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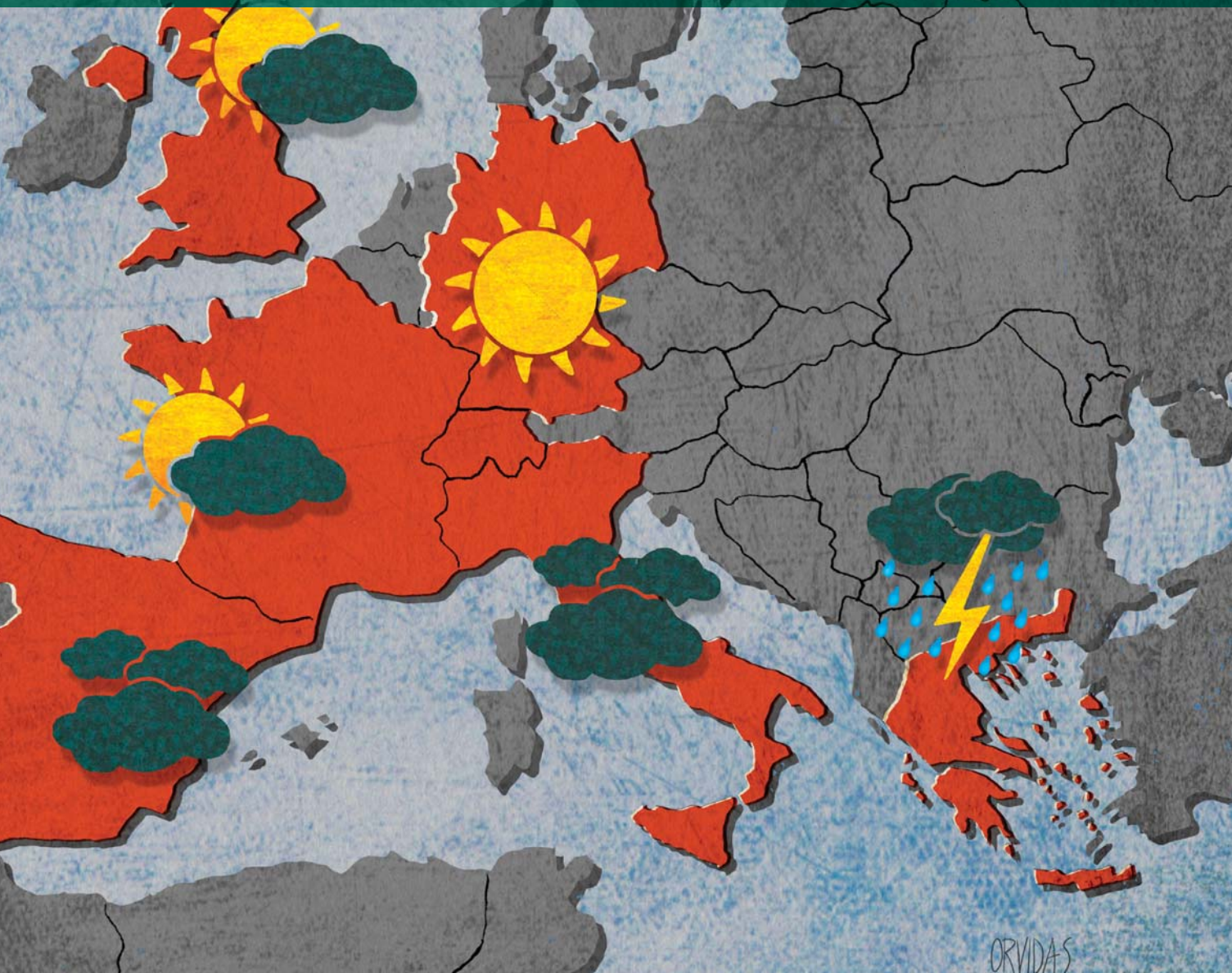
Tracking Consumers Through Europe's Debt Crisis



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Tracking Consumers Through Europe's Debt Crisis

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May 2012

AT A GLANCE

Europe's public-debt crisis, coming hard on the heels of the recession, has had a powerful impact on consumer sentiment. Job insecurity is rising. Nearly everyone blames governments and financial institutions. Yet reactions in the marketplace differ from country to country, shaped by consumers' economic prospects and dreams for the future.

