



Retail in a recessionary environment: how consumer behaviour is changing **and** **how to deal with it**

Foreword

Win Customers in a Down Economy by Creating an Emotional Connection

We at SheerID wanted to understand how the current economy is impacting people's spending habits, so we surveyed 1,600 consumers in the UK to find out how they felt about the downturn, how their purchase behaviour has changed, and what brands can do to engage, acquire, and retain them. Here is what we found.



Retail Gazette introduction

Working with identity marketing platform provider, SheerID, we felt it was important to assess exactly how the economic environment is impacting consumer purchasing behaviour.

SheerID has surveyed consumers to get some valuable insights, and we have combined that with macroeconomic data to build an accurate picture of the state of play in terms of consumer spending and sentiment.

Why have we done this? Well, everything we write at this moment in time is shadowed by the biggest cost-of-living crisis in generations.

Inflation in the UK for large parts of the last 12 months has stood at its highest level for 40 years, and retailers are feeling the crunch due to rising costs and cautious consumer spending.

The UK economy has flirted with recession (it may even be in recession by the time you are reading this paper), but it has been operating in a recession-in-all-but-name for several months. It is fair to say, right now, retailers are battling hard to build the right customer proposition for these most challenging of times.

But we also know retail is a resilient industry.

Its ability to bounce back from adversity and deliver new or rejuvenated growth-oriented brands never ceases to amaze us. So, in this white paper, we also pinpoint ways retailers are evolving to match consumers' demands while highlighting how they can turn any current struggles into future success.

There's some best practice advice over the following few pages that we believe any retailer can leverage.



Consumers lacking confidence in the **cost-of-living** crisis

The stats are in, and UK consumers' confidence about the state of the economy and their willingness to spend suggest the difficult trading environment retailers and brands faced throughout 2022 and into 2023 so far will continue for at least another year.

SheerID's survey of consumers in the UK, conducted at the start of 2023, found 54% of the general population in the UK feels pessimistic about the economy, with 93% reducing or changing their spending habits in response to recent economic conditions.

What that means for retailer and brands is uncertain, but the study does indicate that 55% of consumers have reduced spending altogether, with 53% eating out less and 62% of consumers reporting a lower spend on apparel, footwear, and accessories.



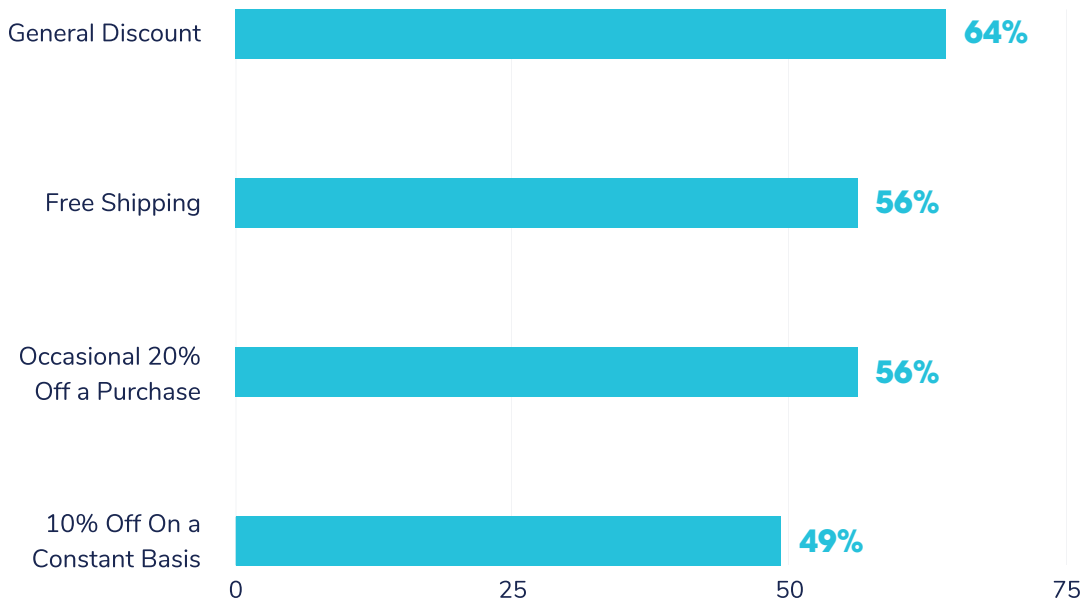
More than half (55%) of consumers believe the economy will take over a year to improve and 21% of consumers believe the economy won't improve, suggesting consumers are tightening the purse strings for a period of time to come.

