

THE WALL STREET JOURNAL

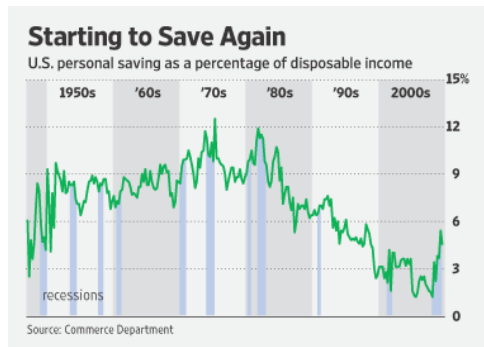
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By LISA BANNON and BOB DAVIS

Next spring, Fine Living Network, a cable channel created in 2002 at the height of America's infatuation with affluent living, is slated to be phased out. In its place, Scripps Networks Interactive Inc. will launch the Cooking Channel.

Gone will be "I Want That!" celebrating diamond-encrusted sinks, and "Dream Drives," showcasing America's richest zip codes. Instead, viewers will see shows focusing on instructional cooking at home.



"It's not so much [that we have] a different audience but an audience that's acting different," said John Lansing, president of Scripps Networks

Interactive. "Their value system is shifting from aspiring to material wealth to aspiring to a life better lived."

The economy appears to have begun recovering after the worst recession in half a century. But businesses ranging from shoemakers to financial services to luxury hotels don't expect American consumers to return to their spendthrift ways anytime soon. They see consumers emerging from the punishing downturn with a new mind-set: careful, practical, more socially conscious and embarrassed by flashy shows of wealth.

Much as the 1930s shaped the spending habits of an entire generation, many companies now anticipate a shift in consumer behavior that persists even after jobs and growth get back closer to normal.

"We seem to be at a cultural inflection point that we haven't seen since World War II," said Jim Taylor, vice chairman of market researcher the Harrison Group. Last month it surveyed 1,800 affluent Americans and found that 48% think they could suffer major financial losses in the future. "People are getting used to being careful, and I don't know how you undo that," Mr. Taylor said.

Companies are tackling the change by turning their marketing upside down, with a range of strategies from more-cautious financial advice to a focus on experiences over possessions.

There's no guarantee Americans won't revert to their profligate ways once the economy recovers, as they did after Sept. 11, 2001. Some makers of luxury products are hedging their bets.

BMW AG's 2009 U.S. sales were off 22.5% through November from a year earlier, according to Autodata Corp. BMW reacted to the recession by launching a new ad campaign that plays up the pleasure of a car rather than its luxury image. "The Joy of Driving" is the catch line.

Still, BMW's North America president, Jim O'Donnell, isn't sure about a durable change in consumer culture. "I have it in the back of my mind that consumers are saying in interviews that they'll change habits, but I'm yet to be convinced," he said. In case the change turns out to be more ephemeral than it now appears, BMW's "joy of driving" campaign could morph into a theme that's more hedonistic. BMW looks at "joy" as a flexible concept. "You can twist" the idea, Mr. O'Donnell said.

But the longer economic hardship lasts, says John Quelch, a Harvard marketing professor, "the more people discover more cost-effective ways to live, and those coping mechanisms become engrained." So, while few companies expect change as long-lasting as the Depression produced, neither do they expect the changes from the deep recession to be fleeting.



In one significant shift, Americans are starting to save more. In October, they saved 4.4% of their disposable income, according to the Commerce Department. That compares with an average annual savings of 2.7% for the past 10 years. The rate dipped to near zero at several points in recent years. Many economists expect the savings rate to increase further from here.

Consumers also say they worry more about social and environmental values than before. In surveys by DYG Inc., a Danbury, Conn., market-research firm, the proportion of respondents who say they have shopped for products for "social, political or environmental reasons" rose by 10 percentage points, to 51%, over the past year.

Although DYG's president, Madelyn Hochstein, is dubious that many people are actually shopping for such lofty reasons, "consumers are telling us this is the way they want to be seen," she said.

Brigitte Graulich, a 42-year-old mother of two in Las Vegas, used to buy an average of two designer handbags a month before the recession. She has cut her spending sharply, even though her husband's income as a restaurant owner remains the same.

"I think everyone's changed, rich or poor," she said. "You feel sympathetic for other people who lost their jobs. I feel guilty spending too much."

When she does spend, Ms. Graulich looks for items that don't scream luxury. "I'm more about keeping my logos inside," she said.

It's a message many consumer-products companies are taking to heart.

At the headquarters of [Timberland Co.](#) in Stratham, N.H., earlier this month, executives overseeing marketing, production and design held a meeting to brainstorm about what consumers will want more than a year from now.

The company's rugged work boots became a hot fashion brand starting in the 1990s. To meet avid demand from its trendy customers, Timberland churned out more and more shoes and boots with big metallic logos.

Now it is making a U-turn. The frugality first observed last winter is evolving, and what is considered "cool" has changed, said Andy Richard, senior director of merchandising. "Self-worth is tied to thoughtful purchases as a way to impress your peers, instead of conspicuous consumption."

Mike Harrison, chief brand officer, placed a boot on the table. "So that means smaller logos," he said. He pointed to a subtle stamp of Timberland's tree logo for fall 2010, which is replacing the flashy metallic logos of recent years.

"Thoughtful purchases" include products that are customized, handcrafted and eco-friendly, Mr. Harrison added. A boot for fall 2010 will feature a rubber sole that can be snapped off and recycled. The executives discussed whether the sole could be customized to consumer specifications for spring 2011. The target audience for the boot remains the same affluent urban male.

