



Wal-Mart Jobs and Opportunity Zones Program Consumer Trends Report March 2009

ABSTRACT

Wal-Mart Stores, Inc. commissioned¹ the third installment of the Consumer Trends Report to offer insight into changing general economic trends and to help small businesses chart a course in an uncertain business environment. The report provides an overview of the current economic landscape, including information on: consumer trends; businesses and building trust; planning for uncertain times and other resources. This report is part of the Walmart Jobs and Opportunity (JOZ) program designed to support its commitment to economic and small business development nationwide. Key findings include:

- **Consumer Trends:** Consumers in today's economy are spending less on goods and services, staying home more often, making home-cooked meals, trading down from-name brand to private-label goods, and functioning with the conservative thrift of past recessions. Given recent consumer trends, businesses must refocus on building strong relationships with customers.
- **Businesses and Building Trust:** Consumers around the world trust information delivered by company employees, friends and peers far more than they do information derived from newspapers or product advertising². Businesses should find ways to deliver product messages through new and different means. Today, the brand experience is more important than the product.
- **Planning for Uncertain Times:** There is no single answer for dealing with a slowing economy, yet opportunities exist to create market dominance despite the economic downturn. Developing new business models to include cost cutting, marketing, innovative partnerships and internet engagement will be useful in achieving success.

¹ This document and all related research was generated by Edelman on behalf of Wal-Mart Stores, Inc.

² 2009 Edelman Trust Barometer

Introduction

The current state of the global economy represents the most significant economic downturn since the Great Depression. Its uncharted nature implies an uncertainty in decision making and business planning. Over the last 18 months, the global economy has lost the equivalent of the 2007 World GDP (\$33 trillion). In addition, individual businesses are experiencing increased suffering as a result of lost trust in the business sector. The important differentiation is that all businesses—including small businesses—are suffering when the actions of a very small percentage of businesses created the current economic environment. In psychology, the notion of “risk as attitude” indicates *emotions* trump *cognition* in decision making.³ When people feel negatively about an issue, they will decide against it even if logic indicates their decision is irrational. At the end of 2008, for example, 77 percent of Americans trusted all businesses less than they did one year before.⁴

Ten years ago, during the last recession, companies reacted by going global. Strategic managers restructured many companies’ internal operations to make them more nimble⁵. They sourced their products in the developing world and looked for emerging markets as growth opportunities. However, global interconnectedness helped create the current global recession. Toxic or highly leveraged assets from all corners of the world were freely traded in all global markets. At the same time, global supply chains and new markets were the path out of recession. Today, however, problems in quality control throughout the global supply chains represent some of the reasons why consumers distrust business. The last recession forced companies to look outward onto the horizon for new opportunities. In the current landscape, the new opportunities for business renewal lie within. Instead of looking for new markets and ways to expand, the current business downturn and general lack of trust calls for a new focus on a company’s existing core constituency—current customers.

Consumer Trends

The core U.S. customer is unhappy and frustrated with the current economic and financial situation. Consumers have lost confidence in the economy, are worried about layoffs and their overall employment outlook. They are spending less, using more coupons, trading down from brand names to private labels and focusing on *needs* more than *wants*.

³ Engle-Warnick, Jim, et al. “How do Additional Alternatives Affect Individual Choice Under Uncertainty?” *Canadian Journal of Economics*. Feb. 2009, Vol. 42, No. 1, pg. 115.

⁴ 2009 Edelman Trust Barometer

⁵ Garten, Jeffrey E. “Cutting Fat Won’t Be Enough to Survive This Crisis.” *BusinessWeek*. New York: Nov. 9, 1998., Iss. 3603, pg. 26.

In today's environment, consumers lack confidence in the government, business and industrial sectors and expect the downturn to continue for the foreseeable future. From February 2007 to February 2009, consumer confidence in the strength of the U. S. economy has fallen 33.8 percent (53.2%-19.4%).⁶ During the same time period, the number of small businesses filing for Chapter 11 bankruptcy has risen 54 percent (28,322 bankruptcies in 2007; 43,546 bankruptcies in 2008).⁷ As trust in business diminishes and economic downturn continues, individuals are becoming increasingly concerned with being laid off. Over the past two years, Americans' concern with being laid off has risen six percent.⁸ These trends indicate a continued distrust or lack of confidence in products and services delivered by companies and the overall solvency of businesses in general. People are not only worried about their purchasing decisions, but also about their employment prospects.

