

The Great Recession

*Its Long-Term Impact on Consumers
and Location-based Businesses*

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A White Paper Presented by:



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The Great Recession of 2008-2009 (and continuing for many people in many parts of the world) is unlike any since the Great Depression. The majority of consumers not only in America, but also in most Western nations and many other areas of the world have been impacted (the percentage ranges up to 86% in the U.S. and 55% in Europe). In parts of the world where the recession is not so severe, consumers are still adopting a *recession mindset* that is affecting their spending behaviors.

The economic turndown's direct effect on consumers has been multifold:

- High unemployment
- High underemployment (part-time work instead of full-time, lower wages than abilities warrant, and discouraged and stopped looking for work)
- Decrease in consumer revolving credit (credit cards)
- Increased savings
- Decreased wealth, including home values, stock, mutual funds, 401k's, etc.
- Low consumer confidence
- The result of all the above – decreased consumer spending



Now that the economists are claiming the recession is coming to an end, what will the post-recession landscape look like for location-based businesses? In order to reinvent businesses to thrive in the future, it is important to understand the long-term impact the recession will have on consumers, whether your business is a retail store, a shopping center or mall, a restaurant, a location-based entertainment facility, resort, tourist attraction or any other facility that needs to attract the consumer and their spending.

Our company is fortunate to have access to vast amounts of consumer research in many industries as well as our own proprietary research. We track consumer trends so we can help our location-based entertainment and leisure, shopping center and retail clients not only plan for success in the present, but the future as well. During late 2008 and 2009, there has been a substantial amount of serious and in-depth research on the long-term impact that the recession will have on consumers, what is often referred to as the *new normal*, the *grounded consumer* or the *new consumer*. There is unanimity with all the research – the Great Recession has permanently transformed consumers. There will be no return to the way things were before the recession.

According to advertising agency [Hill Holliday](#), this recession has been different than any others “not just because of its severity, but because it has resulted in the crystallization of many values people were reassessing even prior to the economic crises.” [Context-Based Research Group](#), an ethnographic firm, has been tracking the effects of the recession since 2008. In their

most recent U.S. October 2009 qualitative research and analysis, they say people are *coming to age* in the Great Recession. *Coming to age*, they say, is when people experience a major epiphany on how life works, which triggers a *rite of passage*, producing a major life transition that leads to new attitudes and new ways of acting in the world. *Hill Holliday's, Context's* and other firms' research, including *Zogby International* (discussed later), shows that the classic American Dream, referred to as *Homo economicus* (material wealth) has died; 78% of Americans in *Zogby's* recent survey agreed. Their research showed "a culture and society moving into an era where we truly measure the quality of our lives in social terms before economic ones," a new dream is being born that focuses on freedom and ideals rather than material possessions."

Context's analysis shows that "the changes in behavior we are seeing are a permanent shift and not merely a temporary holding pattern because the changes come from self reflection and an evaluation of personal values." Their research shows that 93% of Americans have become more strategic in how they spend, evaluating how their purchases fit into their lives rather than purely seeking instant gratification. In other words, consumers are making values-based decisions with their spending. *Hill Holliday* summed up the behavioral change this way, "For many people, the new determining factor for success is no longer pure profitability, but responsibility. That shift in perspective takes the form of a simple question: Am I doing the right thing—for my family, our nation, the planet?"

Of course not all consumers are the same and the recession has not affected them uniformly in terms of both their budgetary restrictions and their emotional, values and behavioral response. *Context* found four distinct post-recession consumer attitudinal and behavioral mindsets, each representing approximately one-quarter of the population.

Rational: Examined their shopping behavior and the personal, social, and societal implications of those habits and made permanent changes as result of their self-reflection

Relational: The recession led them to shed material possessions and place a higher value on personal connections and relationships. They still shop, but their gratification from making purchases has shifted, such as making gifts instead of buying them.

Balanced: Came to realize that it's important to make prudent decisions but not forget to also have some fun. Find ways to give themselves and others treats along the way. Look for ways to get some luxuries, especially if they can be acquired for a good price.

Joyful: Despite news stories to the contrary, the recession has been good to them (although not in economic ways). They feel their lives have been positively affected by the economic changes, as they often experience true joy from non-consumer spaces.

