A LITTLE HAPPINESS GOES A LONG WAY

How to grow a premium brand during a recession

By Colin Ho and Chris Murphy | July 2020

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GAME CHANGERS

The current pandemic has had a wide-reaching impact on the economy. As countries implement necessary quarantines and social distancing practices to contain the pandemic, the rapid collapse in activity has slowed global growth to a crawl. Against this background of rising unemployment and growing financial concerns, consumers have tightened their belts and curtailed spending. This reduction in spending, however, is not an indiscriminate cut across everything consumers buy.

While attitudes and behaviors change during Covid-19, motivations and core values don't. One such motivation is the desire for pleasurable experiences through consumption.[1] Even during recessionary times, consumers have a need to purchase products for a pleasurable experience. While most consumers will look to cut total spending, many will still spend on affordable indulgences. This means that premium brands positioned as affordable indulgences can not only survive but also thrive during recessionary times.

FINDING WAYS TO INDULGE WHEN MONEY IS TIGHT: CROSS CATEGORY INDULGENCES

People don't walk away from premium brands in times of recession.[2] In fact, the need for small indulgences to bring a little joy into an otherwise bleak time magnifies the role premium brands can play. Consumers don't want to deprive themselves completely of what they like. Indulgences simply take on a different affordable form or product category.

Take Starbucks for example. During a recession, consumers may stop going to Starbucks for their weekly coffee fix to save money. A consumer may still indulge, however, by pairing a Starbucks creamer with a lower cost coffee brand for home consumption (e.g., Folgers). In this hypothetical example, the Starbucks creamer provides consumers with a way to indulge but at a more affordable price (see *Figure 1*).

Figure 1 Consumers are finding a way to indulge, but at an affordable price

$4.09

$4.99 **$7.29**

$4.09 x 4 cups over a month = $16.36

$4.99 + $7.29 = $12.28 (a cup each day for a month)

Source: Ipsos

This example makes it clear that a brand or product positioned as an affordable indulgence can help a premium brand thrive during a downturn. Instead of cutting back on marketing activities, brands should continue to invest in positioning their products and brands as aspirational and affordable indulgences. Consumers' desire for hedonic consumption persists despite economic conditions, and one strategy to satisfy a need to indulge is affordable luxuries.

Mark, Southam, Bulla and Meza[3] provide an empirical example of a premium brand thriving during a recession via cross-category “switching”. The authors analyzed sales data and found that consumers substitute dining out with dining in during a weak economy by increasing consumption of Certified Angus Beef, a premium brand in the beef category. As in the Starbucks example, there is an overall reduction in spend but consumers can still experience a luxury moment. (See *Figure 2*).

Figure 2 Cross-category "switching": Consumers are switching dining out with dining in with a premium brand

Source: Ipsos

Both the Starbucks’ example and Mark et al.[3] research also highlight the benefit of having several channels to reach the end consumer. In a recession when consumers don’t want to spend at restaurants or other food establishments, selling a premium brand direct-to-consumer enables consumers to continue indulging even when faced with budgetary constraints and/or social distancing.

FINDING THE RIGHT BRAND/PRODUCT WITHIN ONE'S PORTFOLIO DURING RECESSIONARY TIMES

For manufacturers with a portfolio of brands in the *same* product category that cover a wide spectrum of price tiers (e.g., portfolio of beer brands in different price tiers), brand managers may want to consider promoting, for example, the top brand in their 2nd tier product line during recessionary times. These 2nd tier brands are more likely than the top brand in the highest price point to provide consumers with a consumption experience that satisfies their desire for a pleasurable experience and is still affordable. The same principle would apply when *introducing new* brands during recessionary times: introduction of 2nd tier brands are more likely to succeed than top tier brands.[3]

Luxury goods companies have developed similar strategies for coping with economic downturns by offering expanded product lines that include lower priced products. These extended product lines allow consumers to continue indulging but at a lower overall spend.

For example, while consumers may no longer buy a $2,350 Yves Saint Laurent handbag during a recession, they may still buy one for $1,200 (see *Figure 3*). In fact, YSL introduced "Edition 24" a more sharply priced collection just prior to the 2008 recession. This collection's handbags priced at $1,200 contributed positively to cash flow through increased sales volume and simultaneously broadened YSL's customer base during that recessionary period.[4]

Figure 3 While consumers may no longer buy a $2,350 handbag, they may still buy one for $1,200

Source: Ipsos

IS YOUR PRODUCT CATEGORY/BRAND AN AFFORDABLE INDULGENT?

Understanding the role of product categories/brands and how they satisfy consumers' needs to indulge is key for premium brands to succeed. Brands or product categories considered utilitarian will be replaced with lower cost alternatives. In contrast, brands/products considered as affordable indulgences will continue to be purchased or attract new buyers during a recession.