In response to economic uncertainty, consumers are more thoughtful and conservative in their spending habits. From February 2007 to February 2009, a notable increase in private label purchases and coupon usage was noted across the U.S. During this time period, a 13.7 percent increase (22.3%-36%) in private label and generic product purchases occurred. Also during the same time period, 11.6 percent more consumers (from 25.8% to 37.4%) used coupons with greater frequency. More consumers now purchase food and necessities on the 15th and 30th of the month, parallel to paycheck distribution. Additionally, retailers are also seeing an increase in smaller and more frequent purchases made by consumers.

Fuel prices are decreasingly affecting consumer purchasing decisions, despite previous reports. During the six-month period between February and July 2008, 10 percent more consumers indicated they were spending less on food and clothing as a direct result of rising fuel prices.⁹ During the same time period, consumers indicated a shift in focus from *wants* to *needs*, with 10 percent more consumers indicating a stronger focus on needs.¹⁰ However, as fuel costs decreased in the last quarter of 2008, consumers became marginally more confident in their purchasing decisions. In February 2009, fuel cost concerns measured against food and clothing needs have returned roughly to their April 2008 levels. This is not to say the end of the recession is near because fuel prices are low. Instead, it indicates that while fuel costs may have been a contributing factor to the recession, it is not the sustaining reason for the continued economic downturn.

⁶ Big Research Consumer Trends ©2002-2008

⁷ U.S. Small Business Administration, Office of Advocacy

⁸ Big Research Consumer Trends ©2002-2008

⁹ Big Research Consumer Trends ©2002-2008

¹⁰ Big Research Consumer Trends ©2002-2008

These consumer trends indicate several things: Consumers are spending less as a direct result of uncertainty; consumer sentiment regarding saving, spending and credit has changed drastically; and a paradigm shift has occurred in the American psyche. Whereas in the recent past the American stereotype has been characterized by over-extension and high credit balances, today it can be characterized by savings and thrift. In this situation, businesses should build trust between company and customer to mitigate feelings of uncertainty. If people are spending less and doing less with more, it will become increasingly difficult to spur short-term foot traffic and new business in the retail and professional services industries. Offering deep discounts is one way to spur short-term foot traffic, but one can only cut prices so far.

Consumers are also becoming conditioned to expect and react to sales and discounts. For example, auto manufacturers indicate consumers do not buy cars unless a discount (i.e., employee pricing) is associated with the purchase. Another example is the sustained sale of airline tickets over the last quarter of 2008 through the first quarter of 2009. Beginning in the last week of October 2008, airfare sales were continuous each week, enabling consumers to purchase fares at deep discounts.¹¹ Consumers associate purchasing decisions with sales and therefore do not make a purchase unless sale terms are in effect. While this is a short-term solution to a larger problem, it is a more effective tactic for larger companies that can afford to take a short-term loss.

An opportunity for small businesses is to pair sales with relationship building. As some big businesses are forced to make cutbacks, their quality of service diminishes. The advantage for small businesses is their focus on individuals. Small-business operators and employees should work to increase their subject matter expertise and customer relations skills, thereby conditioning consumers to expect excellent service and knowledgeable staff over sales. This is not to say that sales don't work, but that sales bring customers in the door and service keeps them coming back.

The Business Case for Trust

As with business, trust in every type of corporate information source, and of every type of spokesperson, is down. To address this erosion, small-business owners and employees must illustrate their personal commitment to the people and communities they serve, while also building personal relationships with their customers. Just as Americans disapprove of the U.S. Congress, but approve of their own legislator, so do Americans disapprove of business and industry but approve of their local shopkeeper.

¹¹ "To Woo Travelers, Airlines Slash Fairs," All Things Considered. National Public Radio, Mar. 9, 2009.

In 2009, consumers around the world trust information delivered to them by company employees, friends and peers far more than they do information derived from newspapers or product advertising. Today, a “person like yourself” is as credible a source as an industry analyst.¹²

Research shows that trust may be derived from proximity. It is easier to trust a “person like yourself” because it is easier to believe they are going through the same things you are. Relationship building and interpersonal engagement builds trust between consumers and businesses. If a shopper buys a t-shirt from a store and makes no connection, there are few reasons for this person to return to that store. However, if Ralph buys a t-shirt from Bob at Pairet’s Custom T-shirt Shop, and Bob spends a moment discussing the value and quality of various t-shirt models, Ralph and Bob have made a connection and there are many more reasons for Ralph to return.

