

BRC / EY Future Consumer Index

| Prepare for the K-shaped consumer



BRC

EY

Unlike the pandemic, and past financial crises, the current and upcoming challenges that consumers face over the holiday season have been forecast well in advance.

In our latest report into emerging consumer behaviour, in conjunction with EY, we are starting to see shoppers react to continued uncertainty and cost of living pressure. Although sensitivity to price increases across all categories is high, consumers are reacting differently to past crises. During the pandemic consumers learned a range of new ways of behaving and living, and they are using these skills to adapt differently to the current pressures. Retailers that best navigate these shifts will thrive during the difficult times ahead.

Unlike the pandemic, and past financial crises, the current and upcoming challenges that consumers face over the holiday season have been forecast well in advance. Consumers have had a chance to consider their responses, and prepare to change.

Whilst time to prepare doesn't mean an ability to cope, the consumer facing into this crisis is more resilient having navigated the fundamental lifestyle shifts involved in the pandemic. Consumers have engaged in new skills such as scratch cooking, repairing rather than replacing and stepping back from consumerism (if only because shops and outlets have been closed). These "conscious consumerism" skills helped consumers endure the pandemic and will prove useful for the future.



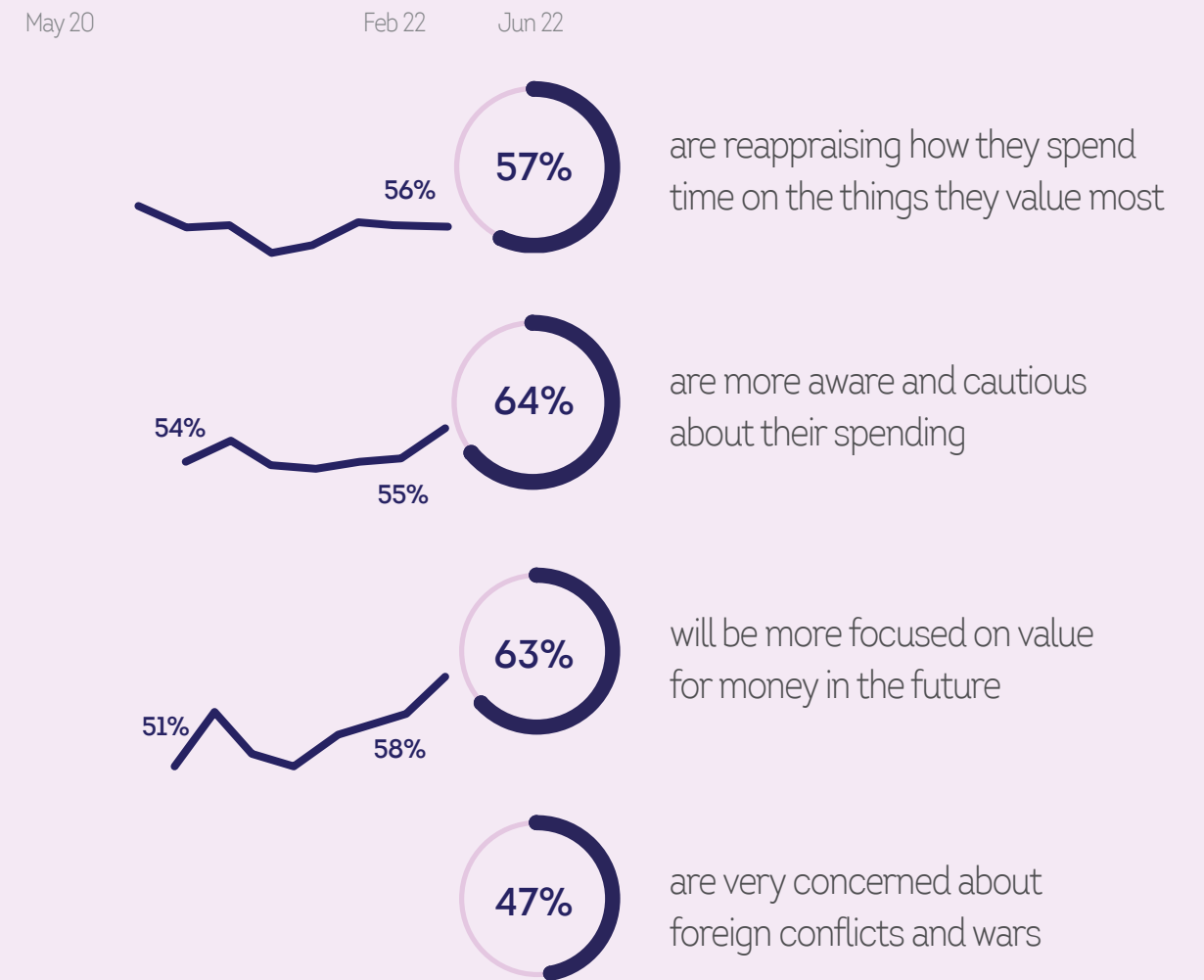


The Covid-19 pandemic has resulted in a permanent shift in consumer behaviour

63%

63% of consumers say they will be focusing on more value for money in the future

Consumers have adopted a post-pandemic "always on emergency" mindset to adapt to constant change



Consumers are increasingly becoming more aware of, and desensitised to, the psychological impact of disruptive events. This makes them more resilient to existing crises but equally more cautious about potential new crises. This will drive consumption habits that prioritise value without compromising on quality, experience, or purpose.