To provide additional insight into product categories that may be perceived as affordable indulgences, we share the findings from our Ipsos Essentials global survey of 16 countries with a total of 16,000 respondents (1,000 respondents per country). In this survey, we asked consumers to group product categories into four groups: "Essentials" (necessary for survival), "Treats" (indulgences whose immediate purchase is considered justifiable), "Postponables" (items whose purchase can be reasonably put off) and "Expendables" (items perceived as unnecessary).

The goal was to determine how consumers prioritize product categories in recessionary times. We focus on the "Treats" group given its relevance to our discussion (see *Figure 4*). Not surprisingly, foods that typically make us happy are grouped into "Treats" (e.g., candy, ice-cream, chips). However, we also see less obvious product categories like nutritional bars and pre-made meals classified into this group.

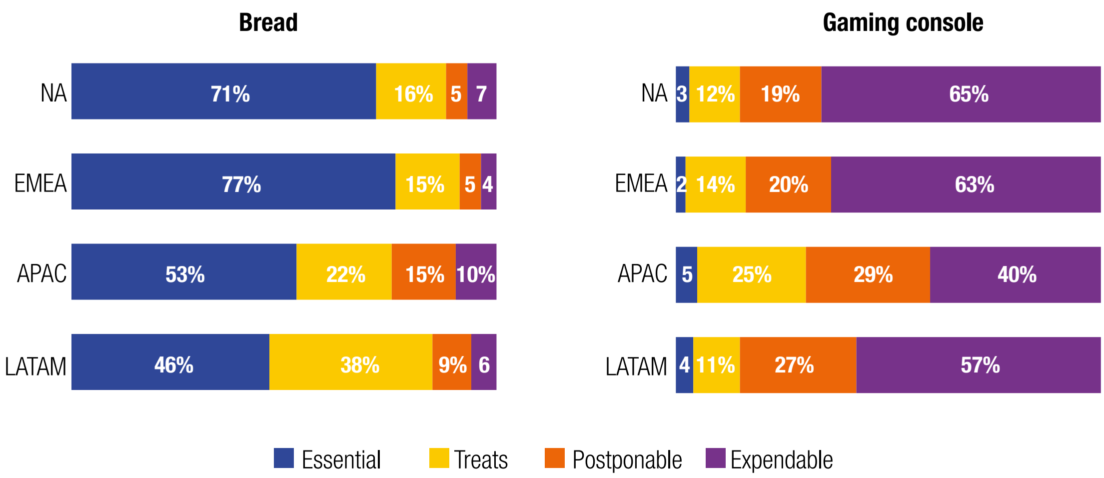
The classification of a product category can vary by geographic region and consumers segments. For example, consumers in LATAM are more likely to view bread as a "Treat" and less as an "Essential" compared to consumers in other regions (see *Figure 5*). In contrast, consumers in APAC and LATAM are more likely to view gaming consoles as a "Treat". The key point is that during recessionary times, consumers reassess their priorities. Understanding where your product category and brand fall is critical.

Figure 4 Product categories by grouping – only top product categories shown

ESSENTIALS	TREATS	POSTPONABLES	EXPENDABLES
(90%) Fresh vegetables/fruit	**(63%)** Candy/sweets	**(50%)** Furniture	**(60%)** Arts and crafts
(84%) Eggs	**(53%)** Chocolate (boxed, bars, tablets)	**(50%)** Clothing, shoes	**(57%)** Jewelry, accessories
(81%) Pasta/rice	**(50%)** Frozen snacks/ice cream/ frozen desserts	**(49%)** Smaller home/kitchen appliances	**(56%)** Portable speakers (with Bluetooth)
(78%) Paper products (toilet paper, napkins, paper towels, tissues)	**(49%)** Savory snacks (chips, crisps, pretzels, ...)	**(48%)** PJs/loungewear/underwear/ socks	**(56%)** Gaming console
(77%) Oral care products (e.g. toothpaste, mouthwash, floss)	**(39%)** Nutritional bars/snacks	**(47%)** Big home/kitchen appliances	**(54%)** High-quality headphones
(76%) Fresh meat/fish	**(39%)** Juice	**(44%)** DIY	**(53%)** Spirits (e.g. whiskey, gin, vodka)
(75%) Laundry detergent/pre-wash	**(37%)** Carbonated/fizzy drinks	**(43%)** Computer (e.g. desktop, laptop, tablet)	**(51%)** Interior decoration
(72%) Milk/milk drinks	**(35%)** Premade meals (frozen meals/pizza, delivery, ...)	**(36%)** Facial skin care products	**(49%)** Wine
(71%) Hand sanitizer		**(36%)** TV	**(49%)** Camera
		(31%) Cell phone/smartphone	**(48%)** Cider
			(47%) Sports drinks

