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COMING OUT OF AN ECONOMIC DOWNTURN

The current economic slowdown which hit Western Australia in mid-2015 has, we are told, bottomed out. Investment is rising in the resources sector, with employment figures for mining engineers (from Engineering Australia) showing solid growth this year though this increasing level of spending is yet to play through in any meaningful way into the retail sector.

This latest economic downturn followed close on the heels of the global financial crisis which peaked in Australia in 2009. Some say the 2015 downturn was simply part of the global GFC reverberations only delayed by the buoyant prices the State received for its resources.

WA has seen companies, government and organisations reduce or even cease their marketing and marketing communication activities during this period and many are now wondering when and how to re-start or ramp-up those activities.

The first thing is to understand the mindset of those consumers not only through a downturn but also the consequential emergence into better economic times.

In an article published by the Harvard Business Review in 2009 addressing the impacts of the GFC on US consumers, John Quelch and Katherine Jocz stressed the importance of understanding the psyche of consumers and how it changes either for the short-term or more longer-term depending on the severity of the downturn.

They categorised consumers into four groups:

1. The ***slam-on-the-brakes*** segment, the most vulnerable and hardest hit who reduce all types of spending;
2. The ***pained-but-patient*** segment, the largest group who are able to maintain their standard of living but do so through economising;
3. The ***comfortably-well-off*** group, the smallest, those in the top 5% income bracket who are able to keep consuming no matter the economy; and
4. The ***live-for-today*** segment, typically urban and younger and more likely to rent than to own, to spend on experiences rather than stuff (other than electronics) and unlikely to change their consumption patterns if they don't have to.

Except for the live-for-today group, all consumers usually re-evaluate their consuming priorities and research shows they become more price-sensitive and less brand loyal during downturns.

Businesses, whether retail or B2B, depend on customer loyalty to get them through economic downturns. And, when coming out of that downturn, reinforcing that customer loyalty is as essential as is seeking to understand people's behaviour in the new market paradigm.

Quelch and Jocz point out that US post-war recessions have lasted an average of 10 to 11 months. More severe or longer lasting downturns impact consumer and business confidence and can lead to markets retaining their downturn mentality for longer periods.

I suspect that is why we are seeing this lag in consumer spending over increasingly buoyant investment spending within the State; people have changed their expenditure habits and will need convincing that the worst is over.

This is the time that market research-led marketing communications comes to the fore, with intelligent, sympathetic and respectful engagement with loyal customers and engagement with potential new customers to change their recent and restricted consumption patterns.

In other words, you have to spend money to make money.

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