

CONSUMER MARKETING

Over the past 10 years there have been so many examples of economic crises all over the world. One of the most dramatic was in 2008 which was connected with the banking sector in the USA. Thirteen trillion dollars in wealth have evaporated over the course of the last two years in America and everyone is now questioning the future of capitalism and the financial industry. Many are looking at government mismanagement, and questioning where things are heading. And yet, at the same time, this may very well be a watershed in the history of capitalism, an opportunity for the consumer to actually take control and guide those in the financial sector to a new trajectory.

In order to understand this phenomenon, it is important to realize that it's not about consumer retreat. The consumer is empowered. Let us step back and look at what has happened over the course of the last two and a half years. In 20 years, we went from a plus savings rate to a negative savings rate. Consumers went on a massive spending binge. We bought extra-large cars, supersized products, we bought remedies for restless leg syndrome. All these things together basically created a situation where massive consumption drove us headlong into the crisis that we face today. The personal debt-to-income ratio basically went from 65 percent to 135 percent in the span of about 15 years, and as a result, consumers got over-leveraged. And of course our banks did as well, together with our Russian federal government. It was the United States of America, however, that set the policy and practice of almost all Russian Banks, so the situation was extremely similar.

However, attitudes among consumers have changed all over the world, who are now taking more responsibility. For example, Visa now reports that more people are using debit cards rather than credit cards. So they are starting to pay for things with money that they have. And they are starting to be much more careful about how they save and how they invest.

I want to stress that the consumer is not in retreat, and that this is a tremendous opportunity for the consumer, who drove us into this recession, to lead us right back out. And what I mean by this is that we can move from mindless consumption to mindful consumption. If you think about trends over the last three decades, the consumer has moved from savvy about marketing in the '90s, to gathering all these amazing social and search tools in this decade, but the one thing

that has been holding them back is the ability to discriminate. By cutting back on demand, consumers can actually align their values with their spending, and drive capitalism and business, not to be just about more, but about better.

The explanation of this realignment is based on Y&R's Brand Asset Valuator, proprietary tool of VML and Young & Rubicam. While trying to understand what's been happening in the crisis with the consumer marketplace, I found a couple of really interesting things. We're going to go through four value-shifts that we see driving new consumer behaviors. These are likely to result in new management principles.

The first cultural value shift that we see is a tendency towards something we call 'liquid life'. This is the movement from people defining their success on having things, to having liquidity, because the less excess that you have around you, the more nimble and fleet of foot you are. As a result, *déclassé* consumption is in. *Déclassé* consumption is the whole idea that spending money frivolously and ostentatiously makes you look a little bit old-fashioned. The management principle is dollars and cents.

So let's look at some examples of this *déclassé* consumption. On Madison Avenue, Porto Chervo, Stoleshnikov Street, and in many other places, people are actually walking out of luxury boutiques with ordinary, generic paper bags to hide their brand purchases. We see high-end haggling in fashion, luxury goods and real estate today, and a relaxing of ego: a sort of a dismantling of artifice.

And then we also look at this movement in terms of dollars and cents. What businesses can do to connect with this new mindset is really interesting. For example, a company called Utkonos figured out this liquidity thing with their customers. They found their consumers had more money at the beginning of the month, but less at the end. So what they did was they started to change their packaging; larger packs at the beginning of the month: smaller packaging at the end of the month.

Really interestingly, too, was the San Francisco Giants. They have just instituted dynamic pricing. This takes into account everything from the pitcher match-ups, to the weather, to the team records, in setting prices for the consumer. Another example of these types of innovation is the rise of the company, Zynga. Zynga has thrived on the consumer's desire not to be locked in to fixed-costs. Again, this is all about flexible cost, variable living. And lastly, some people are using a company called Hulu as a device to actually get rid of their cable bill. So, really clever ideas are starting to take hold, and marketers are beginning to understand.

The second of the four values is a movement toward ethics and fair play which is characterized by empathy and respect. The consumer is demanding it, and, as a result, businesses must provide not only value, but values. Increasingly, consumers are looking at the culture of companies, evaluating their conduct in the marketplace. So, what we see with empathy and respect, is the emergence of some really positive things from this recession.