Context's is not the only research that has found that the American Dream has changed permanently. *Zogby International* has been tracking the American Dream in their polls for over a decade and found that the trend of changed American ambitions started long before the recession. Their surveys show that society has been moving away from conspicuous consumption since 1998. Their recent poll identified four consumer segments. The largest (43%), *Secular Spiritualists*, now outnumber *Traditional Materialists* (25%). *Zogby* defines *Secular Spiritualists* as people who want a simpler life with greater emphasis on family, leisure, volunteerism and spiritual pursuits.

Research by many other highly respected companies' research confirmed the trend of American society's transformation away from aspiring to materialism to aspiring to a life better lived; one that will define the future. They include *The Boston Consulting Group*, *WSL/Strategic Retail*, *The Hartman Group*, *IPSOS*, *EnviroSell*, *Decitica Marketing Strategy & Research*, *Nielson* and *Bain & Company*, to name just a few.

The most profound and long-term effects of the recession will probably be felt by young adults (age 18-25), dubbed the *recession generation*. Research this past September by the *National Bureau of Economic Research* looked at data all the way back to 1940 and found that even one really tough year experienced in early adulthood is enough to fundamentally change people's core values and behaviors. Interestingly, the new consumer segment *Context* identified as *Joyful*, experiencing joy from non-consumer spaces, skews strongly to under age 25 and those most personally impacted by the recession. The recession may well have caused young adults to make the most distant shift away from aspiring to material wealth.

The Great Recession has not only changed the American consumer. There is a body of research in the U.K. and Europe, as well as global surveys by *Nielson* and others that show consumers in most other societies are not only feeling the effects of the recession, but are also changing their values and future behaviors. The impact varies whether it is a developed or emerging economy, oil exporting or importing economy and how large the country's unemployment social safety net. The long-term impact of the Great Recession is a worldwide phenomenon.

So what effect will the new conscious and mindful consumer have on location-based retail and away-from-home leisure and entertainment businesses and attractions? One of the first things to recognize is that for the new *grounded consumer*, 'value' deals with many more issues other than price. Consumers are and will increasingly make their decisions on what to buy, from whom and at what price point based upon a growing number of personal and societal issues:

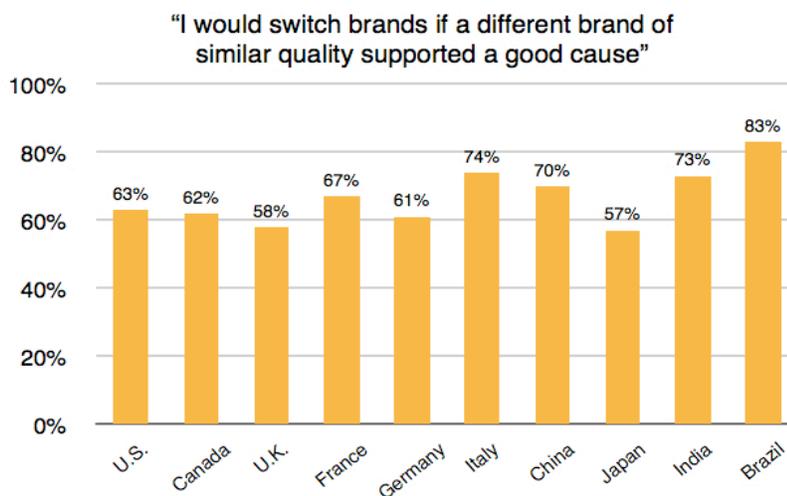
- Environmental concerns, including pollution and climate change
- Labor practices at home and abroad

- Food safety and agricultural sustainability
- Health and wellbeing
- Human rights issues in foreign countries
- Ethical treatment of animals
- Other societal issues such as diseases, poverty, health and education

What we are seeing is the rise of the *citizen consumer*.

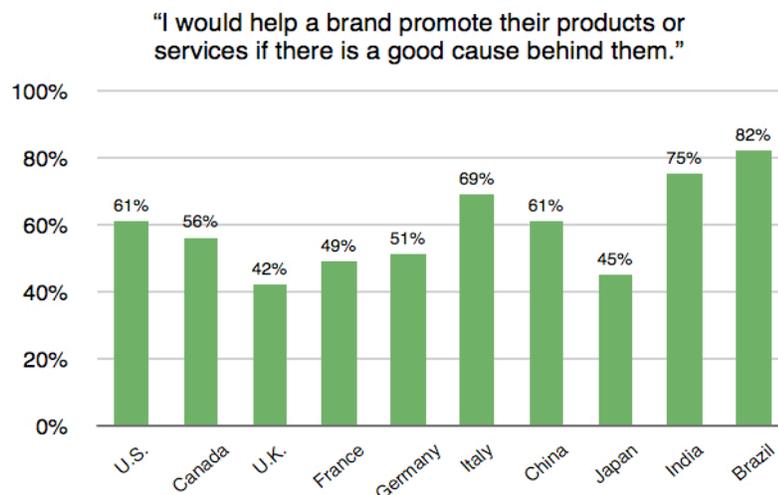
A global survey in late 2009 in 10 countries by *Edelman*, a public relations firm, found the following in respect to consumer’s attitudes about a company and its products or services and social responsibility:

