beauty Aids	8%	14%	+6%
OTC	16%	26%	+10%
Apparel	13%	20%	+7%
Food	11%	17%	+6%
Household Products	20%	23%	+3%
Housewares	17%	17%	+/-0%

Private Label Brands Rise As Americans Buy Down

The new economic reality portrayed by the percent of respondents who indicate that they have converted to less expensive brands to save money is validated by the strong relationship between the survey results and private label share across the categories included in the survey. The table in Figure 6 as well as the accompanying scatter plot displays the 2010 percentages of respondents indicating they have converted to a less expensive brand along with 2010 private label unit share. These data show that in categories where shoppers are more motivated to buy less expensive brands to save money, private label share is higher.

Figure 6: The Relationship Between Stated Buy Down Behavior and Private Label Share, 2010 Survey

Product Category	"I buy less expensive brands to save money"	Private Label Unit Share*
Toothpaste	11%	1%
Mouth Rinse	20%	21%
Shampoo	13%	3%
Cough/Cold/Allergy	21%	34%
Jeans	NA	NA
Soup	12%	12%
Pasta Sauce	15%	25%
Fruit Juice	16%	17%
Laundry Detergent	17%	6%
Facial Tissue	21%	30%
Paper Towels	26%	41%
Small Appliances	NA	NA