"This is a person who has the means to buy whatever he wants," Mr. Richard said. "But he's bragging to his friends that he's able to get this recycled shoe."

With consumers buying less, and Timberland betting that consumers' parsimoniousness is here to stay, the company is slashing its product line to 1,000 footwear items a season worldwide by the spring of 2011, from 1,700 in the fall of 2008.

In addition to buying less, some consumers are questioning their past emphasis on status symbols.

Michael Kania, a 56-year-old financial adviser in Weeki Wachee, Fla., recently traded in his Jaguar XJ for a Hyundai Genesis. He enjoyed his Jaguar's performance and cachet, he says, and he looked at new Jaguars, as well as BMWs and Fords, before deciding on the Genesis for its price-to-quality ratio.

"I had reservations about spending on a car from South Korea," Mr. Kania said. In the end, he decided the decision wasn't about the status symbol of the brand but "about what you can get for your money. All that stuff we thought was important isn't. I don't need flash anymore."

Within Hyundai Motor Co., executives recognized that "people become less brand-loyal" during a recession, said Joel Ewanick, vice president of marketing for the Korean company's U.S. subsidiary. "They do their homework. They gravitate to their wallet."

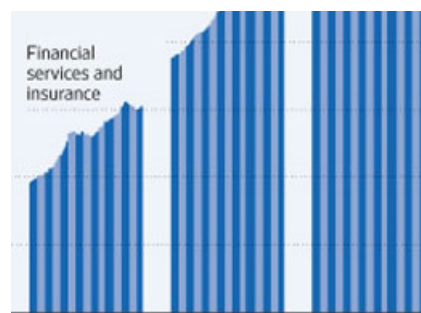
After focus groups showed widespread fears of job loss, Hyundai in January made people a special offer: If they bought a Hyundai but lost their job within a year, they could bring the car back. Then, from February through April, the company said it would also write buyers a check covering three car payments if they wanted to keep the car. "We're all in this together and we'll all get through this together," said Hyundai's advertising tagline.

Fewer than 200 people took the company up on those job-loss promises, but Hyundai believes consumers reacted to the sense of camaraderie its ads conveyed. Hyundai credits the pledges in the campaign for 15% of its 2009 sales, which have jumped -- up 6.2% through November from a year earlier, according to Autodata.

The car maker plans to continue with some type of consumer "assurance" plan in 2010, because though figures show the economy improving, Mr. Ewanick said many people don't feel any change. "When you have a prolonged recession, one that seems to last two or three years, behavior becomes more entrenched," he said.

Cutting Back Where They Can

The surge in consumer spending that occurred on so many fronts between 1995 and 2007 has halted and in many cases started to reverse itself. [Click to see the full chart.](#)



Financial giant UBS AG figures investors are dealing with what neurobiologists it consulted call "memory trace" - - emotional turmoil that persists after a traumatic event. The market

plunge a year ago left many investors afraid to take on risk, said Mike Ryan, head of UBS wealth-management research. "You have to be reconditioned to take on risk again," Mr. Ryan said.

The company's financial advisers began recommending to wary investors that they salt away enough cash in money-market funds and short-term Treasuries to pay for six months to two years of living expenses, or even five years for some investors. The advisers published the strategy in October, months after the stock market had begun a sharp recovery.

Fidelity Investments, the big mutual-fund company, found investors seeking more advice than they once did. In March, it ditched a five-year-old marketing campaign that touted individual mutual funds. In its place, Fidelity rolled out a campaign built around a "Turn Here" theme, with a green arrow reassuringly guiding investors along a path to their goal, like cars' navigation systems.

Most luxury brands are still reeling from the backlash that began last fall against anything that resembled excess. Many companies are trying to win back customers by repositioning their brand images. Rather than glamorizing indulgence, as many did in the past, some are going the opposite way, acknowledging consumers' ambivalence about luxury and emphasizing experiences over materialism.

In the past, Ritz-Carlton focused its message on the luxury hotel chain's sumptuous service, with one advertising image of a servant holding a silver tray. But its ad agency, Team One, discovered in focus groups last year that some customers felt guilty about lavish spending.

At the same time, people still wanted to take vacations. Team One advised Ritz-Carlton to acknowledge consumers' reluctance to spend.

"The customer is saying, 'Show me empathy for all the customers who have less money than before,'" said Mark Miller, executive director of strategic planning for Team One. "They are looking for permission to spend again."

In Ritz-Carlton's new ads, a series of photos show three children swimming in a lake. A camera zooms in as a boy jumps off a

swimming dock. "You may be rethinking your vacation this year," the ad says. "Coincidentally, so are we."

The company credits the new campaign, as well as some discounts, with helping people feel comfortable about going on vacation again. Although its corporate parent, Marriott International Inc., doesn't break out results for the chain, Ritz-Carlton says business is on the upswing after bottoming out in the first quarter.

Even after the economy regains strength, Ritz-Carlton expects to have to offer deals to affluent customers. Said Bruce Himmelstein, senior vice president, sales and marketing: "I think the consumer's mind has been reset on how to spend."

John Putnam, a 61-year-old resident of Del Ray Beach, Fla., was laid off last fall from a job as an investment analyst that paid a low six-figure salary. He and his wife then quit their country club, began giving dinner parties at home rather than eating in expensive restaurants, and started shopping at Wal-Mart instead of Bloomingdale's.

Though he recently got a new job, "I'm not sure, once things get better, we're going to change" their new, more-frugal way of shopping and spending, Mr. Putnam says. "Once you sort of get into it, it's not bad."

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