National Attitudes And Changing Values

BCG's 2012 Global Consumer-Sentiment Survey measured levels of anxiety, pessimism, job security, and financial security, as well as values and spending patterns, across Europe. The results revealed four sentiment "climate" zones: relatively bright—Germany and Switzerland; partly cloudy—France and the U.K.; cloudy—Italy and Spain; and still stormy—Greece.

Different Countries, Different Strategies

Companies need to think strategically about their go-to-market plans and customize them for specific consumer groups and countries. They will have to adjust categories to unfavorable dynamics in a few markets, while building growth momentum in others. Some categories—especially those related to health, family, and stability—are poised to grow everywhere as consumers seek safe havens during the extended crisis.

Although signs of recovery have spread across much of the Western world, Europe is still in turmoil. Together, Greece, the EU5 (France, Germany, Italy, Spain, and the U.K.), and Switzerland saw little growth in 2011. Germany led the pack with just 3 percent growth in GDP, while the rest ranged from a low of –7 percent in Greece to a high of just 1.9 percent in Switzerland. Meanwhile, Greece, Italy, and Spain remain in a recession, and other countries are teetering on the precipice. High government debt and budget deficits have also sparked market fears of public default. To lower debt levels and appease the markets, some governments are attempting to reduce their budget deficits by trimming expenses, which is putting additional pressure on national and regional economies. Yet these politically charged austerity plans have done little to curb the massive debt burden.

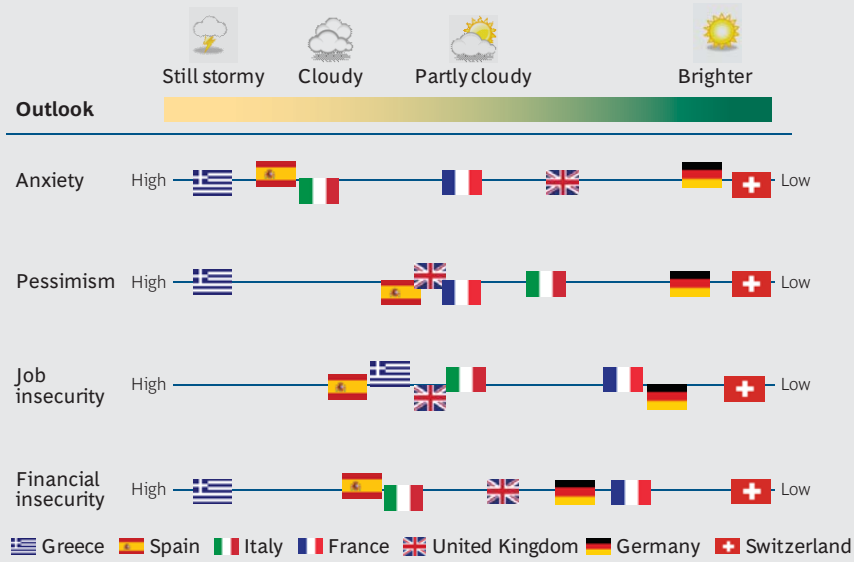
Many consumers in the EU5 and Greece are struggling with the twin realities of rising job insecurity and high household debt. Employment throughout Europe has failed to return to prerecession levels, and the total number of people out of work is expected to increase yet again in 2012. Greece and Spain have been especially hard hit, with more than one in five people unemployed. And despite job protections, France's unemployment rate has increased steadily since 2007 to nearly 10 percent in 2012. Household debt continues to pile up across Europe, with every country except Switzerland tallying a gross bill of greater than 60 percent of GDP.

Germany, where unemployment has fallen steadily despite the recession and debt crisis, presents a relatively positive picture within Europe. By holding wages steady, rather than raising them, the country has improved its competitiveness without increasing unemployment. That has enabled it to protect its export markets (so far) without sacrificing internal consumption. Germans have also enjoyed fairly stable housing prices. In fact, Germany is the *only* country to show real housing-price growth in 2009 and 2010.

Diverging Consumer Sentiments

The stark contrast in economic conditions across Europe has resulted in a wide range of attitudes about spending and shopping behavior. To create a more precise and nuanced map of changing attitudes by country, BCG's 2012 Global Consumer-Sentiment Survey measured levels of anxiety, pessimism, job security, and financial security, as well as changes in values and spending patterns.[1] (See Exhibit 1.) Except for levels of job insecurity, which were relatively similar in Greece, Italy, Spain, and the U.K., the results revealed sharp variances in consumer outlooks, depending on the country's economic situation.