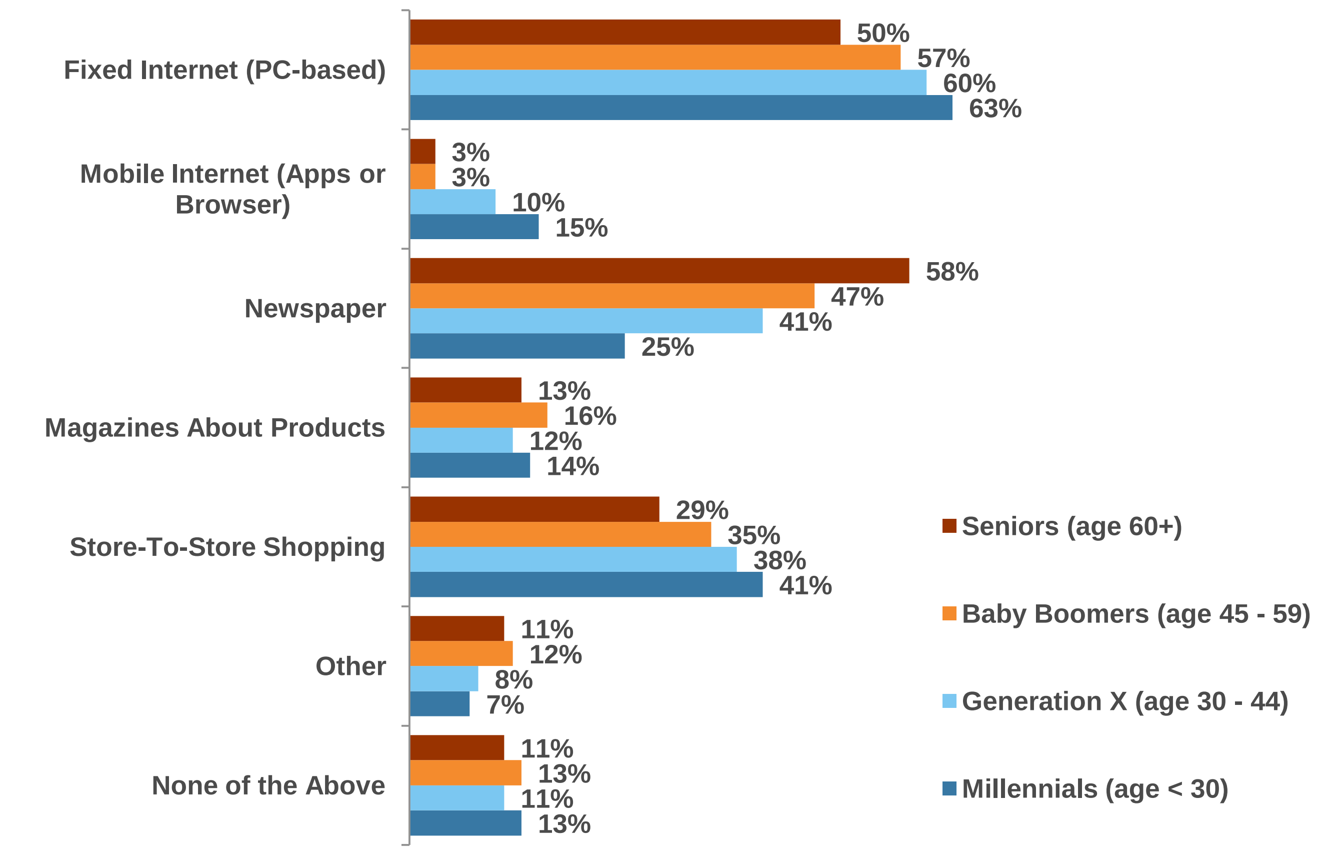


*Total US Food, Drug, Mass Merchandiser. 52 weeks ending April 18, 2010.
Source: SymphonyIRI.

Channels For Price-Seeking Behavior

The results from one of the additional questions in the 2011 survey reflect how technology is enabling shoppers' price-seeking behavior. This question focused on which channels consumers use to do comparison shopping in order to find the lowest price. As seen in Figure 7, fixed internet (PC-based) was found to be the most popular method of choice for every generation except seniors. While the market is still relatively small, the use of mobile devices is likely to bring greater convenience to comparison shopping. Substantial numbers of consumers also use the newspaper (particularly seniors) and store-to-store shopping to seek out the best price. Tellingly, few consumers indicate that they do not use any method for making price comparisons.

Figure 7: Methods Used for Price Comparison (% of Respondents)



Strategies to Combat Buy Down and Prosper in an Economic Downturn

An economic downturn presents challenges to brands, particularly premium brands. The shift towards lower priced alternatives embodied by the buy down phenomenon threatens premium brands not only with a loss of market share in the long term, but also an erosion of overall brand preference and equity. Given these risks, here are some strategies brands can follow to combat buy down behavior and prosper in an economic downturn.

Continue to Invest in Advertising

Despite the pressure to cut costs during tough economic times, it is a critically important that premium brands continue to invest in marketing efforts in order to maintain preference levels. This will serve two ultimate purposes: 1) minimize short-term erosion of market share to less expensive brands, and 2) position the brand for a "bounce-back" when the economy eventually rebounds. Prior research concerning economic recessions reveals some interesting findings:

- 1.5 point increase in market share among businesses increasing ad spending during recessionary periods (Cahners and SPI, 2002)

- 2.5 times increase in market share vs. average of all businesses in post-recession period for those who aggressively increased media expenditures during last recession (CARR Report, August 13, 2001)
- 256 percent relative sales growth for businesses which maintained or increased media spend during the 1981/1982 recession over those who did not (McGraw-Hill research analysis of 600 B2B companies)

A case study drawn from the athletic shoe industry provides a clear example of this phenomenon. Reebok enjoyed extraordinary growth throughout the 1980s, which inevitably led to category dominance by the end of the decade. During the 1990 recession, however, Reebok took a very conservative approach to advertising as it tried to cut costs in various areas in order to enhance short-term profitability. On the other hand, Nike entered the 1990 recession as a smaller company that had enjoyed only moderate success thus far, but they engaged in a very aggressive approach to advertising (Isakovich, 2009). Nike nearly tripled their marketing investment during the recession, and their profits were nine times greater following the recession when compared to profits beforehand (Lechner, Frank, & Boli, 2004). Reebok, however, experienced a decrease in profits and a reduction of market share as the lack of marketing throughout the recession had weakened the value of the brand thereafter.