- 57% of consumers globally feel that a company or brand has earned their business because it has been doing its part to support good causes
- 67% would switch brands if another brand of similar quality supported a good cause



Source: 2009 Edelman Good Purpose Report

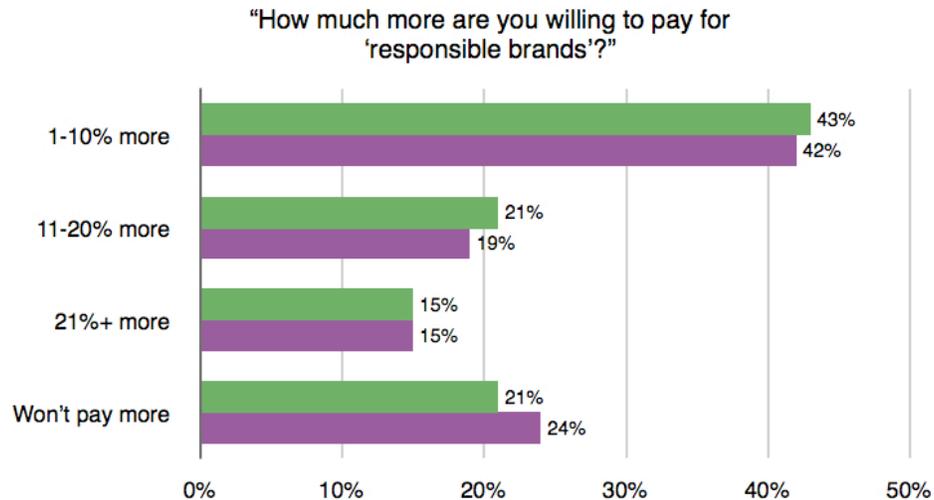
- 83% on consumers are willing to change their consumption habits if it can help make the world a better place to live in
- 64% would recommend a brand that supports a good cause



Source: 2009 Edelman Good Purpose Report

- 61% have bought a brand that supports a good cause even if it wasn't the cheapest brand available

Research during the heart of the recession in July 2009 by *Context* found that 78% of U.S. adults say they are willing to pay more for products from responsible brands.



Source: 2009 Context Marketing/Noesis Research Brand Virtue Study

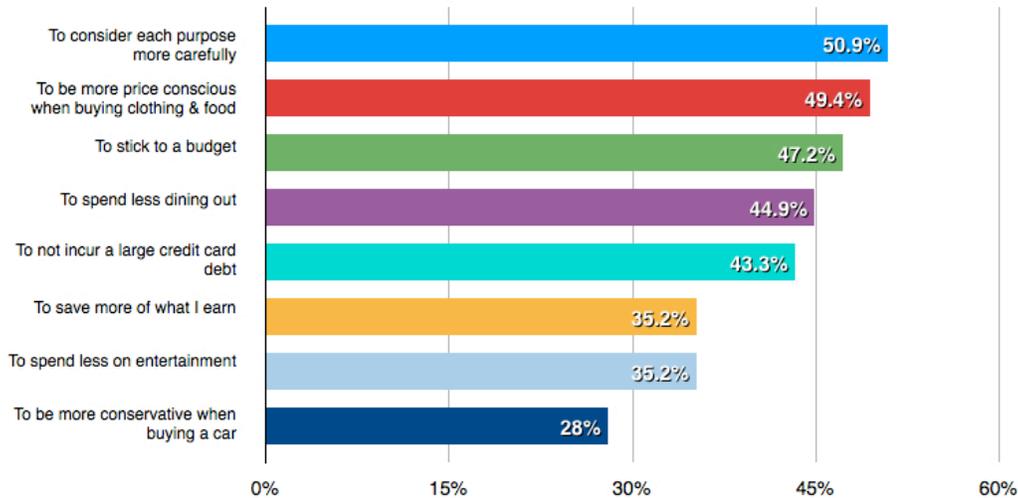
Edelman's and *Context's* findings of this new consumer value equation are supported by research from numerous other companies and researchers.