EXHIBIT 1 | There Are Sharp Differences in Consumer Outlooks



Source: BCG Global Consumer-Sentiment Survey, March and April 2012.

Relatively bright: Respondents in Germany and Switzerland are the most positive about spending and the least likely to change their behavior. Declining unemployment and a moderate approach to personal spending have insulated German and Swiss consumers from the worst effects of the debt crisis. As a neighbor, but not a member, of the European Union, Switzerland has the lowest inflation (0.2 percent in 2011) of any country surveyed, the lowest unemployment rate (approximately 3 percent), and real retail-sales growth.

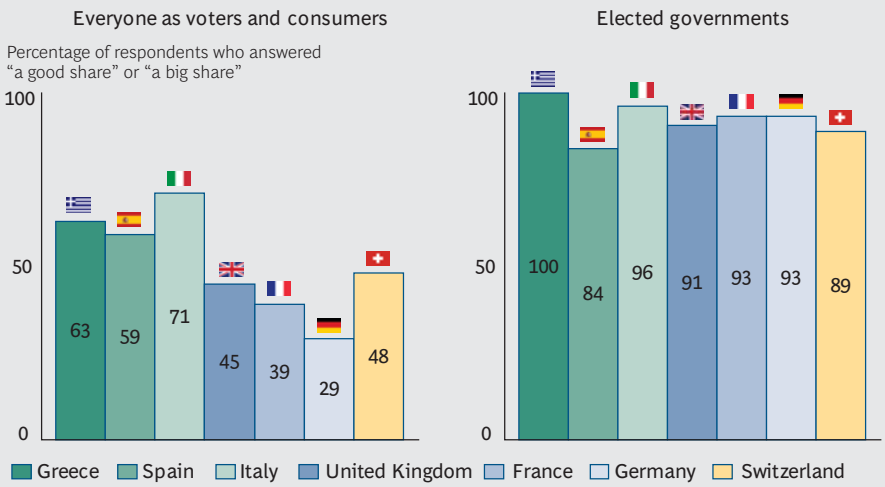
Cautious optimism was common in both countries, as fears of another recession within their borders have receded, albeit not disappeared. German and Swiss consumers were the least anxious of all Europeans surveyed, the least likely to say they intend to cut personal spending, and the most open to trading up in categories that matter most to them. Only about one-third of German and Swiss respondents said they were anxious—perhaps because they feel more secure in their jobs than other Europeans.

When asked about the causes of Europe's debt crisis, less than one third of German respondents said that consumers were to blame. (See Exhibit 2.) Germans were the least likely among the respondents to say they would change their shopping behavior; indeed, many believe they have been saving responsibly all along. Such optimistic attitudes are backed up by the continuing strength of inflation-adjusted retail sales in Germany, which grew modestly in 2010 and 2011.

Yet the Germans, and even the Swiss, have not escaped entirely from some effects of the debt crisis. Thirty percent of German respondents said they felt financially insecure (a significant increase over 2011), despite a steadily declining unemployment rate. And although concerns about jobs are lower in Germany than in most

EXHIBIT 2 | Who's to Blame for the Debt Crisis?

From your perspective, what share of the responsibility should the following stakeholders hold regarding your country's debt situation?



Source: BCG Global Consumer-Sentiment Survey, March and April 2012.

European countries, they have risen from 2011 levels—perhaps a reflection of the uncertain future of the euro zone.

Partly cloudy: Respondents in France and the U.K. feel uneasy about the future and focus on getting value for their money. Uncertainty about whether their countries will emerge unharmed from the crisis, or be dragged further down, is leading to greater anxiety among consumers in France and the U.K. Three out of five respondents in France said they were anxious about the future—a level not seen since the 2009 recession and perhaps a reflection of the increasing uncertainty surrounding the presidential election process at the time of the survey. In the U.K., anxiety hovered near 50 percent, while unemployment rose to nearly 8 percent there and nearly 10 percent in France. Across both countries, more than half of the respondents thought that the economy would not improve for the next several years. Almost everyone blamed government and financial institutions for the debt crisis, and less than half of the respondents said that consumers themselves should accept some of the responsibility.

Uncertainty about the future is also eroding feelings of security and well-being. In both countries, job insecurity is nearing recession levels. Moreover, consumers are unable to spend as freely as in the past, as average real wages have fallen for three consecutive years in the U.K. and have remained flat in France.

