How uncertainty will impact people's pockets

(and how brands can navigate it)

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For most people in the UK, uncertainty will mean less cash in their pockets

Sadly, with current World events, its evident that we're now living through much more than a cost-of-living challenge; to borrow Donald Rumsfeld's view, the number of 'known unknowns' seem to ratchet up by the day. The 'unknown unknowns' are barely worth contemplating (and probably go way beyond the remit of a media agency).

Whilst wider events will no doubt seep into people's consciousness, affecting mindsets and how we live our lives, for now we are of course relatively lucky; the main impact on the people of the UK will, for the moment, be largely economic.

With this in mind, we've developed a bespoke segmentation that outlines how the economic circumstances of uncertainty will be felt across the UK population, and how roughly two thirds of us will be heavily impacted and need to change our spending behaviour in order to adapt.

This means that brands, more than ever, must be 'people-first'.

Empathy is bandied about a lot – but true emotional intelligence and an understanding of how people are feeling and behaving is the only way to create true value for customers.

This will be how brands thrive in the coming times.

Consumers are facing the biggest fall in their disposable income for 30 years[1]...

...and, a typical income hit of around £1,200[2] a year from April, which will have a widespread impact on consumers and how they spend their money. This is the result of a triple consumer squeeze:

1: **Rise in energy price cap of 54% from April 2022:** This will see average cost increases of around £700 per year for each household

2: **Inflation is forecasted to reach 7%:** The Bank of England forecast the CPI inflation rate to peak at 7.25% in April 2022, meaning real wages will continue to decrease

3: **A rise in national insurance:** From 6 April 2022 to 5 April 2023, National Insurance contributions will increase by 1.25%, which will have an average impact of £600 on households.

It is no surprise, then, that consumers are now more worried about rising costs than they are of COVID-19

People's concerns have shifted from health to wealth, with consumers now being more worried about inflation (33%) than they are COVID-19 (23%)[3].

Things driving these concerns are:

1: Inflation is unfamiliar to people
Consumers have not had to deal with inflation for three decades. It is an unfamiliar phenomenon to people, which makes it particularly worrisome. Coupled with the general rising anxiety levels tracked by the ONS over the pandemic, this will lead to consumers being particularly cautious in the short term.

2: Inflation is happening at a time of big life changes
The rising costs of living are occurring at a time when people have made big changes in their life due to the impact of the pandemic. Examples of this can be seen with the 'great resignation' in which people are resigning at the highest rate since 2009. The housing boom over the pandemic has accelerated buyer demand to the highest it's been since 2009. Changes such as these put consumers in a position of vulnerability as inflation hits.

3: Inflation is adding to the uncertainty facing consumers
Younger consumers have been brought up with a foundation of general stability within the marketplace and society as a whole. However, disruption, particularly over the past six years has become the norm. For example, Brexit, climate change, political turmoil, the pandemic, crypto, the Metaverse etc. Consumers are living in a time of increasing volatility, and inflation adds to this uncertainty.

Consumers are already feeling the effects

This worry about inflation is already being reflected in GFK's index measures, which shows a drop in confidence for personal finances over the next 12 months and less confidence in making major purchases (such as furniture or electrical goods)[4].

Mintel reports that people are already noticing price rises in: Food & drink prices (61%), Electricity prices (54%) and petrol prices (47%).

Additionally, nearly 40% are cutting back on non-essential spending in January 2022 (an 8% rise compared to December)[5].

The effect will be predominately felt by low-income households.

Low-income families are highly exposed to each of the 3 drivers of the living crisis.

- **Rising energy bills:** this would result in a 7% reduction in non-essential spending amongst those in the poorest households, compared with only a 2% reduction in the richest households[6]
- **Rising national insurance:** there are concerns the increase will have a higher impact on the lower-paid. This is because workers pay 12% National Insurance on earnings between £9,564 (£9,880 from April) and £50,268. However, earnings above this amount attract a rate of just 2%
- **Rising interest rates:** almost 9 million people, many among Britain's poorest or self-employed were forced to increase their borrowing over the pandemic, and increased interest rates will bump up the cost of this credit.

Although, how people manage their finances is a better way to determine people's actions

Kantar has found that the ways in which people react during a spending squeeze are tied more to their ongoing spending practices[7]. Given this, using our proprietary Consumer Survey (CCS), we have carried out a cluster segmentation of the UK population into 5 core groups:

1: Keeping heads above water (18% of the population)

We expect this segment to be impacted the most by the rising cost of living. This audience is already finding it difficult on their present income and worry a lot about money in their day-to-day life. Additionally, they are likely to have a strict budget to make ends meet. This group is likely to comprise of middle-aged, low-income families.

Effective strategies: this audience will be receptive to anything that makes their financial hardship easier. This could be done by offering low-cost value products, flexible financing options, DIY alternatives or limiting price increases etc. Additionally, this audience is likely to be worried about inflation, so messaging that aims to reassure or support would be appreciated.

2: Budgeting to survive (23% of the population)

This segment is likely to be impacted in some way from the rising cost of living. This audience is coping on their current income and tends to stick to a budget which is likely to tighten until they feel more confident about the economy. As inflation gets worse, this segment may start moving into the 'head-above-water' segment.