What we are seeing is a structural paradigm shift from an egocentric *Me Economy* to a socially conscious and responsible *We Economy* that places higher value on family, community and the world as a whole. Far more than in the past, people are placing greater importance on their societal and emotional bonds.

On top of the new set of consumer purchasing values, we are also seeing a permanent reduction in consumer spending. Consumers will, at least for a very long time, not spend beyond their means like in the past. Their homes are no longer ATMs, credit is no longer free flowing and people now understand the need to save for tough times. A *BIGresearch* January 5-13, 2010 survey of 8,000 American consumers found that 51% say they have become more budget conscious and will consider each purchase more carefully over the next five years. 60% said they now focus on what they NEED versus what they WANT.

On my honor, (over the next 5 years) I will try....

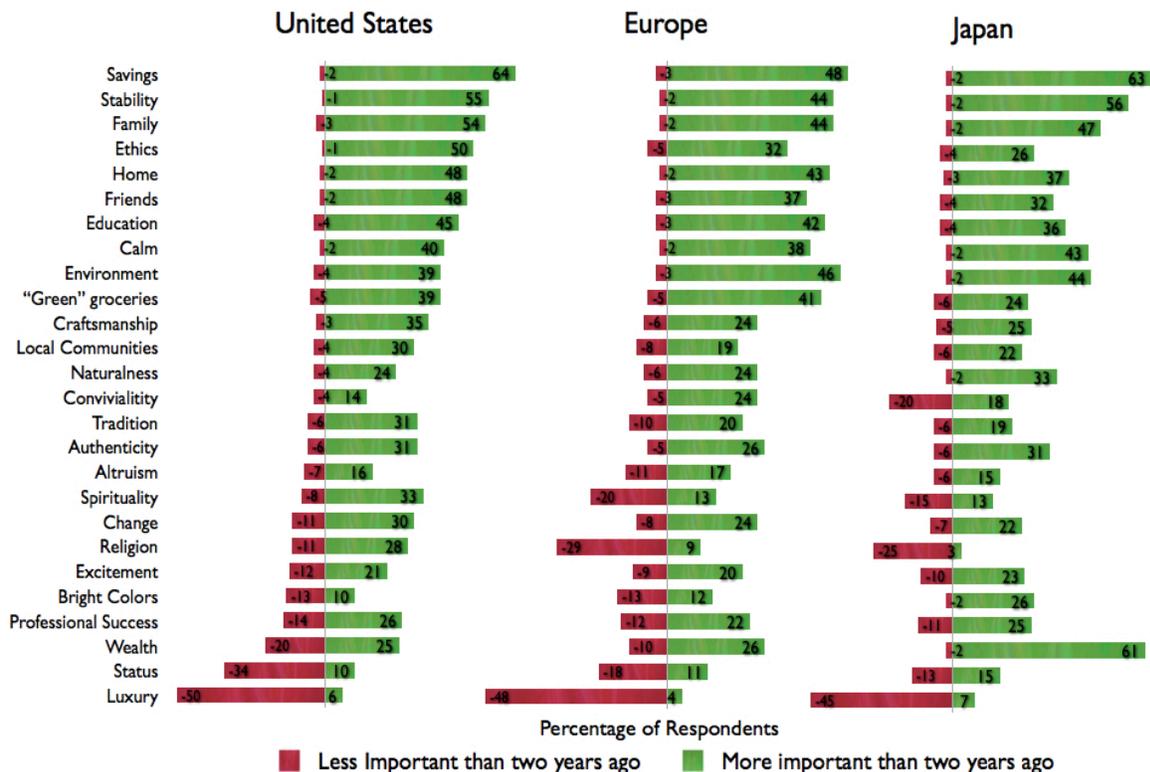
Adults 18+



Source: BIGresearch, Consumer Intentions and Actions - January 2010

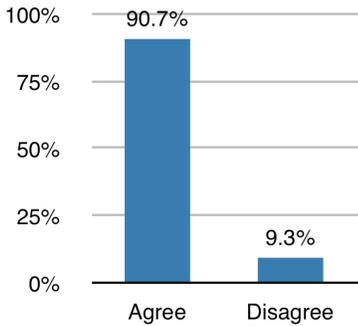
The changes to consumer values, behavior and lifestyle choices, including reduced spending, are demonstrated by findings from a July 2009 survey of 600 American adults by *Context Marketing* and *Noesis Research* and a September 2009 global survey of 8,000 consumers in the United States, Europe and Japan by *The Boston Consulting Group*. The graphs that follow show some of those findings.