Cloudy: Respondents in Italy and Spain focus on saving to prepare themselves for a future that promises to be tough. The continuing recession in these countries has left many consumers feeling that their world is still collapsing, without an end in sight. High levels of anxiety and job insecurity have led to widespread intentions to trade down on purchases. Most respondents in these countries

expressed anger toward both government and financial institutions as those primarily to blame for the crisis.

Nearly three in every four respondents in Italy and Spain said they felt anxious about the future. Anxiety in Italy (71 percent of respondents said they felt anxious this year) is the highest the country has recorded in our survey since 2007. And Spain registered the highest rise in pessimism about long-term economic prospects of all the countries in the survey.

Most respondents in Italy and Spain expressed anger toward both government and financial institutions as those primarily to blame for the crisis.

Because many respondents in Italy and Spain said they felt somewhat or very insecure about retaining their current jobs over the next 12 months, it's not surprising that saving, which has increased in importance since 2010, was listed as the top priority for consumers in both countries. No doubt their uneasiness reflects the euro zone's uncertain economic prospects, but it is also driven by fears that high unemployment among the young and increasing pressure from businesses will persuade their governments to relax labor laws. This would eliminate some of the protections that the long employed currently enjoy, while also making it easier for companies to hire replacement employees.

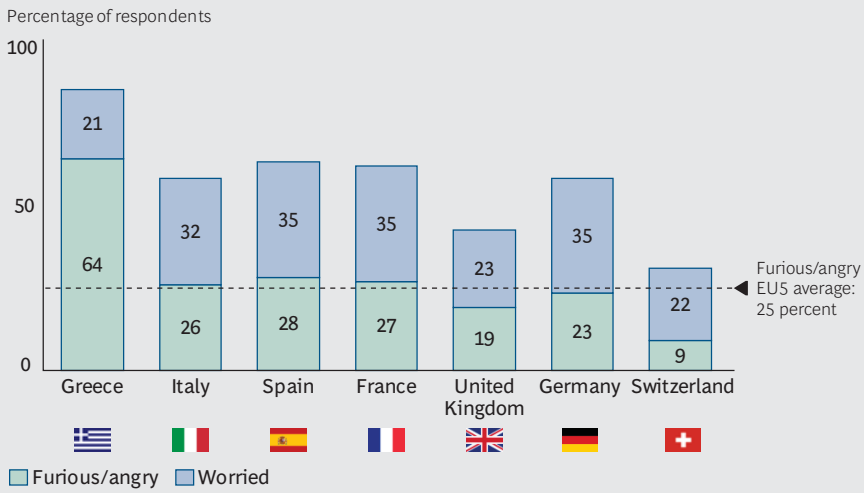
It's important to note that, despite similar sentiments across both countries, Italy's economy has held up better in the downturn, so far. Its unemployment rate stands at 8 percent, compared with Spain's 23 percent, and its household debt is just 59 percent of GDP, compared with Spain's 88 percent. Furthermore, real wages will stay flat through 2012 in Italy, while decreasing by 1.5 percent in Spain.

Still stormy: Respondents in Greece anticipate drastic changes in consumer spending. For most Greek consumers, the world has already collapsed; and as bad as things are, there is a clear belief that they will get even worse. Nearly nine out of ten respondents reported feeling anxious about the future—the highest anxiety level of *any* country surveyed in *any* year. More than 60 percent of respondents in Greece think that the economy won't improve in the next several years, and about 80 percent believe it will get even worse in the next 6 to 12 months. Since Greece is struggling with 20 percent unemployment, shrinking real wages, and retail sales that declined by an average of 13 percent each year for the last two years, the pessimism seems warranted.

Uncertainty about when the crisis will pass has led 70 percent of respondents in Greece to say they feel financially insecure or even in financial trouble. These sentiments are leading to a shift in values that promises to be lasting: this year, 14 times as many respondents said they planned to spend less as said they planned to spend more; moreover, 44 percent said they believe this change will last beyond the crisis.

All of the respondents in Greece blamed the government and 98 percent also blamed financial institutions as primarily responsible for the crisis—more than in any other country. Sixty-four percent said they were angry, or even furious, with their government's austerity measures. (See Exhibit 3.) Still, roughly two-thirds (more than in any other country except Italy) believe that *all* consumers are partly to blame.

