

# READ THE ROOM

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# WELCOME

## Foreword

The UK's current economic and cost-of-living crisis is dominating the headlines. According to the Bank of England, the UK has been in a recession since the end of September and is expected to be so until the middle of 2023. After the financial crisis of 2008 and the fallout from the pandemic, it feels like we've been here before.

Whilst that might be true it doesn't mean you should take the same course of action as past recessions. The 2008 financial crisis had its own challenges, COVID was of course a unique situation, and the financial problems people are facing today feel very different than 14 years ago.

In dentsu's CMO report from 2020, we saw a worrying trend that half (49%) of CMOs were basing their strategies on those that were pursued during previous recessions. And just one in 10 were developing their response on an entirely new strategy.

Whilst there are lessons to learn from before, a new template is required. It's time to twist and throw away the standard playbook. So, what should you be considering?

Having a key understanding of your consumers is key.

Considering consumers' emotional reactions to the financial environment is a vital element that should inform your strategy. It taps into the discounts you offer, your messaging, pricing and payment options. Put simply, without a deep knowledge of consumer behaviour brand building is impossible.

### **So, how are UK consumers coping with the current cost of living crisis?**

Dentsu and B2B International have undertaken proprietary research to understand how different groups of consumers are responding to the current UK economic conditions. Delivering a framework of consumer behaviours and motivations of today's consumer providing recommendations for brands.



# ABOUT THE RESEARCH

Dentsu and B2B International conducted an online survey among a representative sample of 2,000 consumers in the UK.

The survey ran from 11<sup>th</sup> to 18<sup>th</sup> October 2022.

dentsu

B2B International

# CONSUMER ATTITUDES TO THE MACRO ECONOMIC CONDITIONS

1

Confidence in the UK economy is very low with little hope for improvement in 2023. More than 7 in 10 UK consumers believe the UK will enter a recession in 2023.

2

Financial and economic issues are the most concerning for UK consumers; political issues like immigration and equality are less important.

3

The impact of this is increased anxiety about household finances. Housing is stable for most, so the anxiety is about spending on bills, food, clothing and treats, as well as worry for their future security (saving, pensions etc).

4

A large proportion of consumers' monthly income goes towards essentials, and people are worried this will increase, limiting their ability to pay for these essentials or, for other, limiting their ability to afford the things they used to be able to, such as treats, tech and holidays.

5

However, not everyone feels this way. There is a tale of two lives in the UK – from consumers who have not made non-essential spending in the last month, to those who say they would not need to cut back on anything if energy prices & interest rates remain at their current level for another year.

# READ THE ROOM

Standing still is not an option. Facing up to the ongoing issues faced by consumers and tweaking plans to get the best value amidst rising inflation is imperative. As is being a trusted brand.

At dentsu we believe that knowing humans better than anyone else is key; understanding what drives their behaviour and their attitudes. However, we also know that it is critical to be focused on brands, how they grow and what they mean to people.

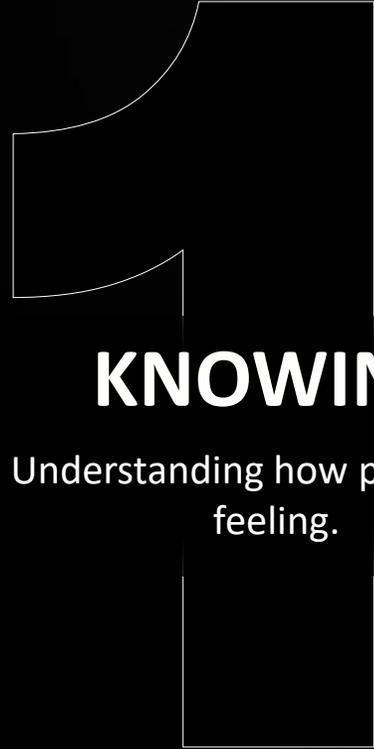
## People + Brands

Central to our approach is the notion that more human understanding and a belief in mutuality makes the world a better place. At the centre of our approach, is that *reading the room* and responding accordingly will help brands build better experiences for people to create a competitive advantage.

Whilst brand building may seem

complex in today's world, there are key steps that every brand can take. For many brands, it will require investment and a shift in strategy, which is why we have designed this playbook to help brands balance their way through these changing times. It starts with understanding your consumer.





# KNOWING

Understanding how people are feeling.