So, from a value and values standpoint, companies connect with consumers in lots of different ways. Microsoft is doing something quite extraordinary. They are actually planning to retrain two million Americans in IT: using their existing infrastructure to do something good.

Also a really interesting company is Gore-Tex. Gore-Tex is all about the personal accountability of their management and their employees, to the point where they really kind of shun the idea of bosses. But they also talk about the fact that their executives, all of their expense reports, are put on to their company intranet for everyone to see. Complete transparency.

The third of the four laws of post-crisis consumerism is about durable living. We're seeing from our data that consumers are realizing this is a marathon, not a sprint. They are digging in. And they are looking for ways to extract value out of every purchase that they make. Witness the fact that Americans are holding on to their cars longer than ever before, 9.4 years, on average, in March. A record. In Russia the minivan has become more popular than a jeep.

Thus, what you see in this trend is also the accumulation of knowledge. Continuing education is up. Everything is focused on betterment, training, development and moving forward. We can also see an expansion of the DIY movement. I was fascinated to learn that 30% of all homes in America and 60% in Russia are actually built by owners. So, people are getting their hands dirty. They are rolling up their sleeves. They want these skills.

We see that with the phenomenon of raising backyard hens and chickens and ducks. And when you work out the math, they say it doesn't work, but the principle is there that it's about being sustainable and more self sufficient.

So, what brands can do, and companies, is pay dividends to consumers. They can offer durability, transparency, and a promise that they going to be there beyond today's sale. A perfect example of that is the company, Patagonia. Patagonia's Footprint Chronicles basically monitors and tracks every product they make, demonstrating social responsibility, and the ethical approach that are behind the products they make.

Another great example is Gazprom that spent approximately 35% of their

revenue on social programs. Or the interesting company SunRun. They have created a consumer collective where they install solar panels in homes and create a consumer-based utility, where the electricity that they generate is basically pumped back out into the marketplace. So, it's a consumer driven co-operative.

The fourth sort of post-crisis consumerism that we see is a movement advocating a 'return to the fold'. It's incredibly important right now. Trust is not parceled out, as we all know. It is now about connecting to your communities, connecting to your social networks. The fact is that 72 percent of people trust what other people say about a brand or a company, compared to 15 percent on advertising. So, in that respect, cooperative consumerism has really taken off. This is about consumers working together to get what they want out of the marketplace. Let's look a couple of examples.

A movement called 'artisanal' has become immensely popular, which is about locally derived products and services, and supporting your local community by buying locally produced cheeses, wines and other products. Also, is the rise of local 'currencies'. Realizing that it's difficult to get loans in the current financial environment, you're doing business with people you trust, in your local markets. So, this rise of local currency is another really interesting phenomenon. Another initiative in the United States was fascinating. They actually started, in some communities in the United States, to publish people's electricity usage and what they found out was when that was available on public record, electricity usage in those communities dropped.

And then we can look at what companies can do. This is all about the opportunity to be a community organizer; to harness community needs and expectations and to give them meaning. There are lots of really interesting examples here that we see. A company called Zagat has actually moved out of and diversified from rating restaurants, into actually rating healthcare. So what credentials does Zagat have? Well, they have a lot. Their network of people is a very powerful force in making their brand more elastic.

Then you look at the phenomenon of Kogi. This Kogi doesn't exist. It's a moving truck. It's a moving truck through L.A. and the only way you can find it is through Twitter. Or you can look at Johnson & Johnson's Momversations, a phenomenal blog that's been built up in which J&J basically is tapping into the power of mommy bloggers, allowing them to basically create a forum where they can communicate and they can connect. And it's also become a very, valuable source of advertising revenue for J&J as well. This plus the fact that you've got phenomenal work from CEOs from Ford to Zappos, connecting on Twitter,

creating an open environment, allowing their employees to be part of the process, rather than hidden behind walls.

You can witness this rising force of total transparency and openness that companies are starting to adopt because the consumer is demanding it. So, when we look at this and gain a broader perspective, it becomes clear that while the crisis that exists today is definitely real and a genuine threat, it's been tremendously powerful for consumers and has provided, at the same time, tremendous opportunities. So, when we look back and step out at this and see the beginning of these trends that we're seeing in our data, we see a very hopeful picture for the future of consumer marketing.