



Supply chain woes induced by the pandemic and the Russian invasion of Ukraine have contributed to soaring prices around the world, with energy and food costs putting the greatest strain on households. At the time of reporting, inflation rates sit somewhere between 2.5% in China all the way to 83% in Turkey. While the reality of recession in certain countries is a big question mark due to contradictory indicators, as long as consumers continue to face higher prices for everyday items, their economic outlook will remain grim—a sentiment coined the "[vibecession](#)." Countries are deploying various tactics to try to curb inflation, but consumer confidence is already shaken and shoppers are taking the steps now to brace for rough waters ahead. **In this report, we look at some of the key ways that inflation is shifting spending and uncover areas of opportunity and strategies that brands and retailers can take to reach customers during this precarious time.**



- 93% of consumers in the US feel they are in an inflationary time, and 83% expect the cost of living to be more expensive in the coming year. [\(source\)](#)
- More than half of American adults expect to spend less this holiday season. [\(source\)](#)



- While China is experiencing lower inflation than the rest of the world, the more pressing concern currently is surging unemployment, especially among younger workers, with nearly one-third of respondents worried about job security. [\(source\)](#)
- Purchases that Chinese consumers are most likely to delay due to inflation are automobiles, followed by leisure travel.



- Fueled by major institutional shake-ups as of late and a looming energy crisis, consumer confidence in the UK has dipped lower than levels during the four major recessions of the past 50 years. [\(source\)](#)



- Nearly a third of consumers across Europe have switched to buying from discount stores recently, with the biggest shift coming in Germany. [\(source\)](#)



Ibrahim Boran (Photographer)

How is inflation affecting consumer sentiment around the world?

1 Customers aren't spending less —they are spending differently



Haus Labs by Lady Gaga (Brand)

Although on track overall to spend more this year than pre-pandemic levels, customers are starting to prioritize the essentials out of caution: groceries, gasoline, housing, and healthcare. This puts discretionary items like dining out, apparel, entertainment, home decor, and vacations on the backburner. However, after the standstill of the past few years, there remains a strong desire to find reasons to celebrate and make up for lost time.

97% of consumers are reprioritizing how they spend in order to afford the essentials.

Areas of Opportunities

THE LIPSTICK EFFECT refers to the tendency for goods like lipstick and perfume to experience an uptick during economic downturns, as consumers seek out small luxuries that provide an emotional boost. Just like with lipstick, color plays a big role and can provide a dopamine rush, as well as convey a celebratory mood. Keep in mind that not everyone is adjusting spending in the same way: The majority of Gen Z in the EU, for example, still plans to treat themselves through apparel purchases, eating out, and budget travel. Look for these anomalies, and consider how you can play up the idea of self-care through small indulgences and affordable luxuries.

CONVENIENCE is still something that many consumers will pay extra for, especially Millennials who grew up during a relatively frictionless time and are at an age now marked by greater professional and personal demands. This could mean prepackaged meals, all-in-one kits, or subscriptions that offer time savings, in addition to a touch of indulgence. Convenience should also be a top guiding principle throughout the customer experience, from the online shopping journey to pick-up or delivery options.

VALUES, not just value, continue to inform Gen Z spending. In the US, Gen Z is the least concerned about rising prices (44% compared to 75% of Boomers). Personal and political topics remain among this cohort's top concerns, and as always, they are most swayed by authentic testimonials on social channels. As more attention is put on the bottom line, brands shouldn't lose sight of their values in terms of internal practices, as well as product quality.

IFS

What are the main ways that inflation is changing consumer behaviors?

2

Customers are only buying when there is a deal



The North Face XPLR PASS

Spend over \$125, get a free Base Camp Travel Canister.

Must be signed in, gift automatically added to cart.
Valid through 9.13, while supplies last.
Not available at The North Face Outlet.

The North Face (Brand)

The image shows a promotional graphic for The North Face. At the top left is the North Face logo and 'XPLR PASS'. The main text reads 'Spend over \$125, get a free Base Camp Travel Canister.' Below this is a smaller line of text: 'Must be signed in, gift automatically added to cart. Valid through 9.13, while supplies last. Not available at The North Face Outlet.' The central image is a red and black travel canister being held by a hand. The canister has 'THE NORTH FACE' printed on it. At the bottom of the image, it says 'The North Face (Brand)'.

Uneasy about the economic forecast, customers are most motivated to buy now when they can get a deal. Amazon had its most successful Prime Day in July 2022, with many using the occasion to stock up on essentials; and almost half of Millennials and Gen Z are reportedly waiting for the big holiday shopping weekend (Black Friday to Cyber Monday) to pull the trigger on planned purchases. In addition, the use of digital aids to track deals, from coupon browser extensions to price comparison tools, is increasing across all age groups.