So, why does any of this matter to small-business owners? In 2008, 91 percent of 25- to 64- year-olds said they had bought a product or service from a company they trusted, while 77 percent had refused to buy a product or service from a distrusted company.¹³ Business is no longer about selling products. The business of business is now relationship building. Business owners and employees who develop relationships with their clients, and communicate frequently and honestly with them, will see a positive return on their actions. Trusted businesses with trusted employees will have people choose to buy their products and services, recommend the company to friends and colleagues, pay a premium for their products and services, and share their positive company experiences.

Planning for Uncertain Times

During a downturn, opportunities exist to create market dominance. Beyond building trust, there are many things small-business owners can do to help their companies operate more efficiently and effectively. The watchword of the day is *do more with less*. This not only applies to consumers but also to businesses. Small-business owners should control cash flow and inventory, implement strategic marketing and advertising efforts, and develop new models for product dissemination (e.g., online sales).

1. Cutting Costs

Now is the time to truly evaluate every purchase made to control cash flow. The first reaction during such times is to cut expenses. Many businesses will begin with employee layoffs; however, there are other business operating costs that should be re-evaluated first. This includes offices and workspaces, suppliers and services.

¹² 2009 Edelman Trust Barometer

¹³ 2009 Edelman Trust Barometer

Renegotiating financial contracts allows for entrepreneurs to discuss their current needs and demonstrate the value of their continued partnership. A reduced lease and discounted equipment, supplies and services will assist in sustaining a business. In addition to addressing these costs, and other unnecessary purchases, it is important to review how the business credit line is utilized. Business owners may be tempted to use their credit line during an economic downturn; however, tightening the budget is a smarter choice.

2. Marketing

Marketing efforts are typically in the top tier of expenses to reduce, but this is not a recommended tactic to save money. In fact, according to the National Federation of Independent Business (NFIB), it does the exact opposite. Businesses that continue their marketing efforts are those that typically come through ahead after a slow economy passes.¹⁴ According to NFIB, aggressive marketing efforts may be one of the few strategies to obtaining new clients in an uncertain economy.¹⁵ Existing customers and potential clients must be aware of the products and services available to them in order to spend their money. There are fewer companies advertising during tough times, and the likelihood of negotiating reduced pricing for better positions is higher. Instead of eliminating marketing, business owners are encouraged to develop new and creative strategies that are cost-effective and measurable. This is also a prime opportunity to re-evaluate previous marketing strategies to determine what efforts to eliminate and what tactics to continue and expand upon. These efforts will strengthen client relationships and differentiate businesses from competitors, especially those who are not advertising.

According to the U.S. Consumer Affairs Department, *it costs five times more to get a new customer than it does to retain one*. Therefore, it is important to communicate with current clients to become re-familiarized with their needs and concerns. This effort can result in new marketing strategies that will keep and increase their business, such as cause marketing. For example, choosing a non-profit organization that addresses concerns clients are interested in, and associating the cause with a product or service, can boost awareness, attract press and win new clientele.

Promotions are a well-known marketing tool that continues to bring success. With competitors closing their doors for good or reducing their marketing efforts, now is the time to initiate alternative promotion methods to kindle clients' interest. Activities can include big-ticket giveaways, which can coincide with a sale or special

¹⁴ "Ten Ways to Reject the Recession and Build a Thriving Business." National Federation of Independent Business. Sept. 22, 2008.

¹⁵ "When Times Are Tough, Don't Cut These Costs." National Federation of Independent Businesses. May 5, 2006

offering to encourage spending, special events with demonstrations and discounts, and promotions during specific times, such as holidays or periods when business naturally increases.

When developing and testing new marketing strategies, it is important to review the return on investment of the efforts. If something does result in a successful return, curtail those efforts and focus on the approaches that do work and developing tactics to make them successful.