Consumers Rate Savings & Family Above Ostentatious Consumption

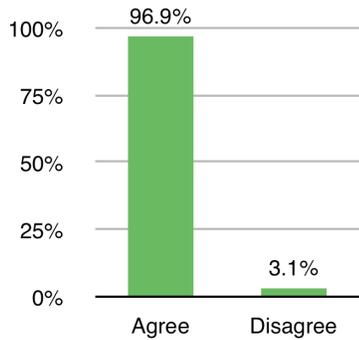


Source: BCG Consumer Sentiment Barometer, September 2009

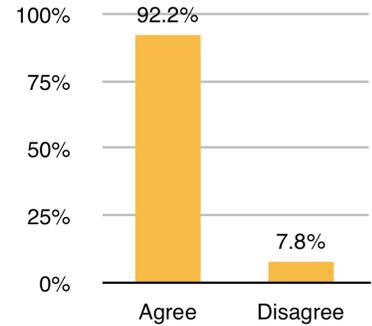
Some of the cuts I have made to our household budget during this recession will remain indefinitely when the recession is over



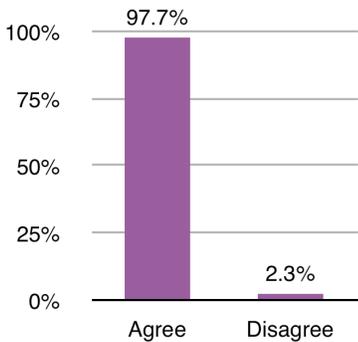
This recession has made me reconsider how I/we live and what we can do without



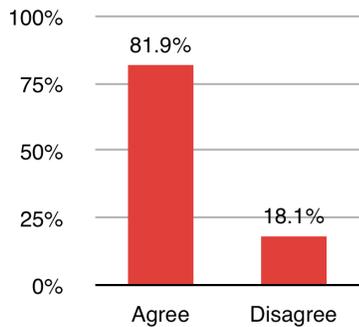
I am concerned about the health of our planet and want to do my part to conserve it.



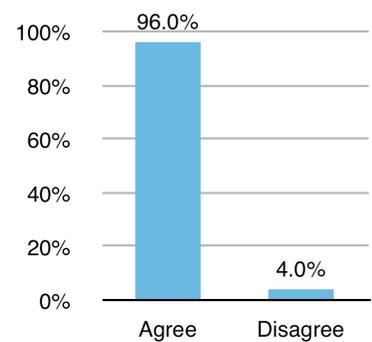
As individuals we need to become more responsible and consider how our actions affect others



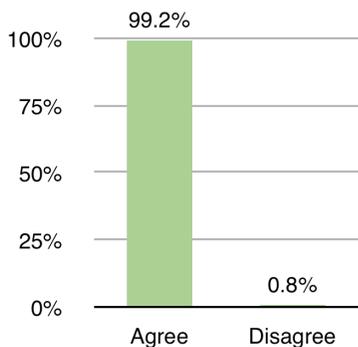
I intend to: Be more involved in my community



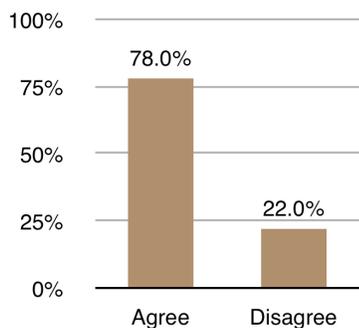
I intend to: Spend more time with my family



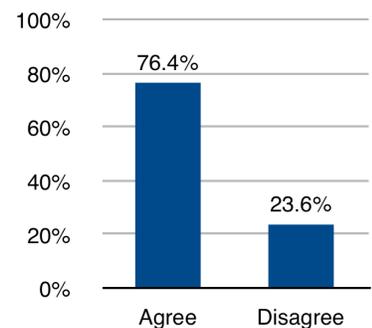
I intend to: Live within my means and save more.



This recession will make people consider how to live better quality lives rather than the primary focus being on making money.



There is a chance that, after we have left this recession behind, we may end up with better values and ultimately a better way of life.