Source: Ipsos Global Essentials Report Wave 5, June 4-6

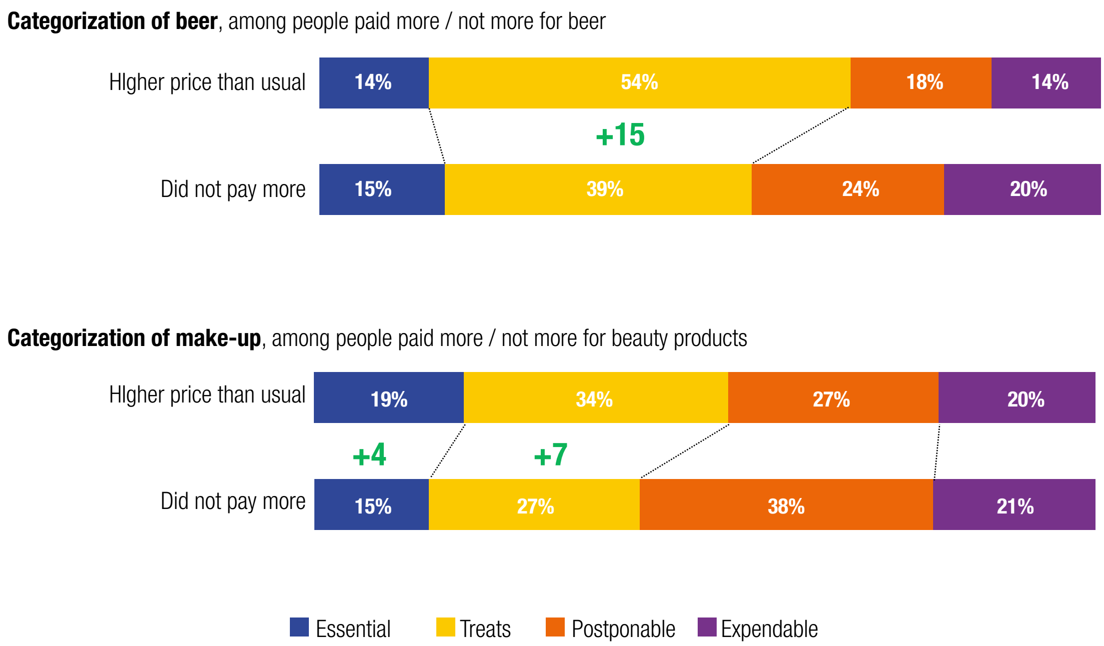
Figure 5 Consumers categorization of bread and gaming consoles by geographic region



Source: Ipsos Global Essentials Report Wave 6, June 11-14

Finally, we provide direct evidence that people are willing to pay more for an affordable indulgence even during this recessionary period induced by Covid-19. During the period June 25 through June 28th, 2020, we observed that consumers who reported paying more for beer and make-up were much more likely to classify these two product categories as a "Treat" (*see Figure 6*).

Figure 6 Consumers' categorization of beer and make-up by whether they paid more for the product bought recently



Source: Ipsos Global Essentials Report Wave 8, June 25-28

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Premium brands don't have to be negatively impacted in recessionary times. If anything, premium brands can grow if effectively positioned. While our examples have focused mostly on food and luxury goods, we need to keep an open mind on what constitutes an "indulgence". If we define "affordable indulgence" broadly as treating ourselves to allow an *extra affordable purchase to bring happiness, satisfaction or comfort*, then many product categories can be considered an affordable indulgence (e.g., a premium brand health supplement, a premium pillow).

There is an additional benefit for products/brands considered as affordable indulgences. Such indulgences are often ritualized and become an indispensable part of consumers' routines. Consider your daily morning coffee or that piece of chocolate you have after dinner. These are the little but joyful moments that become integral to our lives. During Covid-19 where many of our automatic brand selections and everyday behaviors have been disrupted, brands have a unique opportunity to build new rituals.[5]

Consumers differ in what makes them happy. Our job as marketers is to figure out what those things are and deliver. During a period where many consumers are anxious about both their health and financial well-being, a little happiness could go a long way for consumers and for premium brands as well.

KEY TAKEAWAYS

1 Premium brands viewed as affordable indulgences will do better during recessionary times. Consumers' need for little moments of joy continue to exist during this period of anxiety.

2 Discover whether your brand is viewed as an affordable indulgence, by whom, and in which markets.

3 Explore which market strategies would best position your brand as an affordable indulgence or if new brand innovations are needed.

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