# DOING

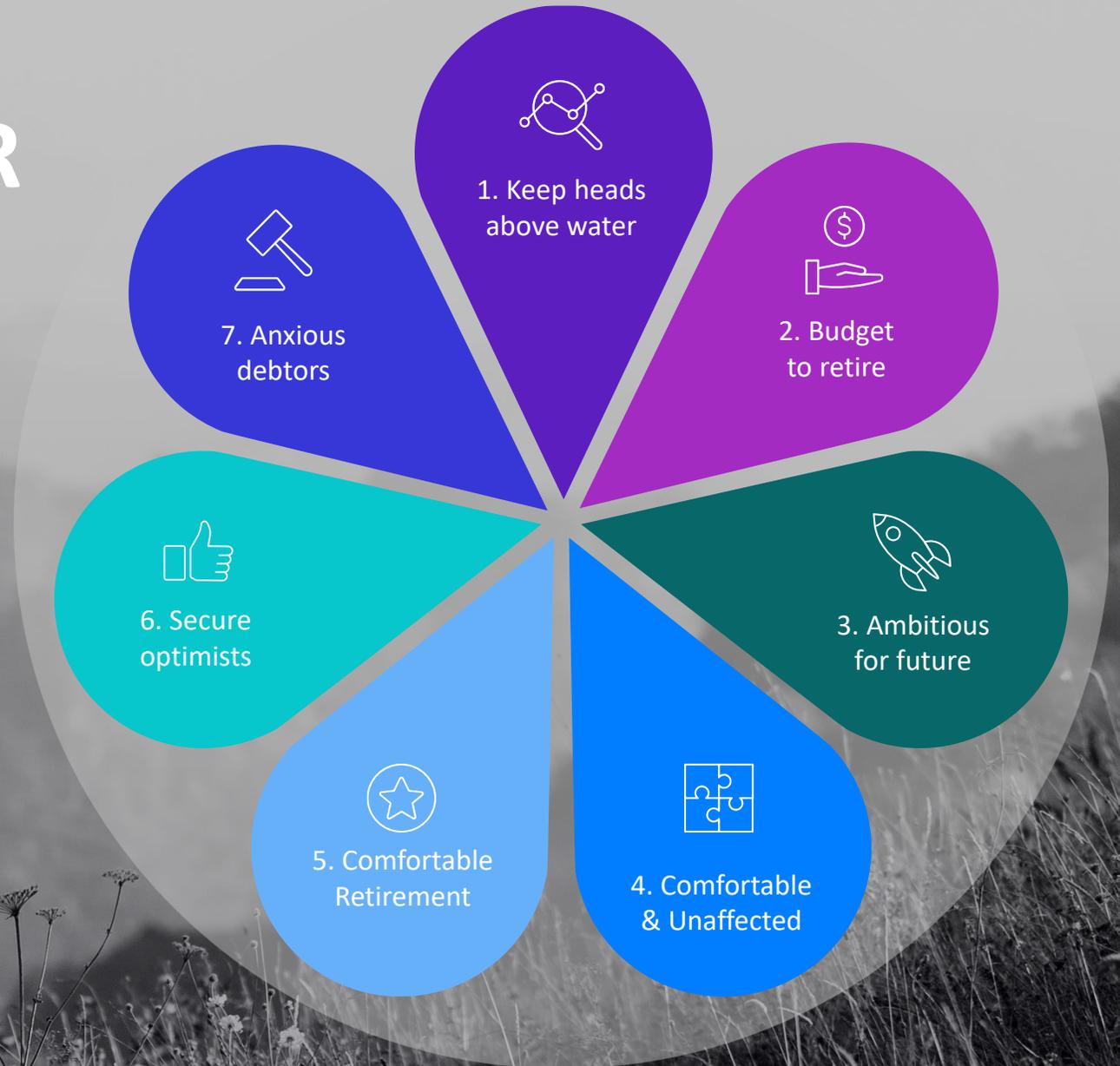
Taking action.

1. KNOWING

**UNDERSTANDING HOW  
PEOPLE ARE FEELING**

# UNDERSTANDING TODAY'S CONSUMER

From our recent research, we have identified 7 core groups in the UK, with key strategies that can be implemented to engage with them at this difficult time.



# Know your customers

Here are the key customer types and the most common characteristics to define them.



