

As Economy Slows, Consumers Adjust

As the lackluster economy forces consumers to adjust their typical shopping patterns, OTC marketers should consider forging closer connections with retailers, who have emerged as “choice editors” for shoppers.

BY JIM LUCAS

➤ During extreme economic periods, it is imperative to go beyond Adam Smith’s notion of the “invisible hand” (i.e., the rational pursuit of pure economic motivation) to understand consumer behaviors and their underlying motivations. Marketers especially must take note of people’s changing thought patterns, ideas and feelings – their “animal spirits.”

The concept of “animal spirits” as discussed by John Maynard Keynes¹, represents the restless, inconsistent elements of the economy, referring to consumers’ unique relationship with uncertainty and ambiguity. The current economic crisis is driven by consumers’ changing views of confidence, trust, fairness ... plus resentment, temptations, and the changing stories about the economy. Levels of trust and confidence in each other, in institutions, in the economy, can and do fluctuate over periods of time with consumers, and they are certainly in flux today.

The recession has awakened these “animal spirits” and they are changing the way individuals think, act and behave. The dire economy has forced consumers to re-evaluate many of their behaviors, habits, routines and rituals. Notably, a great deal of the research conducted around consumption and shopping behavior (IRI’s Competing in a Transforming Economy Series²) suggests that consumer and shopper behaviors are changing dramatically – for



example, shopping-trip consolidation, shifting to value retailers, cutting back on non-essentials, eating out less, buying more store brand products, to name just a few evident changes. Lower-income households are changing more on average than higher-income households; and the same research has reported that consumers are spending less on ‘healthy food alternatives’ (organic and/or healthy food), going to the doctor less frequently, and using more OTC products as ways to manage their costs.

Similar behavioral changes are occurring in the prescription and adherence arenas as well. A recent study from Kurt Salmon Associates reports Rx sales were down 3 percent in 2008³. This appears to be the result of several trends including:

- A shifting to generic drugs
- Use of cheaper retailers
- Cutting back on usage of Rx drugs
- Sharing of Rx

A number of studies indicate that 20 to 25 percent of consumers are deeply affected by price or co-payment increases. Price sensitivity is such that a \$5 increase in co-payment results in a 20 percent reduction in adherence⁴.

DRAFTFCB SURVEY FINDS CONSUMERS ARE RE-EVALUATING

Keeping these sorts of trends in mind, the Healthcare Practice at Draftfcb Chicago initiated a research study exploring OTC, talking with consumers – especially shoppers – to better understand how they are adapting their behaviors. More than 60 consumers were interviewed in their homes and as they shopped,

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with some participating in subsequent focus group discussions based on what was heard from them initially.

As a whole, consumers think about OTC as having a dual role in their lives:

- Everyday Necessity – the things needed to keep going day-in-day-out. The everyday can represent almost anything from vitamins to toothpaste to aspirin.
- Episodic or Acute Needs – things needed more episodically. As when a particular illness or condition arises, for example, allergy, cold or flu.

Interestingly, this was visually confirmed in dramatic fashion when viewing the photos participants in the study provided of their medicine cabinets.

Consumers participating clearly indicated, as in the IRI study, that when it comes to health and wellness they are reevaluating their behaviors – habits, routines and rituals of all kinds – in an effort to cope with the recession. For example:

- Cutting back on their prescription use and/or shifting to generics

- Visiting doctors less often and taking advantage of outpatient and in-store clinics
- Increasing reliance on OTC and alternative medicine

However, one of the biggest changes, according to the consumers probed in Draftfcb's study, was the amount of responsibility consumers feel they now have for their own well-being. Insurance coverage, copayments, deductibles have all been affecting the way consumers approach wellness. This varies by age, with younger consumers (under 40) being much more likely to feel they are on their own in their responsibility for their health and wellness. Older consumers, especially those over 65, are more likely to have faith in the existing medical complex.