Charlotte Tisdall, chief marketing officer (CMO) at pet food online retailer Tails.com, sums up the situation. "All businesses need to work harder when customers are questioning their spend and we're not immune to that," she explains, suggesting that with the right customer proposition and tactical approach, retailers can still grow in tough times.

SheerID's survey asked people about what would motivate them to spend, right now, and it makes for intriguing reading for the wider consumer-facing industry. It also throws up some significant dilemmas, as we will address later in the report.

Perhaps unsurprisingly, discounts are hugely sought-after by UK consumers. Specifically, free shipping (56%), occasional 20% off a purchase (56%), and 10% off on a constant basis (49%) are the most appealing general options discount to shoppers. Not a revelation when you consider the general high rate of inflation compared to one year ago.

What would motivate consumers to spend?



Black Friday's rise to prominence in the UK and – in particular – the fashion industry's propensity to run discounts throughout the year rather than the long-time traditional method of marking down goods following the end of each season has shaped consumer expectations that there is always a bargain to be found.

But there is a better way, surely?

This finding emphasises the importance of providing targeted discounts that cater to the unique needs and preferences of different consumer communities.

Meanwhile, research body GfK, which has tracked consumer confidence in the UK since 1974, says for much of 2022 there were near record lows of sentiment among the population.

If the customer data we discussed above is painting a picture of a challenging economy, what are the retailers themselves experiencing?

Of course, in addition to discounting for short-term revenue, such a move can also create a positive brand impression with a group just starting to form its brand affinities.

The new research we have analysed, above, indicates loyalty can be engendered by recognising and rewarding someone based on the group they belong to, such as students, teachers, or healthcare workers.

Moonpig has over three million customers on its database, and at the end of 2022 it said it was prioritising its existing relationships as opposed to doubling down on customer acquisition.



What brands do customer feel emotionally connected to?



75%

Brands that have a customer loyalty programme that offers special perks



58%

Brands that provide exclusive offers based on their profession or life stage

The key feelings consumers say this type of communication evokes:

- Appreciated (Teachers 60%)
- Supported (60% Healthcare)
- Excited (Students 51%)

For businesses looking for a blueprint for customer connection in difficult times, this seems like an appropriate place to start. Consumers are not just looking for price relief in difficult economic times. Retailers need to blend targeting, price relief, and emotional connection for success. That is the answer to the consumer spending/engagement problem.

At the time of writing this report, the rate of inflation in the UK is still hovering around a 40-year high. Much fluctuation is expected over the remainder of 2023, with the bank of England expecting it to fall to 5% by the end of the year.

Although dipping slightly in April, significant surges in food prices and energy costs over the last 18 months are the main contributing factor to the inflation spikes currently impacting the UK. It has resulted in a challenging environment for consumer spending, and therefore also a difficult period for the retail industry.

Higher price growth in food, restaurants, and clothing was a factor, according to the ONS, which underlines the difficulties businesses are facing in terms of managing their own costs and facing higher prices for materials.

Meanwhile, research body GfK, which has tracked consumer confidence in the UK since 1974, says for much of 2022 there were near record lows of sentiment among the population.

Since December 2022, though, there has been an uptick in mood, with consumers starting to show some, if only small, signs of confidence in their financial situation and an improvement in their general outlook.

In February, the headline consumer confidence score was still “severely depressed and the mood as well as the economy remain a long way off pre-lockdown levels”, according to Joe Staton, client strategy director at GfK, but he said the slight change in mood could be what the economy needs to soften the downturn.

But Staton goes on to caution, “this may be nothing more than a bubble of hope – and bubbles always burst”. Judging by that comment, and in combination with the SheerID data, it’s safe to say UK retailers aren’t likely to experience any periods of frivolous consumer spending activity as 2023 draws on.

That means they are going to have to get their tactics spot on to ride their way through the storm.