All consumer groups impacted by high inflation

Rising costs are the highest concern for consumers with perceptions of lifestyle and employment presenting fewer challenges

% of respondents who are extremely concerned about specific life aspects



The latest edition of the UK Future Consumer Index reveals that while consumers respond to increasing inflationary pressure and the threat of a potential recession, we see differences in consumer behaviour compared with previous economic downturns.

While the cost-of-living crisis has built up over recent months and will intensify over the winter, consumers have had time to react and consider how they will respond to the increasing financial pressure they are facing now and in the future. Almost two-thirds of consumers (64%) are more aware and cautious about spending money, while 63% said they would be more focused on getting value for money in the future. Perceptions of lifestyle and employment challenges are at the lower end of the scale in terms of consumer concern, while rising costs are top of mind for many.

The Bank of England has now made an official forecast for a recession in the UK caused by the real terms squeeze on household incomes, loss of consumer confidence and unprecedented pressures of business profitability.

However, it is also evident that consumers are becoming more used to disruptive events, and to some extent, more desensitised to them. Consequently, consumers are adapting more readily to these external factors and thus more resilient to change – and take action to mitigate the worst effects. Consumers are focusing more on value –. However, they still seek quality, experience and purpose in their purchasing.

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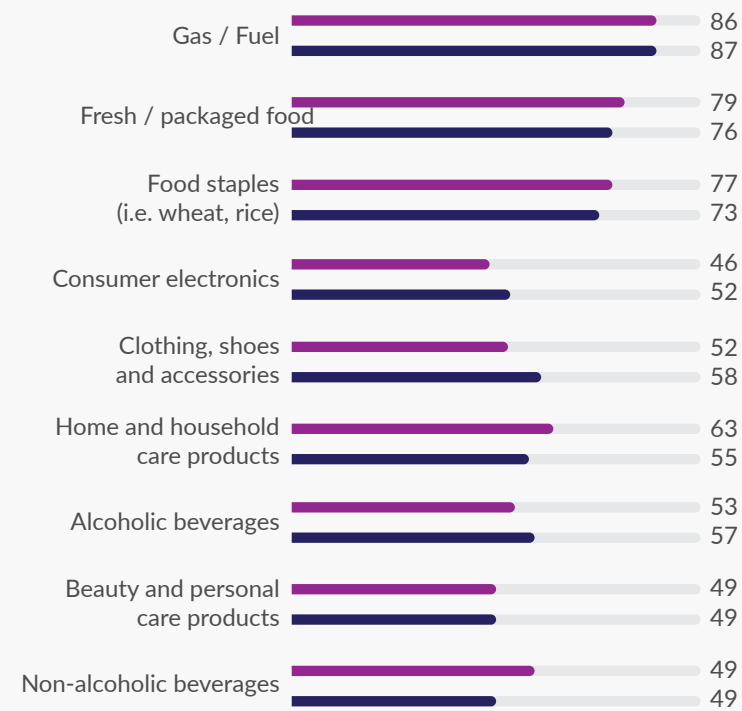


The impact of price sensitivity on discretionary spend

Many consumers are purchasing fewer, or cheaper items rather than sacrificing purchases altogether with discretionary categories particularly exposed