Effective strategies: this audience will appreciate brands helping them stick to their budgets over the long-term. This can be done by promoting bigger quantities for less (i.e. BOGOF offers), rewarding loyal custom or promoting affordable alternatives. Additionally, brands should emphasise their reliability and familiarity to attract this segment during times of uncertainty.

3: Budgeting to maintain a lifestyle (15% of the population)

This segment is typically comfortable on their current income, ambitious in their career and place importance on making money. They are generally up to speed when it comes to the economy, and although they won't compromise on their standard of living, they are likely to put off major purchases until things become more certain.

Effective strategies: this group are money conscious and will want re-assurances that they can maintain their high-quality lifestyle despite rising costs. They will want to stick to their usual brands but will be attracted to those that can offer value for money or improvements in product quality. Additionally, this audience is likely to shop around to get the best value, so prices still need to be competitive for this audience.

4: Comfortably unaffected (19% of the population)

These are more likely to be empty nesters and retirees who have a high income, lots of assets and generally feel comfortable on their income. They generally don't worry about money, and they are likely to ride out the rising cost-of-living.

Effective strategies: this group will consume as normal but may be less conspicuous in their purchases. Brands can help by facilitating discreet purchasing, emphasising the quality of their brand or advertise as products in which they deserve. Additionally, fear of missing out approaches may also be effective with this audience.

5: YOLO (24% of the population)

This segment is typically younger (under 44) with less financial commitments, which mean they are less likely to budget and generally spend money without thinking. This group prioritises experiences rather than products and are likely to try and maintain their standard of living.

Effective strategies: the YOLO audience will be receptive to brands who enable them to maintain their lifestyle, by offering things such as flexible payment options, monthly payment plans and/or promote quality of life benefits. Additionally, this audience will want to stay with their usual brands so rewarding loyal custom will also be effective.

Generally, brands that show empathy, especially in times of uncertainty, are likely to succeed

Our data suggest that there is a strong correlation between brands with high empathy scores and accelerated growth levels. Specifically, a recent study showed that the top 20 brands that showed emotional intelligence saw a share price growth from 2010 to 2020 of 682%[8]. If we look back across the pandemic, it is tangible that people are welcoming brands that have shown their human side or responded to consumer needs. This is again in focus as consumers face the next challenge of the living crisis.

Therefore, it is important to understand the impact on consumers, especially as circumstances vary hugely

Some people will have saved large amounts over lockdown and see inflation as an irritation rather than a major threat. Others are already struggling, though, and even small price changes will tip them into serious financial hardship. Given this, brands should assess their customer segments and understand how an economic downturn will affect each segment differently. Additionally, understanding the potential impacts within their sector will be vital in shaping short-term strategies.

Within this, brands should look to reduce risk for the consumer

In 2019, around half of consumers would be happy to "take some risks for the chance to enjoy greater rewards". As of January 2022, that figure has reduced to 39%[9], fuelled by the pandemic and now inflation. Given this context, the best approach is to build value into a broader risk-reduction approach.

Brands can do this by:

- **Leveraging the scale & familiarity of the brand:** Kantar data shows that during disruption, consumers turn to the most familiar brands. Scale is also significant in the current reality of supply chain problems. Not all brands have this capability, but they should convey a 'big' image to comfort, reassure and reduce the risk for consumers

- **Ensure warranties & guarantees cover the consumer:** A good way to reduce consumer risk is by offering warranties, support, and guarantees to protect the consumer, particularly when making big-ticket purchases. This was common during the 2009 recession, where these warranties & guarantees reassured and enabled consumers to make purchases.

And don't overlook the opportunity to build value

In times of disruption and financial uncertainty, people place value and familiarity over getting the lowest possible price.

Given this, we expect consumers to be laser-focused on value during a living crisis. Brands should decide where to position their products in a way that will optimise the trade-off between prices and benefits. Some strategies include:

- **Promoting different price ranges:** in the 2008 recession, mid-market businesses promoted different price ranges, from budget to indulgent, in order to compete with other low-cost retailers. This kept people shopping in the same place but allowed them to choose which price point suited them

- **Focus on longevity & quality:** our CCS panel suggests that consumers who are environmentally conscious when making purchase decisions have risen exponentially since the pandemic. Choosing quality over price is almost always the sustainable choice because it eliminates waste and improves efficiency. Additionally, in most cases, it saves consumers money in the long term compared to cheaper alternatives. This is another route in which premium brands can deliver value for customers.

Sources

1: Financial Times, February 3, 2022

2: Resolution Foundation, December 29, 2021

3 & 4: GfK: Consumer Confidence Report, February 25, 2022

5: Mintel: How inflation will shape EMEA consumers' behaviour in 2022 January 26, 2022

6: ONS: Energy prices and their effect on households, February 1, 2022

7: Kantar: Going Fast in a slowdown - a recessions impact on commerce, March 2, 2022

8: Carat Brand EQ Report, November 16, 2022

9: Kantar: Inflation and Risk Reduction, J Walker Smith, 2022

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