Exhibit 3 | One in Four Respondents Is Angry About Austerity Plans



Source: BCG Global Consumer-Sentiment Survey, March and April 2012.
Note: EU5 = France, Germany, Italy, Spain, and the United Kingdom.

Common Ground

Although there are distinct differences in the economic effects of the crisis, we also found significant commonalities among countries in what consumers consider most important, such as getting value for money, products that benefit health and family, and a preference for local products to support local economies. (See Exhibit 4.)

Values Influence Spending Patterns

In all the countries in our survey, health, value for money, saving, family, and stability all increased in importance, while luxury registered the greatest decrease.

The countries that had been hit the hardest by the crisis showed the greatest interest in saving as a result—except for Greece, where consumers are just trying to make ends meet. In all countries, the desire to save is motivated primarily by precaution in case of another downturn. (See Exhibit 5.)

The Hunt for Value

In all countries, more consumers expect to decrease, rather than increase, their discretionary spending over the next 12 months by a ratio of at least four to one. Their plans for stretching their budgets are similar across Europe. Approximately 75 to 80 percent of respondents either agreed or strongly agreed that they would buy more products on promotion in the next 12 months. Consumers also said they were planning to cut spending significantly on nonessential items, with Greece leading the way (85 percent of respondents).

Nearly 80 percent of respondents (only 60 percent in Germany) said that they had been buying fewer items. They also said they were trying to waste less by purchasing only what they needed at the time and paying more attention to expiration dates.

Exhibit 4 | "Health" and "Value for Money" Are Becoming Top Priorities

	Greece	Italy	Spain	France	United Kingdom	Germany	Switzerland
Top values rising in importance since 2010	Convenience	Saving	Saving	Health	Value for money	Health	Health
	Health	Health	Value for money	Value for money	Health	Value for money	Calm
	Calm	Stability	Stability	Family	Stability	Calm	Environment
	Family	Value for money	Health	Calm	Wellness	Environment	Local products
Top values falling in importance since 2010	Luxury	Luxury	Luxury	Luxury	Luxury	Luxury	Luxury
	Wealth	Religion	Religion	Religion	Status	Religion	Religion
	Status	Patriotism	Patriotism	Excitement	Religion	Spirituality	Patriotism
	Local communities		Status	Spirituality	Bright colors	Altruism	Status

Source: BCG Global Consumer-Sentiment Survey, March and April 2012.
Note: The exhibit shows only the highest-rated values that changed significantly since 2010.

Consumers across Europe are also wary of spending money without recommendations from a trusted source, and the sources they trust most are clearly in flux. Respondents rated recommendations from people they know as the most reliable source by far, while trust in manufacturers' websites dropped significantly. Except for Greece, where the decrease was smaller, every country averaged a decrease of between 10 and 15 percent, from 2011 to 2012, in trust in manufacturers' websites, while trust in word of mouth increased in all countries except Italy. Advertising, as in past years, was the least trusted source.

Trading Up Selectively for Health and Family

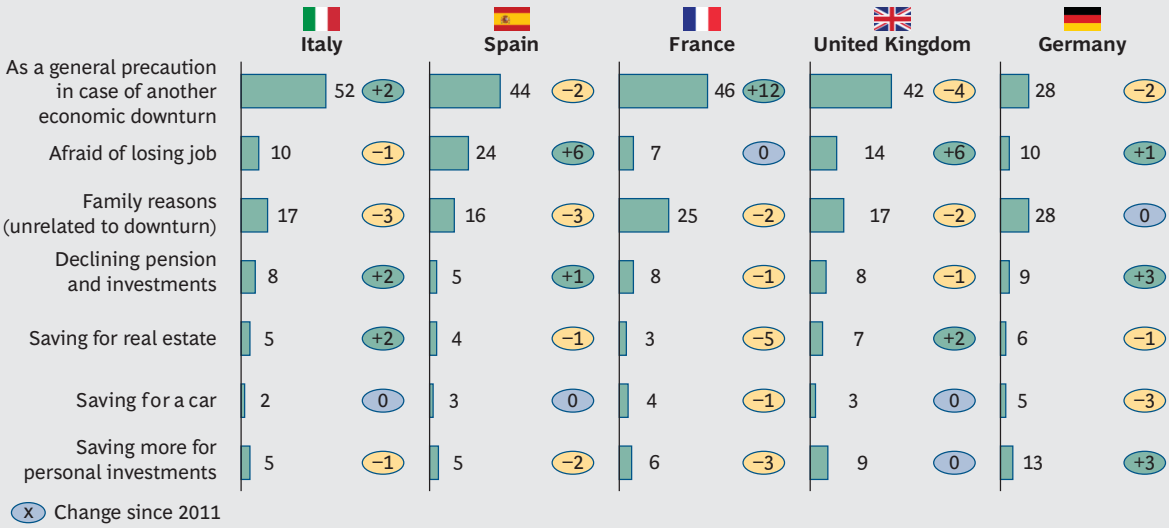
The increasing importance ascribed to health, family, stability, and wellness has made some categories—such as healthy dairy products, eggs, fruits, and vegetables—more resilient to consumers' overall plans to cut spending.