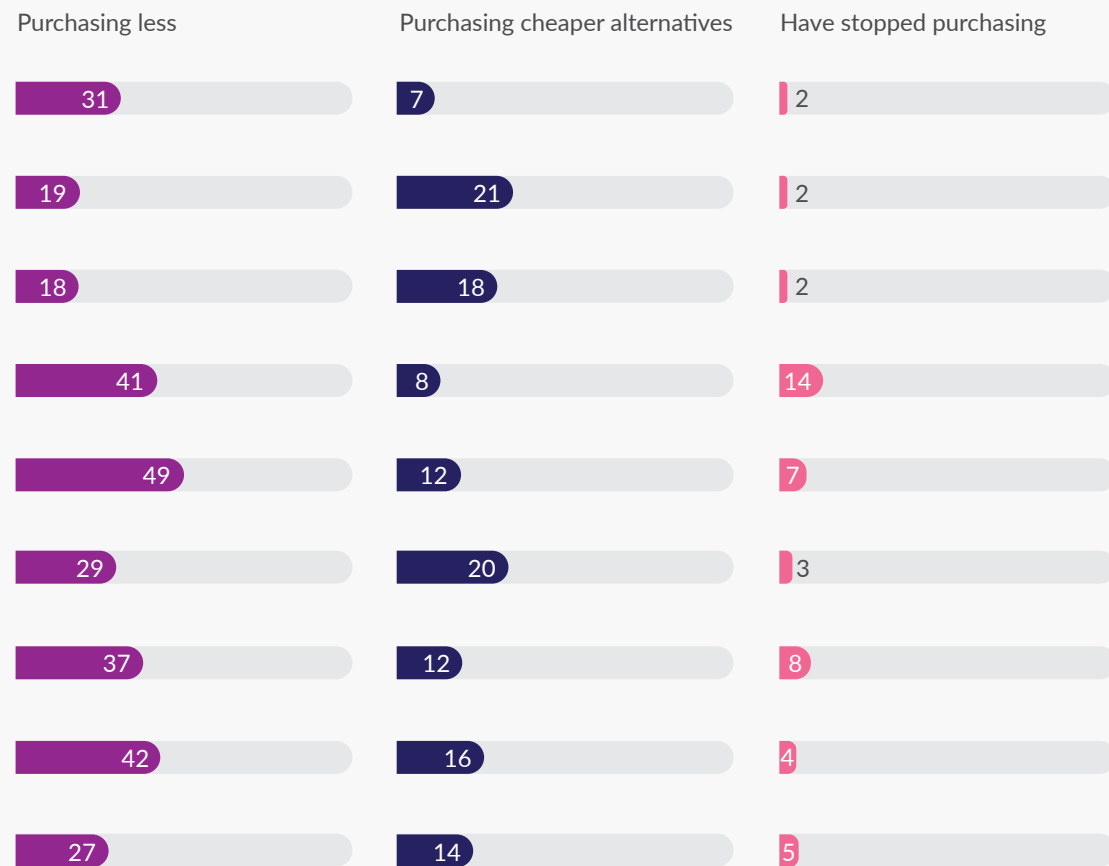


% of respondents who noticed/ expect price increases



● noticed price increase in the last 4 months
 ● expect price increase in the next 6 months

% of respondents who changed how they purchase after price increases



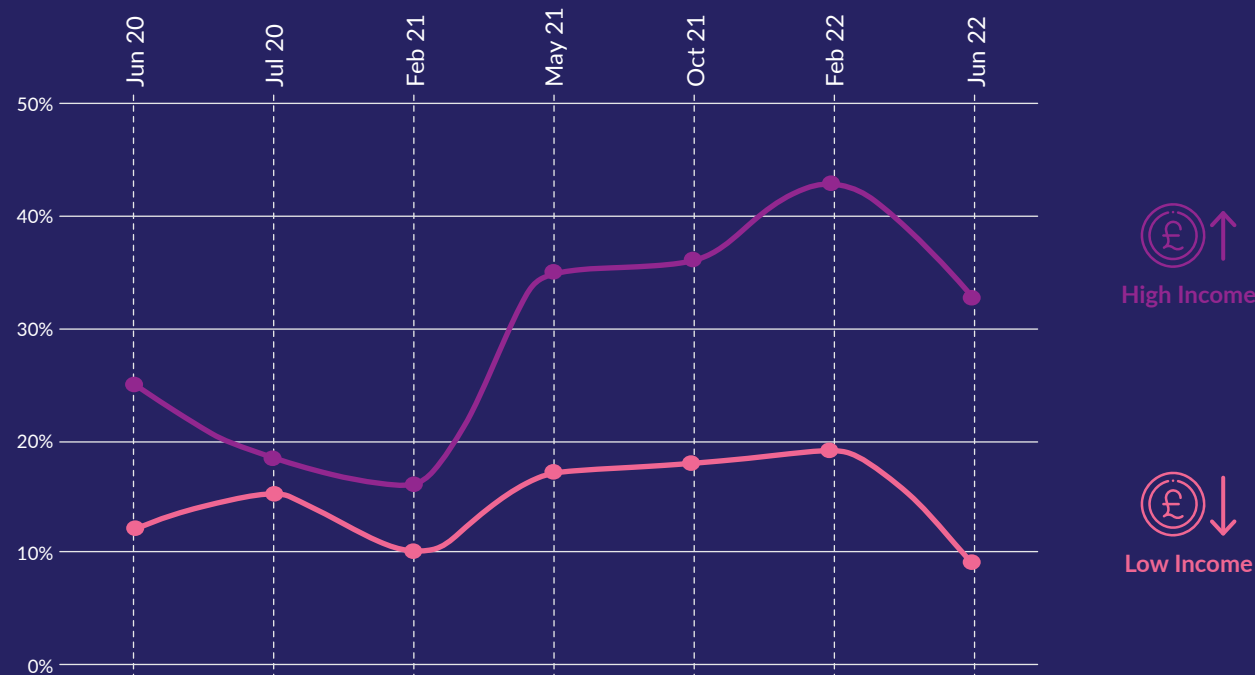
The biggest concern for consumers right now is their ability to cope with rising and interlinked energy, fuel and food costs. 80 – 90% of consumers have observed price increases in these categories. These areas of expenditure are largely essential, with limited scope for cutbacks. Around 60% of consumers have not cut back on spending in these areas as they are simply unable to do so. This acutely affects households with the least income, where the proportion of disposable income spent on food, clothing and heating their homes is significantly higher than for higher income bands.