8 in 10 Americans say they will wait for deals and big sales to come along before making

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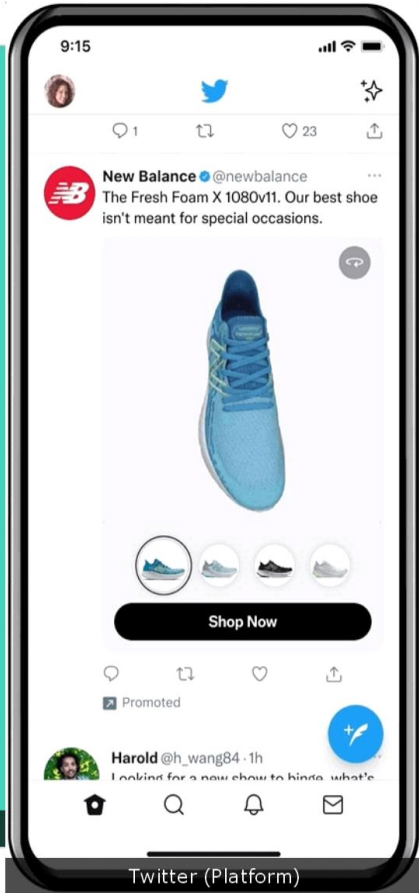
BUCK THE TREND in terms of scheduling sales because brands and retailers will be competing in a crowded market during the usual shopping holidays. Consumers typically use these occasions to stock up on essentials or make high-ticket purchases; so if you sit somewhere in the middle, consider offering ongoing deals but saving your biggest sales for relatively quieter periods.

PLAY UP LOYALTY PROGRAMS that trade in exclusive perks and discounts in exchange for customer insights and actions that can bring companies value in the long run. As this space also gets crowded, however, consider partnering with other brands and retailers to diversify rewards. While subscriptions have fallen from their peak, inflation worries have also given new life to product-centered subscriptions, such as models that offer savings based on automatic renewals.

SPARK CROSS SELLING by bundling affiliated products at a discount or providing coupons for associated goods with the purchase of one. Consider using essentials and top sellers as vehicles to promote and incentivize sales of more novelty items that have the potential to become new favorites.



3 Customers are doing more research & planning



Twitter (Platform)

As rising prices put a strain on wallets, customers are taking the time to shop *smarter* by doing more research and planning further out. This includes scouring marketplaces and other sites for reviews, consuming product-related media, comparison shopping, and experiencing goods in person beforehand. Most importantly, over 80% of Gen Z and Millennials are getting inspiration from or consulting social media before purchasing—a phenomenon encapsulated by the 'TikTok Made Me Buy It' trend.

42% more customers worldwide are starting their holiday planning and shopping earlier this year.

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LEVERAGE USER-GENERATED CONTENT to build buyer confidence. Foremost in this category are authentic product reviews, testimonials, and images from real people, which most customers now consult for both online and in-store purchases. Make it easy for customers to access UGC by aggregating them from various platforms, such as marketplaces, social media, and the brand e-store. Also make it easy for customers to review and create content around products with quick and anonymous follow-up surveys, special campaigns, and dedicated tools and forums.

USE MORE ENGAGING MEDIA that allows customers to better experience products before they even step into a store. Viewers tend to have more trust in video than still images that are perceived to be easier to manipulate. This is also why livestreaming and amateur videos on TikTok are more influential than ever. In addition, feature 360° views of products where you can, whether it's a video or interactive 3D rendering, as such immersive media has been shown to boost conversion rates by an average of 25%.



4 Customers are trading down



Packamama (Manufacturer)

With over half of consumers around the world feeling that their money isn't going as far as it did before, most are much more open now to 'trading down.' This has provided a boon to generic or private label brands, as well as discount stores. In addition, customers are seeking out more affordable alternatives where they can, such as prepared meals in the place of restaurant dining, plant-based proteins instead of meat, and frozen vegetables instead of fresh produce. How can businesses relate to struggling consumers while repairing brand and category loyalties?

About 75% of customers in the US and EU have reported switching to lower-cost or private label brands recently.

