



From Surviving To Thriving:

Shoppers Adapt To A Contracting Economy

Consumer confidence levels are on the rise mid-year, yet economic uncertainty, recession fears and rising prices continue to take a significant toll on consumer sentiment. In January, Acosta Group predicted that recessionary behaviors would continue in 2023 and that shoppers would seek enjoyment, convenience and value in their paths to purchase. Now, Acosta Group has identified three unique consumer segments from its proprietary Shopper Community research: Surviving, Steady and Thriving. This research reflects consumers' perspectives on the impact the economy has had on their financial health and how it has informed their attitudes, behaviors and expectations in 2023. We reveal what retailers and brands can do to ease consumers' challenges.

Recession Fears Dampen Consumer Sentiment

In 2023, consumers continue to be cautious amid a post-COVID period of rising interest rates, mixed job market signals and the lingering threat of a recession. Although inflation continues to soften, consumer sentiment continues to trend downwards.

Shoppers Feel The Burden Of Economic Uncertainty

Economic uncertainty and rising prices are taking their toll on consumers. Many shoppers think the U.S. is already in a recession or will be soon. They are already paying more for everything from healthcare to housing and utilities. Shoppers tell us that:

- **They are cutting back.** Shoppers continue to spend less across the board, from eating out to entertainment, from discretionary purchases to travel. The silver lining - these cutbacks are lower than seen last year, implying some optimism for more financially secure shoppers.
- **Food insecurity is a big problem.** Four in 10 shoppers struggle to buy nutritious food; they eat less fresh meat (48%) or produce (37%) because of higher prices. This is particularly pronounced for SNAP (Supplemental Nutrition Assistance Program) recipients; **Over half** struggle to buy nutritious foods for their families.
- **Physical and mental health is suffering.** Nearly one in five shoppers report that their physical or mental health is fair or poor.

33%

of shoppers think we are currently in a recession.

38%

think we are not in a recession, but one may be coming soon.

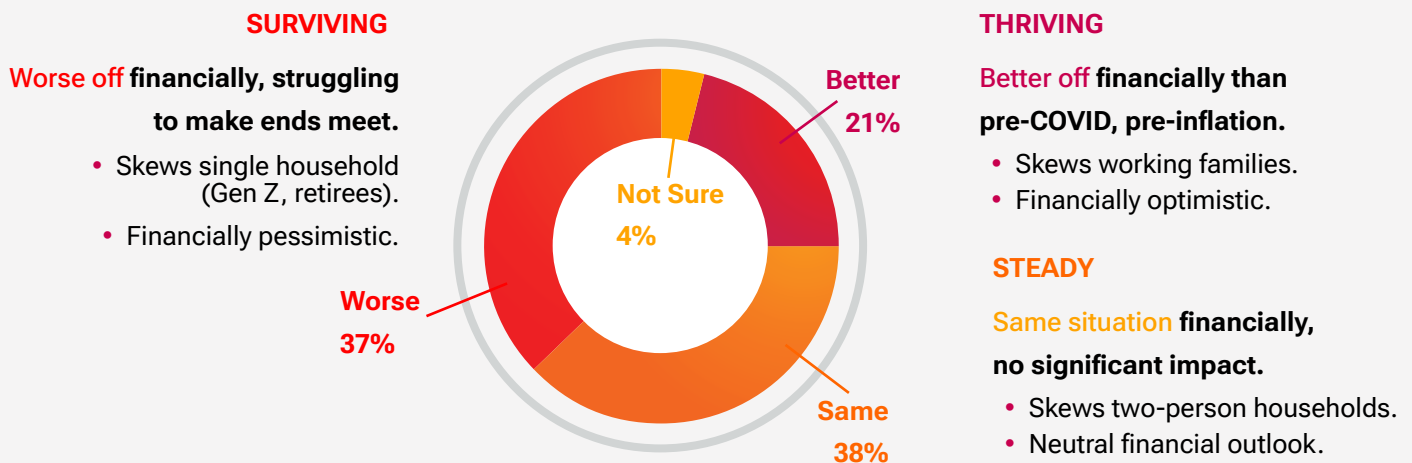
Three Segments Of Consumers Emerge: From Surviving To Thriving

This Surviving, Steady and Thriving segmentation is based on how shoppers' changing financial situations have informed their current attitudes, behaviors and expectations. Our research shows that:

- **The financial situation is not improving.** The financial situation is the same or worse for most: Almost **40%** of shoppers are worse off financially than before, but **20%** say their financial situation is better.
- **Working hours have increased.** The Surviving segment is trying to make more money—they are more likely to work extra hours, take on a second job, and look for a better-paying job. The Thriving segment has had success making more money. They are also working extra hours and a second job, while some have already started a better-paying job.
- **Income is not the only factor.** This is not a tale of haves and have-nots. There are higher-income households Surviving and lower-income households Thriving. **38%** of Thriving have less than **\$50K** household income. **14%** of Surviving make over **\$100K**.

Three Unique Segments

Financial Situation vs The Past



"I have cut back on expenses and live very frugally."