When it comes to discretionary purchases, however, fewer consumers have observed price rises, consumer reaction has been more decisive. For instance, in clothing, shoes and accessories two-thirds (60%) of consumers have observed price rises but nearly half (49%) of consumers are buying less and 7% have stopped purchasing altogether. In consumer electronics, 61% have noticed price increases, but 41% are purchasing less and 14% are stopping purchasing altogether, the latter figure the highest across all consumer categories. These behaviours are part of a wider transition of UK consumers towards a more conscious consumerism, which we explore later in our section on sustainability.

Welcome the K-shaped consumer

Various income groups are recovering at different rates, giving rise to a K-shaped consumer

% share of consumers who are feeling better compared to 1-4 months ago



42% of consumers in the low-income bracket are focused on affordability first.

26% of lower-income consumers feel that their mental wellbeing will decline in the next six months

Middle - and lower-income consumers are under significant financial and personal stress, increasingly feeling the impact of the crisis



Understanding consumer wants, needs and behaviours is vital. EY teams research reveals that rather than consumer behaviour averaging towards the middle, we are seeing consumers polarise at two extremes. At one end are cash-strapped consumers who are watching every penny. At the other are those who are willing to spend - in certain circumstances - and want retailers and brands to excite and entice them to do so. Navigating this K-shaped profile in consumer behaviour is key to unlocking discretionary spend and thriving in the coming crisis.

When we look again at consumer wants and needs by income level, there is a very different picture. It's here that the K-shaped consumer becomes clear. Only 11% of high-income consumers, adopt an affordability first mindset. By contrast 4 in 10 (42%) low-income consumers are affordability first driven. Consumers in the middle are shifting towards these two extremes.

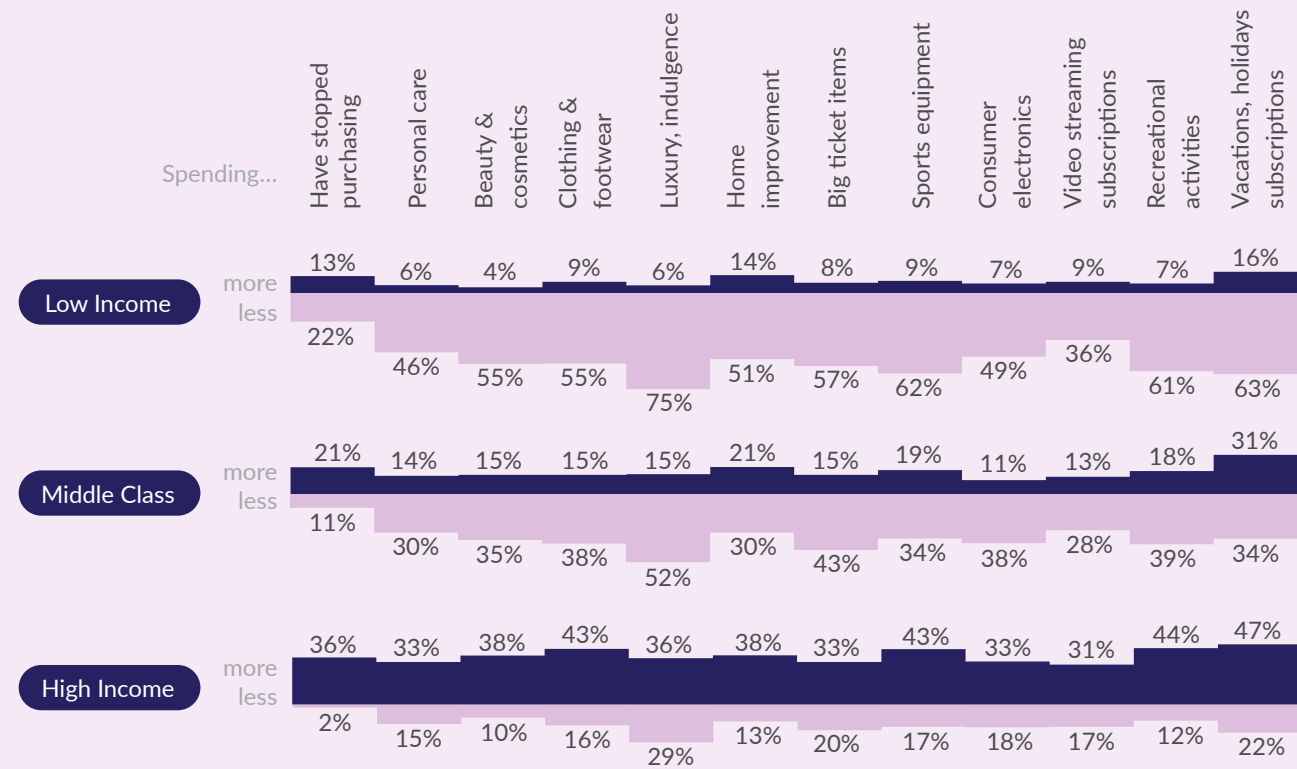
Pessimism is rife for low-income consumers, with nearly half (46%) saying that they feel worse compared with February. Forty-four percent expect their financial situation to be worse in 12 months and a quarter (26%) feel that their mental wellbeing will decline in the next six months. Only 39% feel in control of their lives, half of the 79% of high-income consumers who feel the same.