Utilize Brand "Tiering"

A second case study, drawn from the comScore creative pre-testing databases, further illustrates the value of sustaining marketing support during recessionary times and also introduces a second strategy – the use of "tiering" (i.e., offering value-priced versions of a premium brand's products). Over the course of the current economic downturn, overall premium-priced brands in a Household Products category have seen substantial declines in market share as consumers are increasingly turning to economy brands (which can be seen in Figure 8). In addition, preference percentages (the comScore Share of Choice™ metric) were assessed over time by examining data in which respondents are given the opportunity to select their desired brand among a balanced competitive set of products while controlling for the effects of distribution and price.

Figure 8: Change in Share and Preference over the Course of the Recession for a Household Products Category

	Change in Unit Share	Change in Preference %
Premium Brands	-1.9	-0.5
Mid-Range Brands	+0.4	+0.1
Economy Brands	+1.5	+0.4

While market share for premium products has dramatically eroded, premium product preference has not dropped by the same degree, suggesting that the purchasing behavior was driven by the need to save money. This implies that shoppers haven't shifted their preference away from the desired premium brands themselves, but rather the premium prices.

Premium products in this segment have lost market share overall, but Figure 9 shows how the leading brand, which primarily offers premium products, took advantage of the recession through brand tiering. By developing and aggressively expanding their mid-range offerings, the leading brand was able to increase overall market share while enabling consumers to remain loyal to the brand.

Figure 9: Leading Brand Change in Share and Preference by Tier for a Household Products category

	Change in Unit Share	Change in Preference %
Leading Brand—All SKUs	+1.9	+1.8
Leading Brand—Premium SKUs	+0.3	+0.7
Leading Brand—Mid-range SKUs	+1.6	+1.1

Offering mid-range products not only allowed the brand to retain its current customers, but also enabled new shoppers to enjoy the benefits of the leading brand at a more economical price. Most importantly, strong advertising support has helped maintain preference leadership for their premium offerings, putting the brand in position for a post-recession bounce.

Consider the Preferred Cost Controlling Action for Your Product Category

The next strategic issue is one that is encountered by premium brands caught between low priced competition and rising raw material costs. Faced with narrowing margins, such brands may consider raising their unit prices, reducing the quantity or size of the product, or reducing the quality of the ingredients used. Respondents in the 2011 survey were asked to choose between these three options. Specifically, they were asked, “In the face of increasing manufacturing costs, which action would you most want your preferred brand within each category to take, if it had to take a cost controlling action?”

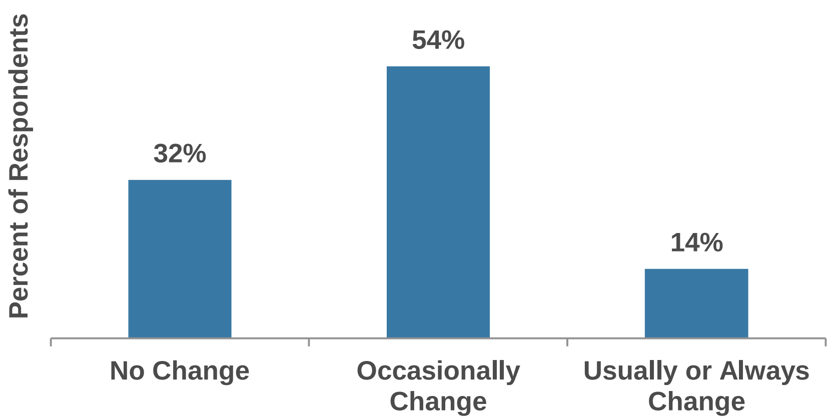
As Figure 10 shows, for each fast moving consumer goods segments (HBA, OTC, Food and Household Products) the majority of consumers chose a 10-percent reduction in the quantity of product per package (i.e. downsizing) versus increasing the price by 10 percent or reducing the quality of ingredients by 10 percent. However, for the higher priced Apparel and Housewares items, increasing the price by 10 percent was chosen nearly as often as the downsizing option, likely because reducing the quantity of these items is not a realistic option for many respondents. Importantly, few respondents seem to want a reduction in the quality of ingredients in any of the categories featured, as reflected in the mostly single digit percents for this selection.