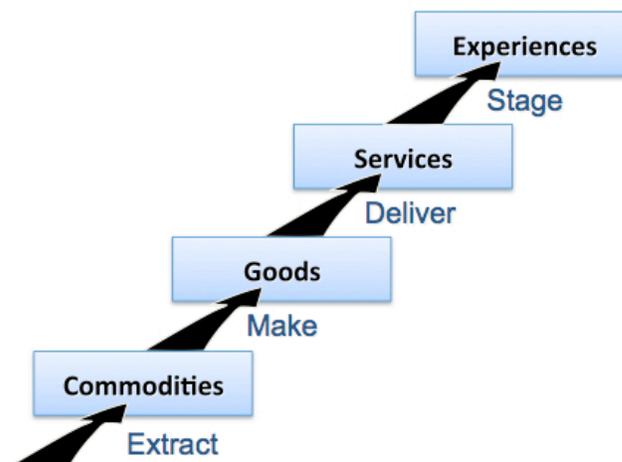
Source: Context Marketing & Neosis Research, Brand Virtue as a Competitive Asset

One more consideration is important to the *grounded consumer*. It's *time poverty*; there just isn't enough time for everything they want to do. With time so precious, they don't want to risk wasting their valuable time anymore than their valuable money on purchases or visiting businesses that don't warrant the expenditure.

The Experience Economy: It's all about the experience!!!

With the purchase of stuff having less importance in peoples' lives, we are seeing people moving up the progression of economic value to experiences, a trend first identified by Joe Pine and James Gilmore in their 1998 *Harvard Business Review* [article](#) and their subsequent 1999 book *The Experience Economy: Work is Theatre & Every Business is a Stage*. Their basic premise is that developed economies have entered a new economic era called *the experience economy* where the highest-value offerings are experiences. The progression of economic value starts with raw *commodities* that are transformed into *goods*, which are then wrapped in *services* and finally transformed into *experiences*. Each level increases the total value to the customer, and accordingly, the total price the customer is willing to pay. Goods and services are no longer enough. To be successful in today's competitive environment companies must learn to stage experiences for their customers.

The Progression of Economic Value



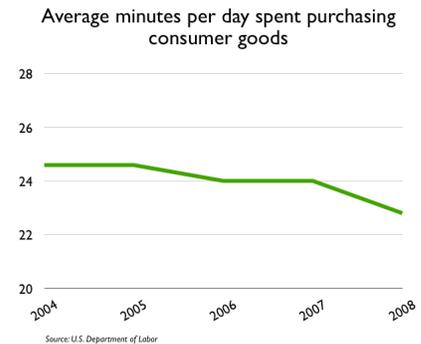
© 1999 Strategic Horizons LLP

Source: B. Joseph Pine II and James H. Gilmore, *The Experience Economy: Work Is Theatre & Every Business a Stage*, (Boston: Harvard Business School Press, 1999), p. 22.

A recent study at [San Francisco State University](#) showed that shared experiences offer people greater value than material purchases. People adapt to a new purchase in 6 to 8 weeks, up to a maximum of 3 months. The initial pleasure you get from a new possession generally fades in a matter of months. Experiences can be permanent memories. You don't get bored of happy memories like you do with a material object.

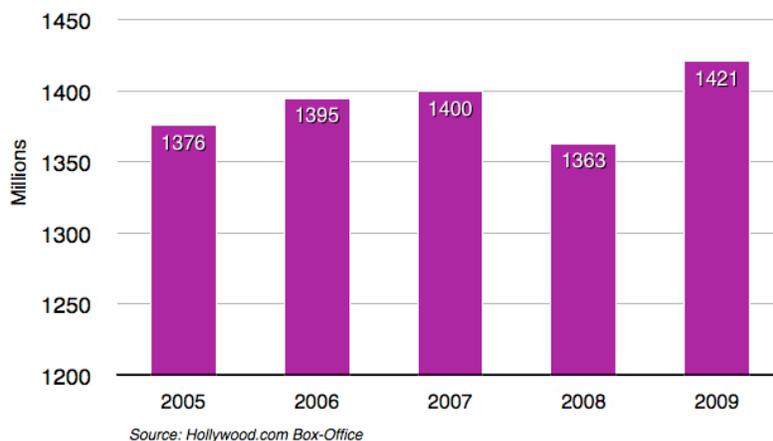
Experiential purchases such as dining out, going to the movies, bowling, etc. make people happier than possessions. Bowling has long thrived because of its social aspects. People who bowl together pay money to the bowling center as much for the social aspects as to bowl. The recession has caused people to place greater emphasis on their social bonds with family and friends. People fulfill their need for that bonding when they have experiences together.