The number of middle-income consumers who expect their mental wellbeing to worsen (13%) is about three times higher than the number of high-income consumers (5%). A third (33%) expect their financial situation to be worse in 12 months, more than twice high-income consumers.

Opportunity in the k-shape

In the UK, price conscious consumers intend to spend less on non-essentials as they revert to routines developed during the pandemic

Expected change in spend in other categories in the next 3-4 months



- Low-income group is deprioritising spend on non-essentials, such as luxury, big ticket items or sports equipment
- In high income groups, a higher share of consumers intend to spend more on video streaming subscriptions, out-of-home activities and vacations, while in other income groups, a higher share wants to spend less

Note: excludes respondents who don't buy in the respective categories



Lower- and middle-income consumers are attempting to regain control

Lower- and middle-income consumers are increasingly focusing on affordability and price in their purchasing decision-making and are making radical decisions to cut costs. Discretionary spending has been hit hard: 37% are purchasing only the essentials, a significant increase from February's 26%.

Brand switching also continues, with a third (32%) of UK low and middle income consumers now trying new brands to reduce costs, an increase from just over a quarter (26%) in February. Spending on experiences, such as eating out, has also fallen to 37%.

Higher-income consumers are looking for reasons to spend

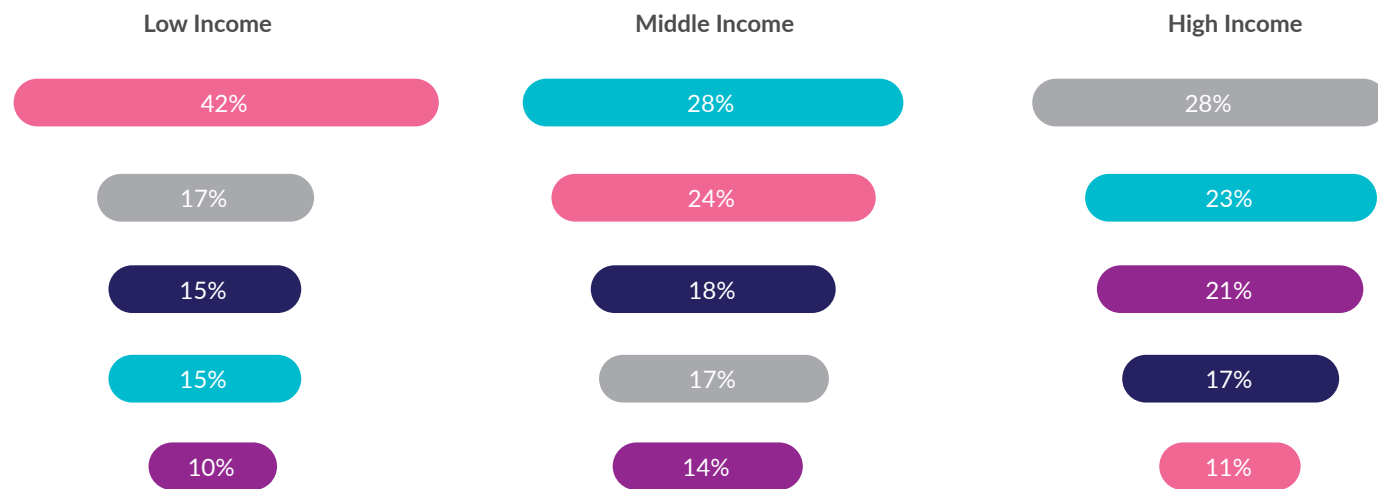
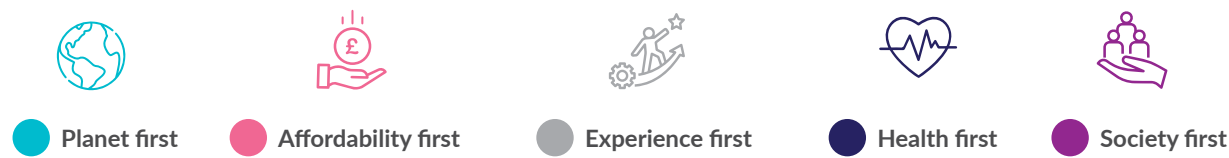
Yet whilst low- and middle-income consumers struggle to gain control of their finances, there is a group of higher-income consumers who are more willing to spend than ever and want a reason to do so.

61% in this income bracket say they are excited about spending money on things that will improve their lifestyle. The number buying more things because it makes them happy has risen from 50% in February to 54% in June, while those spending more on experiences (particularly vacations and out of home activities) has also risen, up to 62%, nearly twice that of their lower-income counterparts.