**Keep heads  
above water**



**Budget  
to retire**



**Ambitious  
for future**



**Comfortable  
& unaffected**



**Comfortable  
retirement**



**Secure optimists**



**Anxious  
debtors**

	<b>18-44</b>	<b>55+</b>	<b>18-44</b>	<b>55+</b>	<b>65+</b>	<b>55+</b>	<b>25-54</b>
<b>Age</b>							
<b>Financial Products held</b>	No investments or pension. Some have savings	Save, but also have credit card debt. No mortgage (own home outright).	Save, and have a pension. Have a mortgage.	Have savings, ISAs and investments, as well as credit card debt.	Have savings, ISAs and investments, as well as CC debt. No mortgage.	Have savings, ISAs and investments, as well as credit card debt.	Save and have a pension. Also have CC / BNPL debt, and a mortgage.
<b>Income is spent on...</b>	50% on rent.	45% spent on bills & food, but able to save a third of their income.	Mortgage / rent, savings, clothes, plus entertainment and non-essentials.	Spend more on savings and entertainment.	70% on bills & food. Also some entertainment.	The highest spend on other non-essentials, such as tech & holidays.	30% goes towards the mortgage. High spend on non-essentials.
<b>Attitudes about own finances</b>	Struggling to make ends meet and extremely anxious	Feel they are struggling & will be reliant on state pension.	Feel relatively stable, and not worried about the future.	Feel very comfortable, and cushioned by their savings.	Feel stable in their home, that they own outright, and are now able to enjoy their savings.	Feel relatively stable, but have some anxiety and financial struggles.	Struggling with debts. Hope that the recent increase in cost of living is temporary.

# Consumer behaviours and strategies



## Keep heads above water



## Budget to retire



## Ambitious for future



## Comfortable & unaffected



## Comfortable retirement



## Secure optimists



## Anxious debtors

### Attitudes

Price is the most important factor.

Will only buy at a discount. Having to reduce spend on food.

Price is the most important factor.

Having to reduce spend on food.

Trade-off quality vs. price. Ambitious and planning for a secure future.

Look for quality & do a lot of research before purchasing. They own their home and have plenty of savings, so feel cushioned from economic uncertainty.

Look for quality. Starting to need to cut back, as their income is fixed now they are retired, or close to retirement.

Trade-off quality vs. price. They have an optimistic outlook about the economy, and expect any pain to be short-lived.

Price is king, but good quality and independent shops are also sought. Enjoy researching. Now having to drastically change purchases, due to economic crisis.

### Effective strategies

Will be receptive to anything that makes their financial hardship easier. This could be low-cost value products, DIY alternatives or limiting price increases. They need reassurance.

This audience will appreciate brands helping them stick to their budgets over the long-term. This can be done by promoting bundles / loyalty discounts, or offering affordable alternatives. Brands should emphasise their reliability and familiarity.

They are beginning to cut-back on non-essentials, so brands should try to keep them with loyalty offers, payment plans, and promoting quality of life benefits.

This segment don't (yet) need to cut back. Some will want to be less conspicuous in their consumption. Brands can help by facilitating discreet purchasing, and advertising as products they deserve.

Brands will do well if they come top for quality and in reviews. They need to be trustworthy.

Will be receptive to brands who enable them to maintain their lifestyle. They will want to stick with their preferred brands, so rewarding loyal customer should be effective.

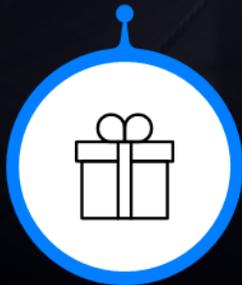
Will be receptive savvy ways to reduce outgoing costs, while maintaining lifestyle e.g. brand downshift, or offering something back to society that they want to be part of, such as brands with purpose or helping good causes.

# 2. TAKING ACTION

As the world around us continues to change and people at home are facing increased uncertainty, brands have a key role to play. The first step is to understand how uncertainty impacts consumer behaviour, but the real value lies in knowing how to respond to it.

**Here are some steps you can take to support your consumers.**

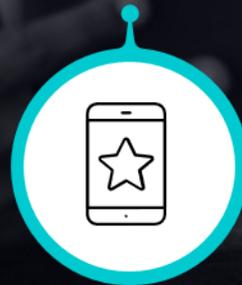
Brands I deserve



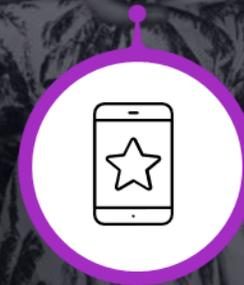
Financial wellbeing



Rewarding



Targeted Support





## Targeted Support



- Some consumers are simply struggling to afford essentials every month. They will have already traded to alternative brands and value ranges.
- They will appreciate brands offering targeted, temporary help, as well as connecting with customers' values.