A November 2009 *New York Times/CBS News* poll found that nearly half of Americans said they were spending less time buying nonessentials, and more than half are spending less money in stores and online. The poll found that shift spanned income brackets. The *Department of Labor's* time-use surveys show that the trend to spend less time shopping started as early as 2005 before the recession. In 2008, people spent 7% less time shopping than they did in 2004.



An *International Council of Shopping Center* (ICSC) survey in October 2009 on how the recession has impacted consumer's shopping habits found that only 19% of shoppers expect to increase their number of shopping trips when the economy gets better. Contrary to the downward trend in shopping, attendance at many zoos, museums and other attractions actually increased in 2009 despite the recession. North American cinema attendance (box office) increased 5.9% in 2009. Although attendance is up or flat at attractions, including major destinations like *Disney World*, visitors are generally spending less per visit.

Annual North American Cinema Box Office (ticket sales)



Shopping Centers & Retail: adapt to the new paradigm or face extinction

In order to get people to buy, you have to get them there. The Great Recession has significantly decreased people's desire to shop. The entertainment aspect of a retail store, shopping center or mall is now more important than ever for generating traffic and retail sales.

When asked what different attributes were important in determining where they shopped for things like apparel, home good and gifts, 52% of respondents to the *ICSC* survey answered dining options and 49% answered nearby entertainment options. The survey also found that 40% of mall shoppers attended special events at shopping centers during the past year. Research in 2003 in Australia on the different types of shopping center customers and what is important to them found almost two-thirds (64%) consider the entertainment and social attributes of a shopping center to be very important to them. A 2004 study of shoppers in three areas of the U.S. found that shoppers expect malls to not only provide merchandise, but also entertainment and fun. Studies have also generally found that:

- Entertainment-seeking customers skew higher in incomes and profession jobs and travel further than customers primarily coming for shopping
- The majority of entertainment visitors also cross-shopped in stores or dined in restaurants
- Entertainment and dining increases the overall appeal of shopping centers

All these studies, with the exception of the *ICSC* study, took place before the recession, which as discussed, has now placed an even greater importance on experiences versus owning merchandise. To prosper in the future, shopping centers and malls need to offer experiences, including a combination of special events, entertainment destinations including cinemas, family entertainment centers, aquariums, hybrid bowling centers, bowling lounges, children's edutainment centers, various types of eatertainment facilities, children's play areas and experiential retail. In Dubai, Hong Kong and Singapore, shopping center owners understand how to offer the ultimate in experiences with their citywide shopping festivals. In Dubai, temporary entertainment experiences are set up in all the malls as well as throughout the city.

People visit malls, lifestyle centers and town centers for many other types of experiences including people watching, the communal experience of hanging out with family and friends and what some describe as a *mindless vacation*. To achieve this entertainment value, shopping centers need to have a *sense of place*, which deals with the design, ambience, authenticity and tenant mix. Paco Underhill of *Envirosell* summed it up this way, "In order to get people to buy, you have to get them there, and the entertainment coefficient in a mall is something that builds traffic – pure and simple . . . It can't be a mall. It has to be 'place making.' Developers have to offer synergy, some other reason to be there. People want to feel as if the act of shopping isn't about ratcheting up their credit card . . . We have a significant number of Americans that have left the mall, never to return – unless we give them a compelling reason to."

Experiential retail describes a store that offers more than just shopping, a store that offers customers an experience. This positions not only the store, but the value of its goods, up the

progression of economic value. A consumer shift to experiential retail was under way before the recession hit. Consumers' loyalty was already shifting from products and brands to retailers that offered shoppers an experience rather than just goods. That transformation was accelerated by the recession.

Probably the best example of experiential retail is the [Apple](#) retail stores, which offer social experiences, classes, trying out products—it's just a place people want to be. Much of this is achieved by blurring the line between the use occasion and the purchase occasion and offering social and learning experiences. [Apple](#) stores achieve per square foot sales 8 to 10 times higher than typical retail. Other examples of experiential retail are:

Big box recreation stores including [Bass Pro Shops](#), [Cabela's](#), [Scheels](#) and [REI](#).

[Cabela's](#) devotes 40% of their space to experiences versus retail goods. [Bass Pro](#) added bowling to their latest store. [REI](#) has portions of its stores that allow customers to recreate the experience of different outdoor activities. The latest [Scheels](#) store has a 45-foot-tall Ferris wheel, two 16,000-gallon aquariums, NASCAR simulators and an outside bike path for shoppers to try out different models.