More conscious consumerism

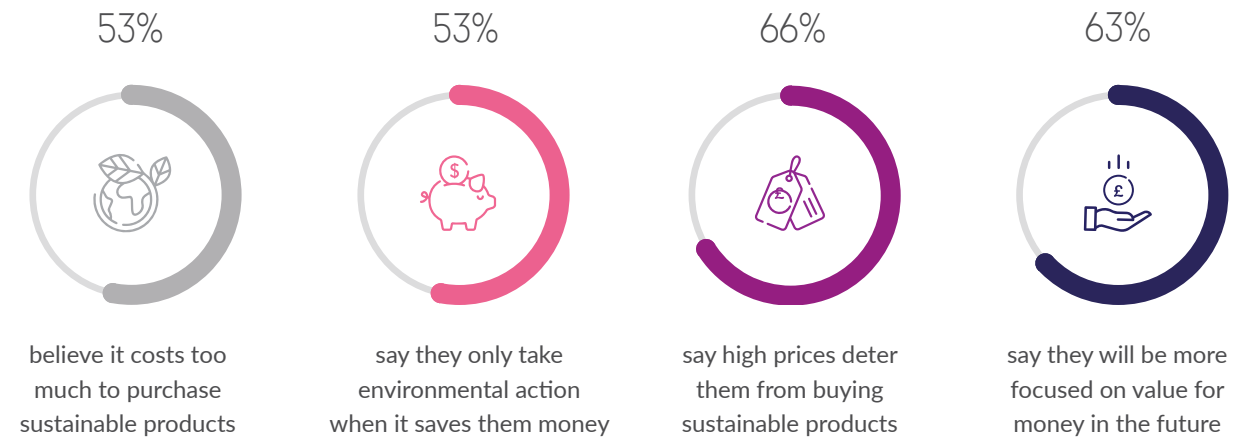
Middle - and lower-income consumers are under significant financial and personal stress, increasingly feeling the impact of the crisis



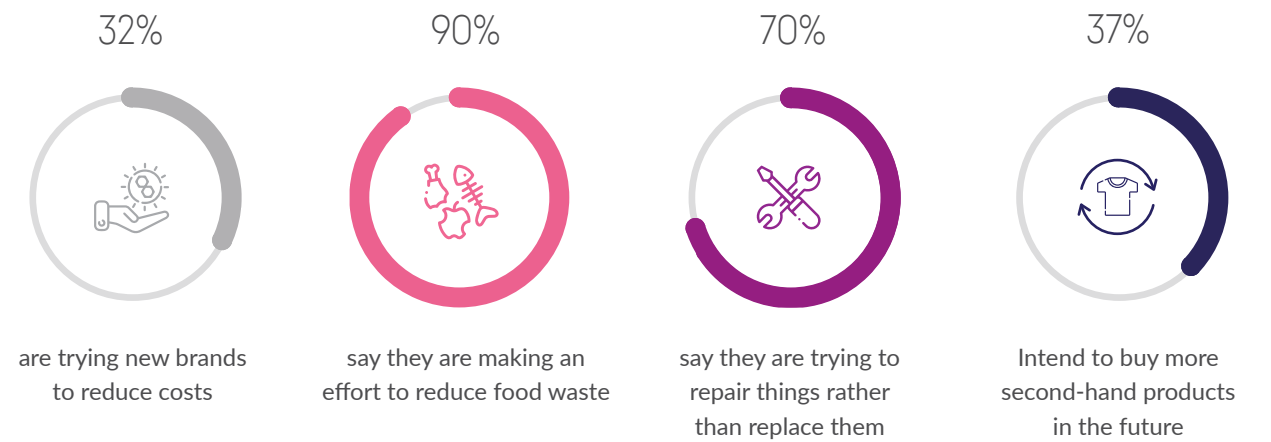
73% of consumers feel companies should drive positive social and environmental outcomes

64% of consumers don't feel the need to keep up with the latest technology trends.

High prices deter consumers from paying more for sustainable products



But they are expressing more sustainable behaviours through more frugal consumption



Inflation and the cost of living will deter consumers from paying a premium for sustainable products. Instead, consumers are looking for cost effective ways to live more sustainably.

Sustainability remains a priority for all consumers. Shoppers are making more sustainable choices and paying more attention to the environmental impact of what they buy. This trend is most noticeable among middle and high-income groups where 28% and 23%, respectively, are adopting a "planet first approach". Among lower income consumers, sustainability is a less important driver, with 15% of consumers adopting a planet-first mindset.