If the customer data we discussed above is painting a picture of a challenging economy what are the retailers themselves experiencing?

We caught up with five different UK retailers to understand how their specific customers' behaviour has evolved in the last year. And what they are doing in response to engender loyalty and spend against a difficult financial environment for consumers.

Retailer case study 1 – Mark Wright, chief operating officer at FatFace

Changes in consumer behaviour

Although conversion levels are still strong, FatFace is seeing more in-store browsing as well as a number of questions from customers about discounts and sales periods, which makes Wright conclude they are monitoring their spending with caution and looking for value.

Online customer behaviour supports that sentiment too, with Wright reporting a strong January performance on clearance and “good reaction to free delivery online” when it is offered.

Wright continues: “We are seeing healthy spend on Blue Light discount, student discount, and affiliate activity – all of this says people are looking out at how they can save money.”

The FatFace response to consumer behaviour...

“We invest time designing and producing quality apparel and charging a fair price for it first time without creating a cycle of constant discount cycles because it impacts long-term behaviour, and devalues a brand,” Wright explains.

FatFace does not yet have a loyalty programme, but as the retailer puts “more attention on retention” in these challenging economic times, that could change.

“We are looking at ways we can keep our customers interested, motivated and aware of what we are doing across our business – from product innovation to in-store experience and investing in sustainable business practice – we genuinely believe these factors matter more to our brand loyalists than just a discount,” says Wright.

FatFace is also working hard to improve CRM programmes to send relevant email marketing “at the right time” based on factors including a customer’s propensity to spend at different times of the year, Wright adds.



Retailer case study 2 – Soraya Fedyk, head of online marketing and customer service at Blackwells

Changes in consumer behaviour

Aside from consumers bringing forward their spending in peak period 2022 due to concerns about the postal strikes at the end of the year, Blackwell's shopper behaviour has remained relatively unaffected by the cost-of-living crisis, according to Fedyk.

"People shopped a lot earlier in December and didn't leave room for error with items arriving on time," she explains.

"Books are a great value product, you can escape, you can retrain or learn a new skill for very little money – this is one of the reasons why bookshops are increasing in number again alongside the change in shopping behaviour to be more of a combination of local community and online."

How Blackwell's is keeping customers engaged...

Fedyk says Blackwell's marketing approach is a "blend" of retention and acquisition, but the latter is more to do with a greater "looking outward" approach that is building the company's exposure and sales in new territories such as Singapore and New Zealand.

"The volume of titles really does lean into acquisition but in order to retain them we have a very experienced array of booksellers within our customer service team, who provide recommendations as well as problem solve, so we have a busy virtual bookshop which encourages retention."

Fedyk says her time working in fashion prior to joining Blackwell's makes her "wary" of discounting as a tactic to attract customers, even in difficult financial times.

"It's easy to apply a discount but it trains customers not to buy at full price," she says, adding that the key is to create the best possible offering and proposition in the first place, and to ensure a consistently good service.

"An unsung element of the success of online is how good your dispatch is," Fedyk notes.

One marketing tactic Blackwell's uses to retain customers and create excitement is a 12-hour sale period which is advertised to email subscribers approximately every quarter. Here, a "carefully curated" selection of 12 books are offered at a discount – one an hour – and customers can "have a bit of fun".

"We have repeat customers and brand advocates who like it," says Fedyk, who calls it "an event for people in the know" and an activity that "teaches us what our demographic likes".

Fedyk suggests the upturn in social media activity from its customers around these events shows they are well received. Exclusive offers to people by virtue of their connection to a group can be a powerful loyalty driver.

Retailer case study 3 - Charlotte Tisdall, CMO at Tails.com

Changes in consumer behaviour

Pet food e-tailer Tails.com falls into the non-discretionary spend category of retailer, so like the supermarkets and food chains it continues to see robust sales activity in recessionary-like environments.

“We’re not immune to this environment, though – no-one is – and in autumn we saw some customers pre-empting a tough winter,” explains Tisdall.

“With all the talk in 2022 of imminent energy price rises, some customers paused subscriptions to see how bad things would get.”

Notwithstanding this, Tails.com recently launched its first ever retail range, in Sainsbury’s, as part of the grocer’s Future Brands programme. And the way it has been received by consumers gives the company encouragement about market demand.