Areas of Opportunities

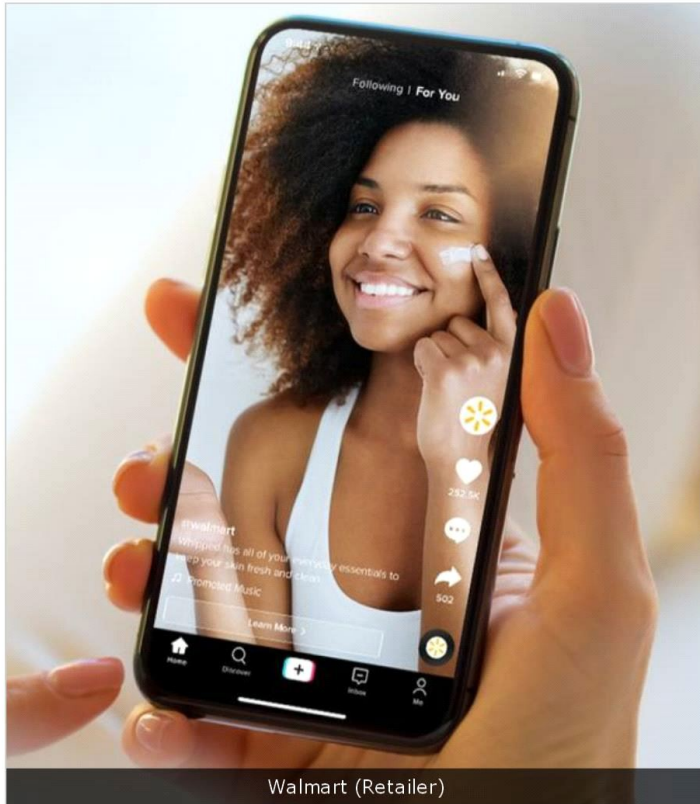
GET THE EDGE ON CUSTOMER SERVICE through a mix of scalable digital tools and more hands-on methods. Sixty-three percent of customers say they would pay more to get better customer service. Chatbots and small but automated personalized touches in the martech stack can go a long way in making customers feel seen and heard. Also make it easy for customers to engage with you by opening more channels for dialogue, such as social media, text, and voice.

MAKE AN EMOTIONAL CONNECTION by highlighting trust, reputation, and other attributes that can only be built over time. Emphasize not only treating yourself but loved ones as well: For example, sales in categories like childrenswear and pet services have stayed relatively steady, which shows that customers are less willing to sacrifice in certain areas.

TWEAK THE VARIABLES, particularly *how much* you offer customers. Warehouse clubs that sell in bulk are flourishing, especially as customers continue to feel the urge to stockpile items; and brands have seen success in sizing up products for what is perceived as a justifiable increase in price. Now is also the time to explore packaging alternatives that can reduce costs and waste in the long run, such as refill options and compact forms that can ship more efficiently.



5 Customers are becoming channel-agnostic



Walmart (Retailer)

The pandemic accelerated the transition to online shopping, and more recently, high gas prices have kept customers from visiting stores as frequently. Customers are truly becoming channel-agnostic, seeking out the best value wherever they can. For brands, this means that there is very little separation between online and offline or wholesale and DTC—every channel is important and presents its own opportunities to reach customers.

In response to high gas prices, 34% of Americans are grocery shopping less frequently, 25% are shopping online instead, and 24% are shopping closer to home.

Areas of Opportunities

PRESENT A UNITED STOREFRONT by keeping your brand image and messaging consistent throughout your different distribution points. Bring a similar level of care, attention, and service to each channel; and find opportunities for integration, such as QR codes in stores or rewards programs that easily consolidate sales across platforms. At the same time, consider slightly varied or repackaged offerings per channel to increase the sense of exclusivity and respond to unique audience needs.

TEST OUT NEW CHANNELS in the digital space, in addition to having a presence on the established ones. We are past the 'wait and see' phase, especially as traditional digital marketing outlets get more saturated, expensive, and uncertain. Organic media is also more powerful than ever, so consider low-stakes ways to participate. In addition, be ready to jump onto emerging marketing and sales portals, such as streaming services, new social channels, and even video games.

FOCUS ON LOCAL COMMUNITIES since consumers are making less trips to stores or driving shorter distances. Explore offering special deals or exclusives to local customers who come into stores—start planting the seeds now to relationships that can flourish over time.



6 Customers are getting the most mileage out of their purchases



Uniqlo (Retailer)

A last key tactic that customers are taking to make their dollars stretch further is coming up with creative ways to get the most out of their purchases. Luckily, there are a host of services and DIY content online that are helping them do that, and brands have an opportunity to join in early and support this new reality that centers the customer *and* sustainability.

Driven by post-pandemic uncertainty, 56% of UK consumers are seeking more value for their money, and 45% say they are more likely to repair things instead of replacing them.

Areas of Opportunities

AMPLIFY HOW-TO CONTENT whether from in-house professionals, influencers, or ordinary consumers. Account for this trend of customers prolonging the use of goods with your lifecycle marketing strategies and serve up the right content to them at the right time and place that speaks to these later stages. In terms of marketing new goods, emphasize longevity and reuse potential to capture this type of creative and conscientious shopper.

BRANCH OUT INTO SERVICES like alterations, repairs, resale, or even just recycling help. Customers may see these services as a thoughtful value-add for higher-priced products or—if endorsed by brands they trust—a convenient way to extend the shelf life of clothes, accessories, home decor, electronics, etc. and keep them out of landfills.