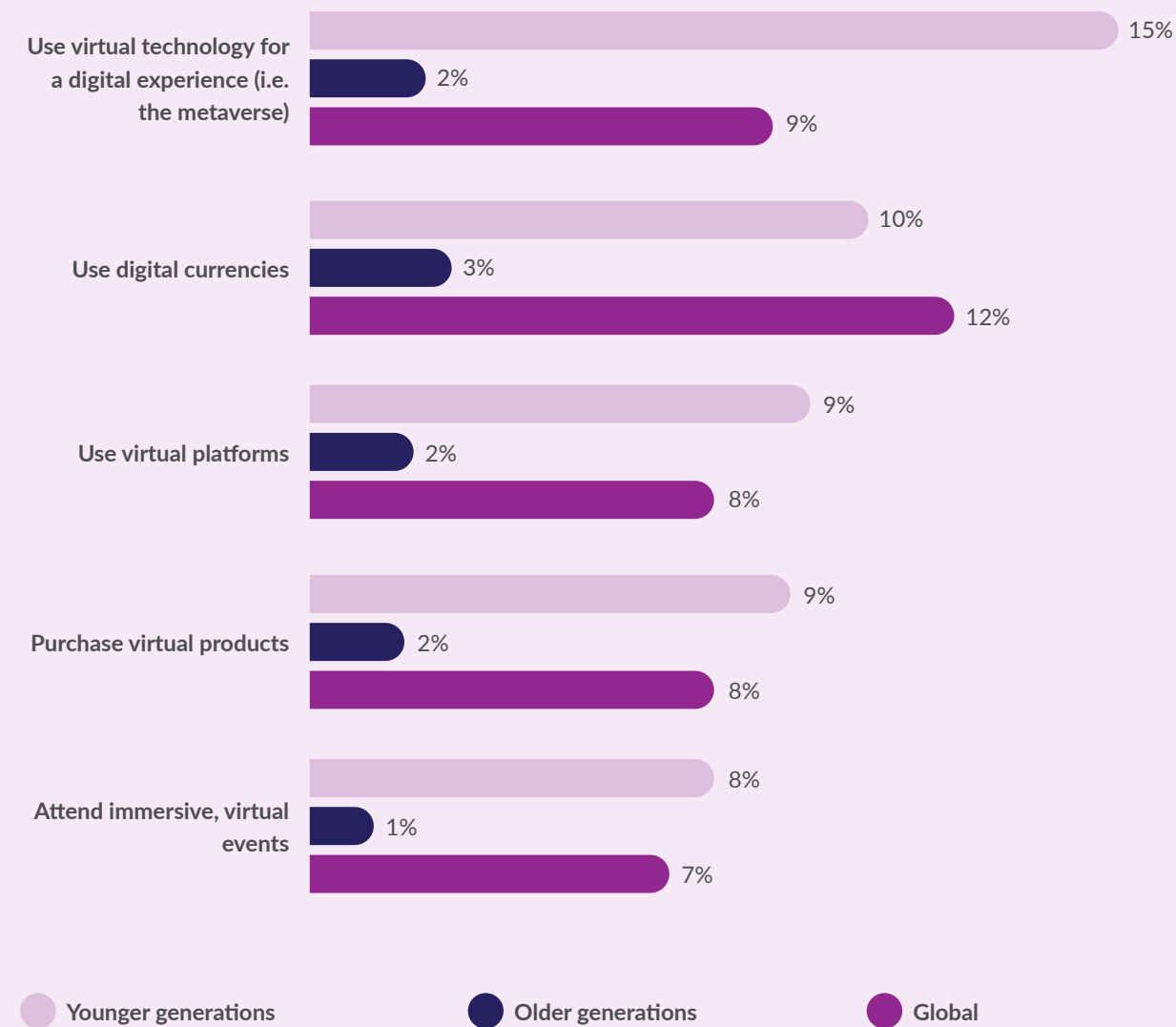
These sustainability priorities are manifesting in a shift towards conscious consumption behaviours rather than spending on sustainable products. Consumers are focused on making and mending, with 70% of all consumers prefer to repair things rather than replace them. At the same time, three-quarters say they are less interested in the latest fashion trends. Almost two-thirds (64%) 'don't feel the need to keep up with the latest technology trends. 37% of consumers say they are buying more second-hand products.

These trends are supporting consumers in managing ongoing pressure from the cost of living squeeze.

Wave of digital change

About one in ten consumers, particularly younger ones, are already engaging with emerging technologies and experiences

% of consumers who have used the following digital products/ services in the past three months by generation



Today, a quarter of all retail sales are transacted online. In categories such as Electronics, this is as high as 65%. Covid provided an immediate major boost to online, stabilising to an eight percentage point increase.

Covid immersed consumers in the online experience, some shopping online for the first time. Thus consumers have become more confident and digital-savvy since the pandemic arrived, providing the ground for a further wave of digital change. Younger consumers (aged 18-40 years) are leading the acceleration into emerging technology such as blockchain, cryptocurrency and metaverse.

One in 10 younger consumers reports that they have completed transactions using digital currencies, compared with only 3% in the over '40's age group. Experiences are also becoming increasingly virtual, with 15% of younger consumers having explored the metaverse, compared with 2% of adults aged over 40.

Although in its early stages, this new wave of digital change is shifting consumer expectations of digital experience from brands and retailers. When a consumer has a new experience, whether in the digital or physical world, their expectations are only heightened for their next interaction with any brand. Retailers need to be at the forefront of innovation to stay one step ahead.