Tisdall says 97% of customers that have bought it would recommend it, adding: “It’s relatively premium – so extremely positive for this current climate.”

Tails.com tactics to keep consumers happy...

Tisdall argues the company’s strong customer support department – which is circa 90 people strong and makes up a third of the business in terms of employee numbers, “benefits people in these times”.

Tails.com offers a flexible subscription service that can be adjusted day to day to meet consumers’ and their pets’ requirements. And Tisdall believes that customers see the value in the business’s overall proposition – and that is a key loyalty driver.

Retention is increasingly a key performance indicator for the growing subscription business, but the fledgling retail business is all about customer acquisition right now. For a business established in 2014 and born into a digital age, talking to customers directly has always been a key facet of operations – and that connection breeds confidence.

“We talk to our customers, listen to how they are feeling and we are understanding what aspects of the service provide most value,” the CMO remarks.

“We use data to shape decisions on what we communicate back to them. We’re very conscious about the language we’re using – it’s not “Go on, your dog deserves the best” in the current environment. While not being miserable, we’re being appropriate.”

Retailer case study 4 – Luke Forshaw, head of branding & marketing at Back Market UK

Changes in consumer behaviour

“For many consumers, their discretionary income is dwindling,” says Forshaw.

“And, with the current economic uncertainty showing little sign of stabilisation in the near future, many are watching the pennies and pounds more closely than ever before. The pressure on purse strings has changed the way consumers behave online, as well as their relationship with retailers. Many are now prioritising value for money over loyalty.”

He adds: “Trust and reliability have become crucial factors influencing consumers’ purchasing decisions. And, the complete online customer experience has become pivotal in attracting and retaining customers.”

A key element of trust comes from giving consumers control over their digital experience. This means transparency on how their data is being used, and more specifically giving them the ability to provide their data in exchange for something of value such as better pricing or service.

Forshaw also suggests that sustainability affects consumer purchasing decisions, with more and more consumers saying they shop with brands with a positive approach to environmental sustainability.





The Back Market approach in a cost-of-living crisis...

“We launched Back Market [a France-based company] in the UK two years ago as we know that refurbished electronic devices can provide a lifeline to individuals and families experiencing financial difficulties,” Forshaw explains.

“Through offering consumers up to 70% off when compared to the price of new technology, refurbished devices play an important role in helping close the digital divide.”

Forshaw recognises people want to be confident their purchases will last – and this is particularly pertinent when buying refurbished or pre-loved items. In light of this, Back Market offers a 12-month warranty and a 30-day free-return period on all products and promises to only work with refurbishers meeting a 25-point quality charter.

Instead of mass discounting, Back Market has adopted an approach of tailoring discounts to one important demographic: students.

“As inflation rises well above the support students can access, many are struggling financially,” Forshaw explains, adding that they receive 5% off all devices on Back Market.

“SheerID’s services enable us to verify the identity of student customers, allowing them to benefit from our discount policy via personalised offers and communications.”

Of course, in addition to discounting for short-term revenue, such a move can also create a positive brand impression with a group just starting to form its brand affinities

Retailer case study 5 – Sara Cocorocchio, EMEA eCommerce education segment manager at Lenovo

Changes in consumer behaviour...

Cocorocchio says consumers have become much more discerning about how and where they buy their technology over recent years, which has “pushed Lenovo.com to manage the customer and purchase experience differently and to move it to the next level”.

“While the current economic environment has made consumers much more careful with their expenses, in particular for durable goods, we are well aware that price is not the only factor determining their choice and eventually is not a sustainable strategy in the long run,” she adds.

The Lenovo approach to customer engagement...

“Our aim is to build meaningful relationships with our customers, whether they are SMB, students, or gamers and to provide them with end-to-end solutions offering more value for their investment,” explains Cocorocchio.

Lenovo will soon introduce a loyalty programme that customers can join for free to earn points back on their transactions, which can be applied for future purchases. Extra points will be available for truly engaging with the Lenovo proposition, for example by answering surveys or providing feedback.

The tech company also works with SheerID to tailor its discounts to students. Lenovo offers students access to an education store where they can join the Lenovo EDU Community and connect with other students and experts, access educational content, and explore learning tools.