Generally, consumers see themselves as more responsible than ever for their own health and well-being. New forms of self-management, diagnosis and treatment are emerging, including:

- Fewer doctor visits
- Use of less expensive alternatives (retail clinics or ready clinics)

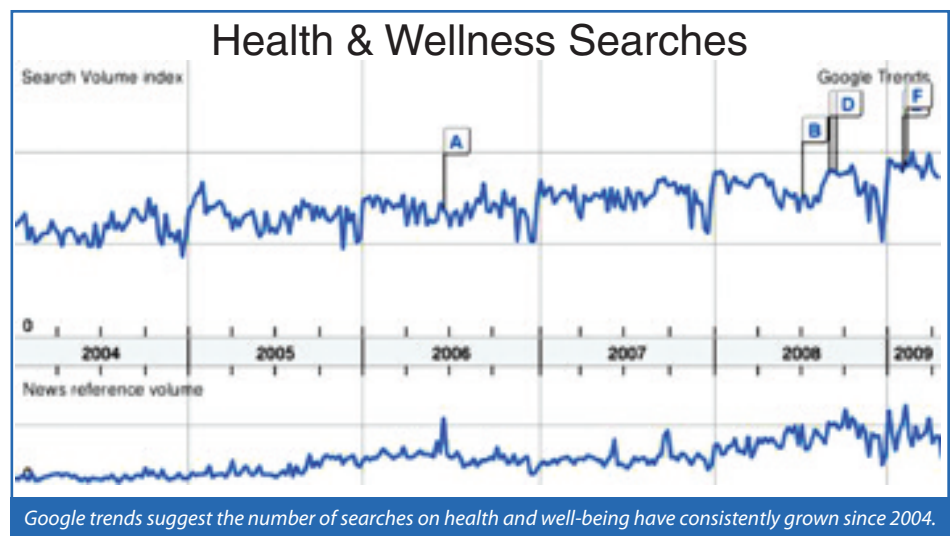
- Using OTC products before getting a prescription
- Looking to alternative medicine

In part, this appears to be a function of age. Older consumers tend to have a more traditional view of medicine, viewing Rx drugs as more effective and safe; while younger consumers, being somewhat more skeptical of Rx drugs' efficacy and safety, feel alternative medicines or OTC products are often a good first step.

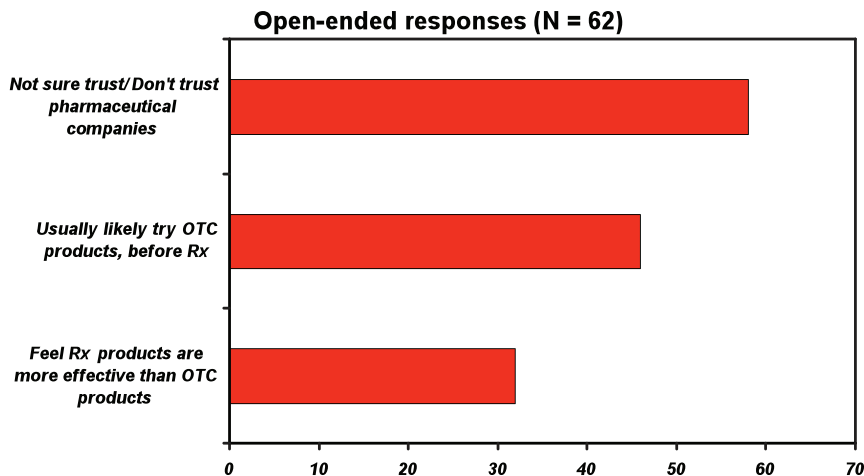
The triple impact of rising prices, larger deductibles, or simply being uninsured, is taking its toll on how consumers think about and act with regard to health and well-being. The impact of all three are forcing consumers to take more responsibility for their own well-being and how to manage, diagnose, and treat themselves.

NEW SOURCES FOR HELP

Given these new responsibilities, consumers are looking for help. And the help they are turning to is less traditional than in the past. While healthcare professionals were still an important source of information for the consumers in the study, online



What Consumers said about OTC vs. Rx



Source: Drafftob Chicago Healthcare Practice OTC Study, February 2009

When probed about the issues of trust and confidence, many consumers (a little more than half) were skeptical about pharmaceutical advertising. A little more than half either did not trust/or were not sure if they trusted pharmaceutical companies. While about a third felt that Rx was more effective than OTC products, about one half of respondents said they would probably try OTC products first.

resources (Web sites and blogs, for example) are playing a large role and represent a very trusted and credible source of information. Indeed, the amount of homework or research that shoppers are doing seems to have increased. (Especially if they are doing so for their child or children.) A quick look at Google trends (see Google Trend Graph) suggests the number of searches on health and well-being have consistently grown since 2004.