In all the countries surveyed, there was not a single category in which more respondents were planning to trade up rather than trade down. However, there were some items for which a high percentage of respondents were willing to pay more, and those categories were consistent with the shift in core values that we have been describing. For example, respondents were more likely to pay more for fresh and organic foods, in pursuit of better health. In fact, over the past year, health as a justification for trading up increased more than any other reasons cited.

Of course, these statements reflect respondents' *intentions*; the data on actual spending and share of wallet sometimes appear to tell a different story. Luxury was among the top categories for trading down in every country surveyed; however,

Exhibit 5 | Europeans Are Planning to Save More for an Uncertain Future

Reasons for saving more (percentage of respondents)



Source: BCG Global Consumer-Sentiment Survey, March and April 2012.
Note: Excludes the bottom income quartile for the purposes of longitudinal research. The sample was reweighted to reflect real income distribution.

across Europe, luxury spending as a whole has shown consistent annual growth of 4 percent or more since 2009. One explanation for this disconnect is that consumers have become accustomed to buying luxury goods on promotion or downshifting from a premium luxury choice to a midlevel one. In other words, they are trading down within the luxury category, rather than trading out of it.

One category to suffer from spending less on "nonessentials" and focusing more on a healthier lifestyle is full-service restaurants. In most of the EU countries analyzed (except Italy), the category contracted from a low of 0.6 percent in Germany to a high of 15 percent in Greece.[2] In most countries, snack foods were the second-highest category in which consumers expected to decrease spending. However, as people are increasingly pressed for time, the habit of snacking may continue to grow, but with more emphasis on foods perceived as healthy, such as fruits and granola bars.

Preference for Local Products

Consumers seem to be extending their sense of family outward, from the home to their home countries, as respondents are increasingly willing to buy domestic products. Ninety percent of respondents cited "keeping jobs at home" as a reason to purchase local products. But this goodwill has its limits: less than 50 percent said they would pay a premium for them.

The Silver Lining

Although there is considerable cause for anxiety in Europe, there is also reason for optimism in our findings. Many respondents in our survey, particularly in Greece,

Italy, and Spain, see the crisis as "an opportunity to renovate our societies for the better." Consumers who consider themselves part of the solution in preventing future crises may be more likely to stick with cautious spending behaviors, even after the crisis is over. And while consumers all over Europe blame governments and financial institutions for the crisis, most respondents (except in the U.K.) told us that they still support the euro and believe that abandoning it would be a mistake.

Although they are actively trading down, European consumers also remain open to trading up (albeit selectively) in categories that matter most to them. In this year's survey, German respondents demonstrated the greatest willingness among Europeans to trade up, especially in home goods (such as energy-efficient appliances) and high-quality fresh foods. By introducing innovative offerings in these categories with attractive pricing, companies can significantly grow sales, even in a highly value-oriented market.

Business Implications of Europe's Divided Sentiments

The crisis in Europe is not a normal downturn, in which short-lived constraint is followed by a period of sustained "normality." The changes in spending behavior that have resulted from the debt crisis are likely to continue having an effect on Europe's consumer landscape for the medium term.

Managers must shift their thinking from "We'll get by until the downturn is over" to "Economic turbulence is the new reality in Europe for some time to come." In this context, companies need an adaptive strategy to rapidly change cost structures, pricing, and other key inputs as they react to changing market conditions, labor regulations, and an environment in which uncertainty is a constant.

There are four imperatives for consumer companies that wish to successfully navigate Europe's consumer-sentiment terrain:

Although they are actively trading down, European consumers also remain open to trading up (albeit selectively) in categories that matter most to them.