“Through this programme, students can enjoy members-only pricing and receive student discounts sitewide,” notes Cocorocchio.

"We have used SheerID to ensure that only eligible customers could access resources or take advantage of offers of significant value. We know that offering students a discount is an effective way to attract them, and saving is definitely a compelling reason to try a new brand. However, we wanted to be sure that our educational offers are redeemed by eligible users, and this is when the verification method and SheerID started playing a role."

In the coming months, Lenovo plans to improve the experience of all the verification paths "to increase conversion and offer more tailored experiences". It will integrate student verification into the Lenovo account flow, an approach that will combine account set-up and verification methods, giving the business continuity of experience across all verification providers/methods.

"In turn, this will help to gather information on relevant customer behaviour to provide a more personalised journey across all touchpoints."





Tracking the retail trends

As we highlighted above, retailers are adopting different approaches to tackle the problem of cautious consumer spending – it is only right individual businesses assess their audience and unique proposition and build a strategy tailored to their needs.

But there are some common industry trends playing out as retailers look to keep hold of the customers they do have, and build the foundations for long-term success.

For instance, retail is going through a new era of loyalty programme creation.

The John Lewis Partnership is combining its Waitrose and John Lewis loyalty scheme, while Boots, Marks & Spencer, and Asda have all revamped their respective programmes.

Retailers realise it is always cheaper to encourage repeat spend from existing customers than it is to acquire brand new ones – therefore, the industry is doubling down on loyalty schemes in this cost-of-living crisis.

Loyalty-plus

But it is not a case any more of “build it and they will come” with loyalty programmes. Consumers demand a demonstration that they have been recognised and rewarded for who they are, not just points.

Loyalty points programmes accomplished recognition from a financial perspective. But now many retailers offer this and the stakes for differentiation are increasing. The new research we have analysed, above, indicates loyalty can be engendered by recognising and rewarding someone based on the group they belong to, such as students, teachers, or health workers. People in these groups have a strong sense of identity with these groups and that creates positive goodwill.

Combining this approach with a traditional points programme can help retailers increase their impact.

M&S Sparks Plus, for example, launched in February 2023, following reports from M&S customers that the retailer’s rewards were confusing. The new tier to the loyalty programme costs £120 per year but offers monthly benefits, and “VIP treatment” such as special gifts, store event invites, and unlimited next-day delivery.



Hobbycraft’s free-to-access Hobbycraft Club scheme gives money-off products and classes, but more importantly it presents members with news about new launches before the wider market, free craft downloads to fuel their passion, and access to VIP days to foster a feeling of inclusivity.

Retailers such as Next realise that continued discounting represents a race to the bottom in modern retail. Once a retailer goes too big and too often with promotional activity, it can tarnish its image, so Next keeps to traditional markdown periods – in particular the post-peak trading sales event.

Smart discounting

Smart targeted discounting can be a real positive technique, too. The regular discounts consumers receive in the form of free delivery by signing up for Amazon Prime or money off the fortnightly shopping bill via Tesco Clubcard-Plus are a loyalty driver for these businesses. Birthday discounts for customers, such as those offered by Hobbycraft, Moonpig, and Hotel Chocolat are a real draw too.

Moonpig has over three million customers on its database, and at the end of 2022 it said it was prioritising its existing relationships as opposed to doubling down on customer acquisition. Accumulatively, Moonpig customers have more than 70 million date reminders set up on the retailer’s system, and these trigger discounting purchase reminders around shoppers’ key dates – a powerful tool based on data individuals have shared with the brand.

At a roundtable hosted by Retail Gazette and SheerID in November 2022, retailers agreed heavy discounting was common, due to high levels of inventory remaining from the pandemic disruption and the need to find ways to encourage consumer spending in a difficult environment. However, one called it “dangerous territory” because it is “difficult to claw your way back” from heavy discounting once it has started.

Even though consumers love a bargain and that is unlikely to ever change, they are increasingly buying into a brand’s values and will repeat their spend if they are treated right. It makes business sense to focus on developing the latter rather than throwing away margin on constant discounting.

According to Back Market’s Forshaw: “At the moment, it’s all about building trust in your brand and in the products you sell.