In keeping with the theme of exploring “animal spirits”, we probed consumers about their views on OTC and Rx. When probed about the issues of trust and confidence, many consumers (a little more than one-half) were skeptical about pharmaceutical advertising. A little more than one-half either did not trust/or were not sure if they trusted pharmaceutical companies. While about one-third felt that Rx was more effective than OTC products, about

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SHOPPER TRUST AND LOYALTY

One of the most interesting findings in the conversations with consumers was the reality that they had reassessed their trust in so many institutions, the economy, and the very social fabric of society – while at the same time they have renewed trust in their “most often” stores. Shoppers generally reported an equivalent level of trust among a short list of retailers (especially for their “most often or frequently shopped store”), usually within a class of trade (drug, grocery and mass, for example). There is a strong sense of pragmatism underlying retailer loyalty, as embodied by the key drivers mentioned by shoppers:

- Convenience (home, work, drive-thru, 24 hours, parking)
- Familiarity

- Price
 - Partner with insurance company
- Additionally, shoppers tend to be reluctant to switch stores because of build-up routines and convenience (although about a fifth expressed some willingness to explore other retailers to get lower OTC or Rx prices).

Consumers probed about this trust were quick to point out that it was the retailers who had initiated a number of initiatives to help shoppers/consumers cope with the economic situation. These included examples such as \$4 prescriptions, free antibiotics, reduced prices for restocking their medicine cabinets, free gasoline, reduced prices on HBA items, a relevant assortment of private label products and / or recent growth of in-store clinics.

Moreover, the consumers reported that retailers usually helped frame their choice by providing reasonable assortments. As a result, retailers have come to be one of the institutions the consumers trust most.

TRUST MEANS OPPORTUNITY

Given the undermining of trust and confidence in so many of our institutions, economy and even the

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social fabric, the retailer has emerged as a trusted choice editor for shoppers. Many of the initiatives retailers have put in place in recent years – serving as trusted advisors and value destinations, among other moves – have made consumers feel more confident. Manufacturers and brands can leverage this trust and confidence by working with retailers to create shopper-marketing programs that provide benefits for the shopper and retailer and, not incidentally, help brands sell products. A key part of this is developing better, less gratuitous, more intuitive in-store communications for shoppers.

Minimally, making the job of shopping for OTC easier to navigate and find the “best” product for the shopper (for example, seasonal displays of related products such as cold and flu, or “call-outs” for new products were said to be helpful). Consumers can no longer afford to buy the wrong product; it’s a bad investment. Providing better, more streamlined education messages in-store, again to make the shopper’s

task easier, should be a key objective for marketers. Focus of educational messaging should be to teach the shopper how to select/deselect a category (what to look for when buying children’s cough remedy).

The capability of working with retailers (who are viewed as the credible medium or health and wellness choice editor) goes beyond the four walls of the store. For example, better use of shopper programs (as being done at Kroger, CVS and Safeway), more educational and relevant content for retailer Web sites (sites such as Wal-Mart.com, Target.com and Kmart.com), customer reviews, find-it-in-store functionality, among other factors, can all augment the shopping experience.

The recession, unwelcome as it may be, has seen the retailer or store emerge as a trusted advisor at a time when consumers’ distrust and uncertainty are extraordinarily high. This reality represents a great opportunity for OTC to reach shoppers when they are most likely to make a purchase.

In truth, the recession represents a great opportunity for OTC:

- In change is opportunity. After reevaluation, consumers are beginning new habits and routines that may well survive in the recovery.
- Consumers are looking for new ways to manage their health and well-being.
- Retailers are looking for partners to help create relationships with shoppers.

As consumers adapt and change, OTC needs to similarly adapt and leverage the new opportunities being introduced. <<

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In a recessionary environment, retailers can take on the role of “trusted advisor” even as consumers’ level of distrust and uncertainty are extraordinarily high.