Conclusion

EY's research provides a clear picture of how consumers are responding to this new economic crisis. The polarisation of response is unsurprisingly predicted by household disposable income. While real incomes are being squeezed, all income groups are looking for value, and as a result, switching is likely to be more frequent and consumers more transient. Retailers who are clear on their target core consumers and meet their needs will succeed most during this period.

Discount retailers will succeed because they will continue to serve consumers on low incomes whilst attracting new customers from the squeezed middle-income bracket, who are trading down in response to cost pressures, including mortgages hit by interest rate increases. Premium retailers will be protected somewhat by the relative amount of disposable income still available to higher earners. But there is no doubt that everyone will feel the pinch over the months ahead. Higher earners will still be looking for value as their relative disposable income falls, so this provides only limited protection.

Consumers' expectations across all income scales are still high and uncompromising. They seek ever greater value, delivered by socially responsible and sustainable businesses that provide them with a digitally connected experience. In the coming year "doing it all" is unlikely to work, especially as retailers make difficult investment and spending decisions. However, retailers who have already made sustained strategic investments will have a competitive advantage over others who have not yet done so. High-value, tactical investment which addresses 'consumers' top-of-mind priorities will be the order of the day.

So we have the choices - premiumisation or discounting - for the areas of the market likely to survive and ready to thrive through and after the recession. Retailers caught in the middle must make choices about their direction, before consumers vote with their feet when the cost of living crisis starts to bite in the coming months.



Helen Dickinson OBE, Chief Executive of the British Retail Consortium, said:

"While the pandemic greatly impacted how we shop, the cost-of-living crisis is affecting how much we shop. Soaring energy costs are forcing many consumers to cut spending, meaning affordability is now one of the primary drivers behind what customers buy. While some consumers are choosing to trade down, buying cheaper versions of what they used to purchase, others are simply purchasing less, or none at all. Furthermore, as inflation continues to rise, consumer confidence is falling steadily.

Retailers are playing their part to support their customers, offering discounts to vulnerable groups, expanding value ranges, fixing prices of essentials, and raising staff pay. However, as retailers also grapple with their own growing cost pressures, there is only so much they can shoulder. The result is many retailers are finding the current environment is worse than the height of Covid as they are squeezed between higher costs in the supply chain and lower demand from their customers. Retailers will need to be mindful of the economic situation as they choose what and how to sell to consumers. While many consumers value affordability, that does not necessarily mean buying cheap, and sustainability is still an important factor in many purchasing decisions."



Silvia Rindone, EY-Parthenon UK&I Retail Lead, Ernst & Young LLP, said:

"When we first began tracking consumer behaviour via EY's Future Consumer Index in 2020, it was in response to the unprecedented challenges presented by COVID-19. We could not have anticipated the extent to which global disruption would continue to test retailers across supply chains, energy prices and technology.

It's no secret that the next six months will be challenging for retailers. Inflationary pressure is impacting consumers and their willingness to spend, but these impacts are not evenly spread. Lower income consumers need more support than ever from retailers to help them manage their household budgets and day to day spending. Higher income consumers have been relatively unimpacted by the current crisis. Retailers need to learn how to target and address both ends of the income spectrum with appealing offers, smart prices, simpler ranges, and a sense of excitement and interest. Retailers that don't adapt to this polarisation and stay focused on the "middle" will face increasing pressures.

Shoppers also increasingly want their retailers to help them live more sustainable lives. This does not mean only sustainable products. Shoppers want retailers to help them recycle, let their products enjoy a second life and reduce waste. Retailers that respond effectively to conscious consumerism and build sustainability throughout their strategies will be best positioned to unlock new growth in the challenging times ahead."

Methodology

The ninth edition of the EY Future Consumer Index surveyed 18,000 consumers across the US, Canada, Mexico, Brazil, Argentina (new), Chile (new), UK, Germany, France, Italy, Spain, Denmark, Finland, Sweden, Norway, Australia, New Zealand, Japan, China, India, Indonesia, Thailand (new), Saudi Arabia, South Africa between 28 January and 15 February 2022.

The BRC and EY

The BRC and EY are delighted to be working together to bring you the very latest in research into the future consumer. We've created this report exploring EY's Future Consumer Index to help leaders understand and track emerging consumer behaviours and sentiment around the world. In this series we identify, we'll identify the new trends we see emerging – asking which are temporary reactions to changing circumstances, and which point to more fundamental shifts.

About BRC

The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.

-  The Form Rooms
22 Tower Street, London
WC2H 9NS
-  info@brc.org.uk
-  brc.org.uk
-  +44 20 7854 8900

About EY

At EY, our purpose is Building a better working world. Consumer products and retail companies are operating in a brand-new order, a challenging environment of spiralling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behaviour and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. EY's global teams enable our worldwide network of more than 44,000 sector-focused assurance, consulting, strategy, tax and transaction professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed, strategic choices and help you execute better and faster.

-  1 More London Riverside
London SE1 2AF
-  Get in touch with EY
-  +44 20 7951 2000