THRIVING

"We are 4 adults with 4 incomes and 3 of them have declined while retail and gas prices are up."

SURVIVING

Shopping Shifts From Fun To Frustrating

With higher prices and more demands on less income, shopping has become a chore rather than a fun activity. To combat increased costs, consumers are changing their shopping habits--four in ten now shop at discount grocery stores. But the most significant changes are how they shop, especially the Surviving segment. In this tight economy, shoppers:

- **Hunt for deals in their regular store.** Low prices remain the most critical factor for all segments, especially the Surviving segment. Four in ten of all shoppers buy cheaper brands, spend more time looking for deals and buy more store brands.
- **Make trade-offs.** Almost half of shoppers buy cheaper brands in one category, in order to buy more expensive brands in another category, such as meat or coffee. As part of this trade-off, they are even willing to pay more for higher-quality products--especially the Thriving segment.
- **Stick to the list, with an occasional splurge.** Surviving shoppers are far more likely to stick to their list, while the Thriving segment will sometimes buy on impulse. But there is still room for an occasional splurge. Half of all shoppers splurge on dessert, ice cream or snacks. Shoppers even view staples like fresh meat and fresh produce as a splurge.

"Everything is so expensive it kills the fun because you worry about saving money."

THRIVING

"(I) Used to enjoy wandering the aisles to see what was new. Now all I want to do is get out of the store as soon as possible because prices are so high."

SURVIVING

84%



of shoppers are looking for deals all or most of the time when grocery shopping.



Shopper Reactions To Higher Prices



15% of shoppers say they are not making any of these changes

The SURVIVING

segment is more likely to do all these things

The THRIVING

segment is more likely to buy in bulk

Dining Out Competes For Grocery Dollars

As consumers emerged from the pandemic, they quickly shed eating in for eating out. But with limited income and higher prices, the lines between dining in and dining out blur. Consumers now:

- **Continue to eat out but trade down.** In the post-pandemic era, diners continue to enjoy eating out, but are cutting back on restaurant meals due to higher prices, with many seeking discounts or reducing their overall spend. They are also more likely to opt for quick-serve restaurants versus dining in.
- **View fast food as cheaper than groceries.** Despite rising restaurant prices, **36%** of consumers say eating at fast food restaurants can be more affordable than cooking at home.
- **Consider freshly prepared supermarket foods a viable option.** Freshly prepared supermarket food is often a convenient and economical alternative to dining out for about six in ten, often on impulse (**43%**). Rotisserie chicken is a fan favorite. While yet to be on par with restaurant quality, the perceived quality of prepared supermarket foods has improved.

How Retailers And Brands Can Ease The Burden: Make it Easy

Shoppers want retailers to make it easier to shop. Most helpful? For **65%** of shoppers--low prices on everyday staples. And around half want some form of a discount from loyalty program rewards, or high-value digital or paper coupons. For example, Kroger's new "Smart Way" brand offers basic groceries like sliced bread and mustard at the lowest price point. Drug stores such as CVS, Walgreens and Rite Aid promote exclusive digital deals through their loyalty programs, and Walmart strives to attract more customers to its subscription service, Walmart+. To put the fun back into shopping, Acosta Group recommends:

Strategy	Insight	Recommendations
Surprise and Delight	Shopping is not as enjoyable during inflationary times.	Generate excitement with events, sweepstakes, new products, sampling, small treats and recipes.
Elevate the store experience	Shoppers want an easy and enjoyable experience.	Deliver a highly satisfying store experience from entry to exit, such as easy navigation, new recipes or products, and frictionless checkout.
Satisfy bargain hunters	Discount and dollar stores are for more than just low-income shoppers.	Rethink strategy to ensure broad channel distribution - everyone loves a bargain, but many shoppers need one.
Redefine Value	Value is in the eye of the shopper and goes beyond low price to the entire value proposition.	<p>Communicate transparent, simple price/value (don't make them do the math).</p> <p>Offer value and convenience in various ways for different occasions and household sizes--smaller packages, trial sizes, bulk buying for high-frequency items, recipes for leftovers and at-home solutions.</p> <p>Convey food quality, brand story, or point of difference instead of just price.</p>
Rethink splurges	Shoppers will splurge and need to treat themselves on occasion, even during tough times.	Tap into emotional needs to take the focus off price. Sprinkle in promotions for affordable indulgences like snacks, candy, and ice cream, but also for fresh meat, fresh produce, coffee and cheese.
Offer affordable healthy options	Cater to and empathize with those who cannot always afford nutritious food.	Provide easy-to-find healthy yet affordable meal solutions with fewer ingredients; smaller packages of meat and produce.

Sources:

- Acosta Group Financial Impact Shopper Segmentation, March and June 2023
- Acosta Group Ongoing Challenges In The U.S. Labor Market, April 2023
- Acosta Group Promotion Shopper Insights, March 2023
- Acosta Group SNAP Insights & Impacts, April 2023
- Acosta Group Foodservice Diner Insights, Spring 2023