3. Partnerships

In addition to expanding upon key marketing practices, this is also an ideal time to begin developing new partnerships and networks. Developing unique partnerships can result in shared business practices, gained capital and an expanded client roster. Developing a mastermind group—a small assembled group of various business people and community leaders—to brainstorm opportunities can provide insight and access to otherwise untapped resources. Partnerships should be established with those who provide services, such as community banks and financial partners. The economy's rebound is uncertain and it is imperative to establish partnerships that will assist in obtaining capital. Banks, especially small community banks, and financial investors have few loan applications and investment opportunities, which can open the door for faster loan approvals and financial support. Networking can also be an essential tool for developing these beneficial partnerships. Whether it is face-to-face through business seminars and events or online on sites such as LinkedIn.com and Twitter.com, boosting networking can introduce potential business partners, investors and clients.

4. New Online Business Models

Technological advancement has paved the way for easily implemented business models. The Internet provides an expanded and engaged consumer pool. Utilizing the Internet could be an affordable and successful tool for expanding the reach of a business without increasing operating costs.

With the current state of the economy, now is the time to study online sales strategies and implement online sales systems, as it will help revitalize a business' image and offerings, as well as attract clients from around to world.¹⁶ Tried and true efforts will continue to be relevant and useful as small businesses look to the internet for way to expand their brand. Activities include employing search engine optimization tactics to build online awareness, selling products and services on various external Web sites—Ebay or another online venue in addition to the business' main Web site—and conducting or posting educational workshops online.

¹⁶ "Marketing In a New World." National Federation of Independent Business. Sept. 18, 2008.

However, utilizing the usual strategies will not be enough to sustain a business. It is now even more important to connect with customers on an ongoing basis. Therefore, online engagement should be included in the business model. In the past, smaller U.S. businesses have utilized their advertising and marketing budget to publish promotional print material. With the rise of the internet, small businesses are investing an average of 11 percent of the advertising budget in online efforts¹⁷. While these business owners are taking advantage of Web outreach, it is equally important to ensure they are using the best tools.

Currently, there are several Web-based communities acting as communicators between businesses and customers—existing and potential. Small-business groups and service providers are engaging on sites including Twitter, Facebook and LinkedIn¹⁸. Twitter, which provides streamlined updates that answer the question “What are you doing?,” can be helpful in connecting with clients or potential partners and in keeping them updated¹⁹. While blatant self-promotion is frowned upon on Twitter, utilizing the micro-blogging site to strategically connect with customers and other interested parties is acceptable²⁰. For example, business owners can initiate “Tweet Ups,” which brings together Twitter users with similar interests in a physical location, to establish and sustain unique partnerships with other business owners and community leaders, boost sales on slow days and showcase a new product or service.

Beyond Twitter, businesses can also develop profiles on Facebook and LinkedIn. Through a Facebook fan page, businesses can reach a larger group of potential clients outside its realm of physical influence. Entrepreneurs can also engage the Web site members by asking them to become a “fan,” encouraging them to post messages and providing them with up-to-date information on services and products. With LinkedIn, a professional online community, business owners are able to connect with those in their sector, learn of new business opportunities and provide updates.

While many users may not use these online services for professional purposes, particularly Twitter and Facebook, there are those who rely on the site to share their agenda, making these sites a prime resource to develop new partnerships. Many users host professional “Tweet Up” events as an innovative way to extend one’s professional network and interact with the business community²¹. Events can be advertised on Twitter

¹⁷ “Main Street Goes Interactive.” Borrell Associates. March 2009

¹⁸ “Disney Entrepreneur Center, small businesses connect on Twitter, Facebook and LinkedIn.” *Orlando Sentinel*. March 23, 2009

¹⁹ “How to Connect with Customers Using Twitter.” National Federation of Independent Businesses. July 30, 2008.

²⁰ “Tweet Ups Put Human Face on Viral Community.” Reuters. March 17, 2009.

²¹ Ibid.

weeks in advance or at the last minute. Facebook and LinkedIn are also useful tools in putting a face with the company by promoting in-person events with like-minded individuals.

Taking it a step further in connecting small business owners with each other, the U.S. Small Business Administration (SBA) has also launched an online community designed to unite small-business owners, industry experts and government agencies online²². The “Business.gov Community” will allow business owners to post questions and provide input on how government can better serve small businesses, among other capabilities²³.

Taking advantage of popular technology can be a method of differentiator from competitors. These efforts can also work with or eliminate company blogs and e-mail newsletters. While these tactics have proven to be successful for many enterprises, it is important to note these internet trends must be fully understood before employing efforts to incite sales and connect with customers²⁴. For any online campaign to be successful, the Web site, Facebook page, Twitter channel or e-mail must be clicked on, opened and read. A solid foundation to ensure success includes making the online communication inviting to open, providing useful and reader-friendly content, and presenting a call to action.