“Consumers want to know that when they invest their disposable income in your products, they are going to stand the test of time. Or, they will be able to access customer support services if they experience any issues. As such, focusing on the customer experience, both pre and post-sale, is key to getting that balancing act right.”

5 ways to deal with a challenging economy by nurturing customer relationships

Now you understand how consumers are responding to economic stress and that you have an idea about retailer tactics being deployed, let's work out the bottom line.

We've picked out five ways to deal with a challenging economy by nurturing customer relationships.

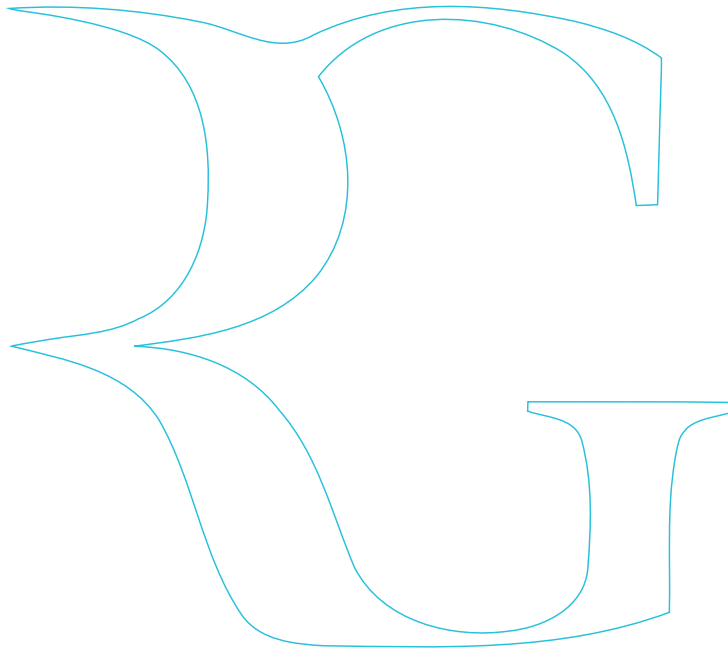
- **Customer targeting:** From Tails.com to Back Market, and many in between, there's a growing focus from retailers on retaining customers and tailoring markdowns to audience segments rather than offering blanket discounts. This approach prevents margin erosion that comes when off-price becomes the norm, and values those participating customers.
- **Retool loyalty towards emotional connection:** From Boots to M&S, and from Tesco to John Lewis, big retailers are tweaking their loyalty schemes to make better sense from both a business and customer perspective. Points collection loyalty schemes are table stakes; shoppers actually want rewards and to feel special for selecting a particular retailer, meaning programmes must provide a compelling experience and recognition of the member's wants and needs.
- **Be empathetic:** Marketing should be fun and a chance to showcase creativity – and there's an argument that society needs a dose of this more than ever right now – but retailers and brands need to make sure they understand how consumers are feeling right now. Retailers should read the room and tailor messaging appropriately to ensure an empathetic message is conveyed so customers feel understood.
- **Discounts are still important but need to be smart:** Despite constant markdowns teaching consumers to only shop when prices are low, discounts are still important. If they are used in a tailored way, as described above, that can work very well. Also, as our data shows, consumers are always looking for discounts, so it is wise to use them strategically throughout the year to make headlines and attract shoppers' attention.
- **Protect your discounts:** For retailers to protect their discounts from fraud and ensure their offers are exclusive, customer verification is required. The best verification processes are instant, on-brand, and easy to navigate. Visit SheerID's website to learn more about identity marketing and how this approach can help you acquire loyal customers even during uncertain times. Find out more about SheerID, below.

About SheerID

SheerID is the global leader in identity marketing.

With SheerID, brands identify and acquire customers from highly valued consumer communities — such as students, teachers, first responders, military, and more — with personalised offers, gated by instant verification from the largest set of authoritative data worldwide. SheerID verifies over 2.5 billion people via 200,000 authoritative data sources; provides global insights from hundreds of the world's leading brands, and never shares or sells customer data. As a result, the world's biggest brands — including Amazon, Spotify, and T-Mobile — rely on SheerID as their identity marketing partner.





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