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RESEARCH

Affluent consumers still spending less in recovering economy: Booz

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The frugal habits that affluent consumers adopted during the economic downturn have continued or worsened over the past year, according to Booz & Co.

The report surveyed 2,000 consumers, breaking down the analysis of people with annual incomes of over $100,000 and under $100,000. It revealed that most consumers, even those from the more affluent sector, still feel uneasy about the economy and thus continue to cut back on spending.

"The major message there was when you compare the two segments was the higher income people said they are spending less over the last 12 years and if they are trading down in the products they buy," said Marcelo Tau, principle for Booz & Co, New York.

"The more affluent consumers are not trading down as much as the lower income segments in the categories and products," he said.

"They are postponing their spending in terms of categories, especially in apparel and shoes, but they are not trading down in terms of the brands they used to buy."

Cutting back

Consumer cutbacks on spending were greater this year than they were in 2010, according to the study. Fifty-five percent of respondents reduced on consumer electronics and 28 percent cutback on health and beauty products, household products and food at home. Consumers also traded down on essentials and switched to more inexpensive brands.

These findings were not the same among well-heeled consumers, however.

Forty percent of the lower income segment said they traded down in apparel and shoes, while only 25 percent of their affluent counterparts admitted to trading down.

In terms of spending, both groups have cut back, with 50 percent of respondents saying they spent less over the last 12 months.

Twenty percent of respondents with an annual income over $100,000 felt that they were in a better place financially than a year ago, versus the 13 percent of respondents that fell into the lower income segment.

"We believe that given the results people will not go out and start spending a lot," said Mr. Tau. "Recovery has been very slow. Unemployment is really high and people are not that optimistic about the upcoming year," he said.

"One difference is that when you look at the segments, when we asked them about how they felt over the past 12 months in terms of their financial situation, the high income people felt they were better off in terms of one year ago."

Luxury adaptation

The findings show that luxury retailers will have to adapt to wary affluent consumers. They will have to keep a very close eye on their inventory and be sure not to repeat the mistakes made in 2010, when retailers overstocked merchandise in the first three months of the year.

Retailers should also take advantage of the emerging online market place, particularly pushing deals in the apparel and shoes sector.

"There is a slow come back of those luxury consumers in the market," Mr. Tau said. "Not at the levels that we saw in 2006 and 2007, but they are slowly coming back.

"The message for 2011 is that consumers of the luxury segment will come back slowly and more and more," he said.< >< ><-->