5. Small Business Opportunities in The Economic Stimulus Bill

From the announced stimulus package, \$730 million has been allocated to the Small Business Administration (SBA) to alleviate fees and create greater access to SBA loans. Specifically, the funds will:

- Reduce and remove loan fees and increase the SBA’s guaranteed share up to 90 percent of some loans (\$375 million);
- Assist businesses with meeting their debt payments (\$255 million);
- Expand the SBA’s microloan program (\$30 million); and
- Expand the SBA’s surety bond guarantee program to cover contracts (\$15 million).²⁵

The U.S. government’s stimulus plan also promises to create opportunities for small businesses to win contracts for federal, state and local government projects. Small businesses hope to win up to twenty-three percent of all contract funds across all agencies.²⁶

²² “Business.gov Launches First Government-Sponsored Online Community for Small Businesses.” Business Wire. March 18, 2009.

²³ “Disney Entrepreneur Center, small businesses connect on Twitter, Facebook and LinkedIn.” *Orlando Sentinel*. March 23, 2009

²⁴ “Main Street Goes Interactive.” Borrell Associates. March 2009.

²⁵ “Small Businesses to Get \$730 Million Boost from Stimulus Package.” *The Dallas Morning News*. Mar. 5, 2009.

²⁶ “Small Businesses Set Sights on New Customer: The USA Government.” *Wall Street Journal*. Mar. 10. 2009.

Despite these efforts, President Obama has faced concerns that his budget would not alleviate the economic stress of small-business owners. To that end, on March 9, 2009, the Obama administration announced to Congress that there will be assistance to the U.S. small-business community. Officials will work to increase liquidity for small businesses as part of the administration's effort to boost lending and slow down the rate of unemployment.²⁷ These efforts are an expansion of the initial support through the stimulus plan. According to Treasury Secretary Timothy Geithner, the Obama administration will execute a plan to "open up small business lending."²⁸

Conclusion

All Americans are dealing with the current economic turbulence. While business confidence is at a record low, small businesses do have an opportunity to survive and thrive. According to the NFIB, smaller businesses have the advantage of size, which allows for quicker adaption and strategy adjustments. The current economy presents an opportunity to streamline the way business is conducted and change business operations to ensure survival.

Trend forecasters indicate the current recession will continue through 2011 with a minor upsurge in business activity during the last quarter of 2009 and first quarter of 2010. In order to survive the storm, small-business owners need to look for long-term solutions to building brand loyalty. While any number of activities can help streamline business operations, superior and personal customer service and ongoing and open communication may prove the deciding factors of whether businesses succeed or disappear.

²⁷ "Treasury Plans Small-Business Aid." *Wall Street Journal*. Mar. 10, 2009.

²⁸ Ibid

Resources

Organizations nationwide are available to provide resources and tools to ensure that business remains high while the economy continues to strengthen. Below you will find a list of resources.

- Association of Small Business Development Centers
<http://www.asbdc-us.org>
- Business.gov
<http://business.gov/>
- International Council for Small Business
<http://www.icsb.org/>
- National Federation of Independent Businesses
<http://www.nfib.com/page/home>
- Recovery.gov
<http://www.recovery.gov/>
- SCORE
<http://www.score.org/index.html>
- Small Business Administration (SBA)
<http://www.sba.gov/>
- SBA's Business Gateway Program
<http://Community.Business.gov>
- U.S. Chamber of Commerce and local chapters
www.uschamber.com/
- U.S. Consumer Affairs Department
www.consumer.gov/
- U.S. Export Assistance Centers
<http://www.export.gov/eac/index.asp>
- Women's Business Centers
<http://www.womenbiz.org/>

Top Tips for Surviving a Slow Economy

Below is compilation of tips to assist in efforts to come out ahead during dire economic times. These tips were compiled through research from several business resources.

- Do not panic

- Control cash flow
- Renegotiate financial contracts
- Keep in touch with your banker
- Check your credit report
- Develop new marketing strategies
- Communicate with employees and work to retain workers
- Amp up customer service
- Ask for referrals
- Increase networking
- Optimize down time
- Utilize the Internet
- Reach out to your customer base
- Remain flexible
- Get help and focus on the goal