[Adrenalina](#) with its in-store Flow Rider surfing

Experiential brand stores including [American Girl](#) and the [House of Barbie](#)

Mega book stores, such as [Barnes & Noble](#) that offer experiences including coffee shops, author presentations and book signings, musical performances and children's book readings

Experiential businesses are not limited to stores. Some restaurants are moving in the direction of upping their experiential component. Casual and more formal dining restaurants already offer a social experience, often more important to customers than the food. The [Rain Forest Café](#) is probably one of the earliest examples of experiential dining. Its creator, Steve Schussler has moved the bar up with his [T-Rex Cafés](#) that are a truly immersive prehistoric dinosaur experience. His latest creation is [Backfire BBQ](#) featuring the [Orange County Choppers](#). Dining and drinking is combined with participatory entertainment experiences at venues like family pizza buffet-entertainment centers, bowling lounges, [ESPN Zone](#), [Dave & Buster's](#) and [GameWorks](#).

Out-of-Home Entertainment – adapt to the new grounded consumer or become road kill

Out-of-home entertainment venues already by their very nature are experiences. But that alone is no longer enough to continue to capture the new grounded consumer. The number of entertainment options competing for consumer's disposable leisure time and money is increasing. Secondly, electronic entertainment – the Internet, television, computers, game consoles, videogames, smart phones and other electronic equipment and content – has been capturing an increasing share of consumers' entertainment expenditures while the share of income devoted to out-of-home entertainment has decreased. Expenditures for electronic

equipment and services increased by one-third (34%) from 2000 to 2008, capturing 25% more of total household expenditures. During the same eight years, expenditures for out-of-home entertainment decreased by 3%, capturing 7% less of total household expenditures.

	Average Household Expenditures			Share of Total HH Expenditures	
	Dollars (in 2008 dollars)		% increase	2000	2008
	2000*	2008			
Electronic Equipment & Services	\$770	\$1,036	34%	1.6%	2.0%
Out-of-Home Entertainment	\$638	\$616	-3%	1.4%	1.3%

* in 2008 dollars

The grounded consumer is much more demanding about what *value* means to them. They require more than in the past in order to get them to part with their money. The recent success of the movie *Avatar* in its 3D version at a premium ticket price speaks to the importance of increasing the value of the experience compared to the past and electronic competition, in this case, 2D movies at the cinema and large screen high definition televisions in the home. It also demonstrates that value now means much more than just price.

The citizen consumer has raised the bar, as they are concerned with the environmental, ethical, moral and societal values of the companies they do business with. Recent research shows that the green practices of location-based attractions affects how likely people are to visit them and that many people are willing to pay a premium price if the facility is green. And when it comes to children, research shows that they are even more environmentally conscious than adults.

Out-of-home entertainment venues also need to look at extending their guests' real world experiences at their facilities into the virtual world, what is being called *convergence*. Today, consumers expect to be able to move seamlessly between integrated online and offline experiences. A number of retailers have become very successful with convergence, including *Build-a-Bear Workshop*. Bear owners then get a bear birth certificate, which enables them to go on-line at www.buildabearville.com, a virtual online world, and create their very own virtual bear by going through the same process they experienced in the real world at the store. They can create their own avatar that carries the virtual bear in a backpack. They can play with their furry friends and with other users online, including chat. It's all free. *Buildabearville* has over 8.0 million registered users and averages between one and two million unique visitors each month.

There's a whole new consumer landscape out there. The recession has brought about deep and permanent changes to consumer culture. The new grounded consumer thinks, has different values, behaves, and spends differently than the consumers location-based businesses built their business models around. The consumer now practices reduced and mindful consumption. Success in the future is all about adapting to that new consumer personality.

The White Hutchinson Leisure & Learning Group, with offices in Kansas City, Missouri U.S.A. and Doha, Qatar, is a 21-year-old multi-disciplinary, full-service feasibility, design, production and consulting company specializing in leisure, entertainment, shopping, dining, play, recreation and learning facilities of all types. The group consists of professionals skilled in all aspects of market and consumer research, design, branding, child development, production and operations. Since 1989, the company has served over 430 clients in 28 countries throughout North and Latin America, Africa, Europe, Asia and the Middle East.

The company's work and expertise has been recognized by Time magazine, The Wall Street Journal, the Food Network, the books The Experience Economy, Last Child in the Woods, and Building for Life, Designing and Understanding The Human-Nature Connection and by many other books and industry publications. Its projects have won 13 different first-place design awards.

The company can be reached via its website www.whitehutchinson.com or +816.931-1040