De-average your markets: one strategy won't serve all. Because economic conditions and their impact on consumer sentiment vary so considerably across countries, companies must think strategically about their go-to-market plans and customize them for the conditions of specific markets. De-averaging will be key for country-specific pricing plans, cost structures, brand positioning, and marketing. A monolithic strategy might win in one country but lose in another. An independent, local-market-driven approach, founded on rich knowledge and deep understanding of consumer sentiment, will be crucial.

Understand what consumers value most—and provide it. Stability, health, and family have risen on the priority list. Therefore, enjoy-at-home products will have strong appeal, especially those offering health and stress-relieving benefits. So will trusted brands with heritage and history, as well as products manufactured or grown locally. Furthermore, as consumers leverage social networks more actively and seek out new sources of trusted advice, companies need to find innovative ways to participate in the dialogue and attract consumers with messages that resonate in the media they embrace.

Deliver tangible value. Companies should be prepared to provide proof of value and deliver on it. *Value* need not mean lowest price—although some consumers may have come to expect this because of heavy promotional activity in recent years. By encouraging consumers to think in terms of the product's total life cycle in categories such as durables, companies could justify a price premium by demonstrating longevity or lower costs in maintenance or energy usage. Refreshing the brand message will be especially critical. Given the focus on value, companies can expect private-label sales to continue to be strong. Companies in these categories should be prepared to either *compete head-on* by offering their own value brands or *offer a compelling justification* for a premium-price branded product.

Invest in a winning purchase experience. Companies should be prepared for longer cycles between purchases, especially for durables. For example, consumers tell us they are focusing on repair and maintenance rather than quick replacement, so they may be shopping less often and with more caution—willing to invest in quality and reliability but not flashy features. Or consider the fact that the average age of registered cars in Europe rose from 6.1 years in 1980 to more than 8 years by 2009.[3] Capturing these consumers at the point of replacement has become increasingly important, since the next opportunity might be years out. It will require excellent execution of the purchase experience at the retail stage, as well as attention to the "preretail" stage, when consumers research products and compare prices online. Companies can keep their brands top of mind at this point by making information about reliability and longevity available, easy to understand, and compelling.

Sustained uncertainty is likely to remain in most of Europe for some time to come. Consumers are starting to understand that, and their sentiments are a reflection of having to cope with the turmoil for much longer than they would have imagined just a few years ago. It is of course important that companies know how their customers' feelings have changed and the impact of their attitudes on spending behavior. But it is perhaps even more important that they understand how these sometimes complex and nuanced feelings differ by country. It will make all the difference in whether they succeed in this new reality.

Notes

1. See the appendix for details about the survey.
2. Euromonitor 2011 estimates.
3. European Automobile Manufacturers' Association data.

Appendix: Methodology and Product Categories Covered

The BCG Global Consumer-Sentiment Survey that underpins this report took place in March and April 2012. The countries studied were France, Germany, Greece, Italy, Spain, Switzerland, and the U.K. In all, more than 7,500 consumers were surveyed.

For the purposes of our longitudinal research, we eliminated the bottom quartile of respondents by income for some questions. The adjusted sample size for each country was as follows: France = 1,444; Germany = 1,451; Greece = 650; Italy = 1,442; Spain = 1,439; Switzerland = 1,150; and the U.K. = 1,443.

Respondents were allowed multiple selections on survey questions. The main survey consisted of 11 sections:

- General profile
- General sentiment and spending plans
- Perception of the economy, its impact, and consumers' coping mechanisms
- The debt crisis
- The upcoming presidential elections (France only)
- Environmentally friendly products
- Trading up and trading down
- Favorite brands and new products
- Digital/mobile/multichannel shopping behaviors
- The millennial generation and miscellaneous
- Sociodemographics

Consumers were asked about 18 product groups covering 100 product categories. Not all categories were covered in all countries. For an itemized list of categories included in a specific country's survey, please contact one of the authors.

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Acknowledgments

The authors wish to acknowledge the contributions of their colleagues François Aubry, Lamberto Biscarini, Charmian Caines, Carlos Costa, Emmanuel Huet, Sharon Marcil, Stefan Rasch, and Bettina Schönenberger.

They also thank the members of the central team: Noor Abdel-Samed, Emilio Gonzalez, Jean Li, Sarah Milton, and Matthew Smith.

Finally, the authors would like to acknowledge Sally Seymour for helping to write this report, and Katherine Andrews, Gary Callahan, Kim Friedman, Sharon Slodki, and Sara Strassenreiter for its editing, design, and production.

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