Figure 10: Preferred Cost Controlling Action if Necessary

Market Segment	Product Category	Increase the price by 10%	Reduce the quantity of product per package by 10%	Reduce the quality of ingredients by 10%
Health & Beauty Aids	Toothpaste	35%	59%	6%
	Mouth Rinse	29%	64%	7%
	Shampoo	34%	59%	8%
OTC	Cough/Cold/Allergy	34%	59%	7%
Apparel	Jeans	45%	44%	11%
Food	Soup	34%	59%	7%
	Pasta Sauce	32%	60%	8%
	Fruit Juice	32%	60%	8%
Household Products	Laundry Detergent	36%	55%	8%
	Facial Tissue	31%	56%	13%
	Paper Towels	32%	55%	13%
Housewares	Small Appliances	44%	47%	9%

Clearly, consumers indicate a preference for quantity reduction versus the other stated alternatives. However, this strategy is not without risk. One additional question in the 2011 survey explored the reported effect that this "downsizing" of products had on consumers' buying behavior. Four out of five respondents indicated they had noticed product downsizing in the categories they regularly shop. Figure 11 shows that among those who noticed downsizing, 14 percent of shoppers indicated usually or always changing their purchase behavior as a result of downsizing. Perhaps more concerning, more than half of the respondents reported occasionally changing their behavior. Thus, while consumers claim to prefer product downsizing, it does appear to have at least an occasional effect on brand choice for many shoppers and should be approached with caution.

Figure 11: Reported Effect of Product Downsizing on Brand Choice Among Those Noticing Downsizing



Highlight Brand Differentiating Messages in Advertising

Finally, brands can fight the buy down phenomenon by successfully differentiating their product versus lower-priced competitors in order to maintain preference and reduce price sensitivity of consumers. Decades of research on advertising creative by comScore has demonstrated that the use of brand differentiating messages is highly effective at increasing preference for the brand. Therefore, to optimize the impact of continued marketing support during hard economic times, advertisers need to make sure their efforts are effective at differentiating the brand from the competition. Systematic strategy evaluation and creative pre-testing can help to ensure that scarce marketing dollars are not being wasted on ineffective campaigns.

Brands should also consider innovative strategies for differentiating their products, a solution made possible through the emergence of digital technologies. One such example is the use of user-generated video reviews as advertising. In a study carried out by comScore for EXPO, a leading consumer-generated video platform, consumer video reviews were found to be effective at brand differentiation and impacting price sensitivity as related to brand preference. In this study, adult women online shoppers were exposed to a retail website product page in the Personal Grooming category. Consumers were asked a series of questions after examining 1) a standard retail product page with no video, 2) the page with video thumbnails added, and 3) after playing a video on the page. After watching a video review, 40 percent more consumers considered the product unique and differentiated. Category shoppers who are willing to pay more for the product rose by 30 percent after watching a video review. Simply by displaying the availability of consumer videos (through a thumbnail), consumer willingness to pay more rose by 13 percent.

Conclusion

The results of this study illustrate the danger facing premium brands due to the effects of a recession. As a result of the adverse economic conditions, these brands are likely to see a significant slide in market share as consumers buy down to save money. Beyond loss of short-term sales, premium brands are at risk of losing preference as consumers try other, less expensive brands. In order to not only survive, but prosper in the longer term, brands need to develop and embrace a forward-looking marketing strategy. By continuing to invest wisely through savvy use of media and innovative marketing strategies, brands can not only limit the erosion of their market share, but also position themselves for a strong bounce-back once an economic recovery takes hold.

Regardless of the category or market segment in which a brand resides, history suggests that strong and effective advertising will increase brand volume, share and loyalty. Even during an economic recession when financial resources may be limited, investing in a quality marketing strategy is critical to the survival of a brand. If advertising resources are discontinued, the tradeoff of short-term savings could potentially be detrimental to long-term survival of the brand.