1 in 3 UK adults interviewed in our research say they are struggling financially. In our two segments struggling the most (Keeping heads above water, and Budget to retire), some 85% of their monthly income is spent on housing, bills and food. They already buy budget ranges and shop at the cheapest supermarkets and high street stores.

They will appreciate brands offering targeted, temporary help, as well as connecting with customers' values.

Prominent examples of this includes energy companies offering financial support to their most in-need customers, and broadband

providers offering low-cost "social tariffs" with basic access to customers on specific benefits.

This sense of social responsibility links to other effective strategies, by appealing to consumers who want to use brands with a social conscience.

## Segments this will appeal to





## Rewarding



- Most consumers have become increasingly value conscious. This can simply mean rewarding loyalty for repeat custom.
- Buy Now Pay Later allows consumers to have what they want today. However, it is anticipated that as consumers look for ways to reduce the amount of credit they take on, more ethical financing alternatives may be sought.

Many consumers will continue, or want to continue, to buy the brands they love throughout this economic crisis. Some are financially secure enough to be able to do so, and some will prioritise experiences and socialising and save money in other areas.

The definition of “loyalty” has evolved since the introduction of loyalty cards, and consumers are looking for something more. Dentsu predicts that in the 2020s, customers will want to be rewarding for socially conscious, sustainable and wellness behaviours.<sup>1</sup>

An alternative way of looking at rewards, is to facilitate consumers being able to afford the things they want. Consumers are becoming more conscious that putting purchases on credit cards can increase anxiety over recessions and inflation. Buy now, pay later (BNPL) has enabled consumers with flexible, time limited, credit options. It is expected that in the next few years, consumers will use BNPL for small purchases. However, it can allow consumers to take on more debt than they can afford to repay, and consumers will call for more ethical financing alternatives.<sup>1</sup>

## Segments this will appeal to



<sup>1</sup> Dentsu's Future of Finance and Payments



## Financial wellbeing



- Some consumers don't understand why they are suddenly finding the cost of living so challenging. They have a good income, and wish they knew how to manage their money better.
- We have seen "wellbeing" take off in the last decade, and financial wellness is being recognised as contributing to this.<sup>1</sup> Brands will be expected to help consumers become more financially literate.

Half of the adult population of the UK (52%) feel very anxious about their finances in the immediate future, and only 1 in 4 (23%) would say they are saving enough each month for their future. Even in the most comfortable segments, not everyone is saving "enough", and there is anxiety about both the immediate future and looking ahead to retirement.

Financial wellness contributes to overall wellbeing when it can reduce stress and anxiety caused by feeling out-of-control.

Consumers are increasingly feeling at risk of financial hardship in the next 5 years.<sup>1</sup>

Banks and financial institutions can provide proactive education, guidance and tools to help consumers improve their financial literacy, financial planning and put them in better control.

Read more about this trend in Dentsu's Future of Finance and Payments.

## Segments this will appeal to



<sup>1</sup> Dentsu's Future of Finance and Payments



## Brands I deserve



- Consumers who have not seen their day-to-day affordability change want to continue to enjoy the lifestyle they have built for themselves.
- That said, they may choose to be less conspicuous in their consumption.
- Brands can emphasise their quality and longevity, so that even cost-conscious consumers can justify buying at a premium.

The most financially comfortable segments have continued to spend on their priorities, be that holidays, technology or their home. If energy prices and interest rates remain at their current level through 2023, most will continue to buy these things. The most popular 'treat' to cut back on will be take-aways (40-60% would choose to cut back on this before other things).

But in the current climate, consumers may want to be less conspicuous in their purchases. Brands can facilitate this through discrete purchasing.

Alternatively, or as well as, brands can help consumers justify the outlay by being quality brands worth the investment over the longer term, or prioritising experiences above "more stuff".

John Lewis is an example of a brand pivoting into this space with its new slogan "For all life's moments" - focusing on the importance of experience.

Tailored and bespoke services also address this need – it doesn't need to be exclusive or premium, just focused on the individual.

## Segments this will appeal to





# A FRAMEWORK FOR CHANGING TIMES

Whilst brand building may seem complex in today's recession, there are key steps that every brand can take.

For many brands, it will require investment and a shift in strategy, which is why we have designed this playbook to help brands balance their way through these changing times.

Here are three steps to help you stay ahead of the curve.

1

Map your brand's emotional intelligence and benchmark against the category strengths and weaknesses

2

Identify the cost-of-living impact on your customer base and audience

3

Identify the value exchange



# THANK YOU

To find out more about dentsu check our  
website

[www.dentsu.com](http://www.dentsu.com)

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