Journal of Business Research 91 (2018) 159–168

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

A typology of consumers based on money attitudes after major recession

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ARTICLE INFO

Keywords:
Recession
Economic recovery
Cluster-based segmentation
Consumer confidence
Frugality
Perceived financial security

ABSTRACT

Since the Great Recession, not all US consumers have felt the financial benefits of the sustained period of macroeconomic expansion. While some research demonstrates renewed consumer confidence and financial security among households, other studies highlight economic vulnerability and higher levels of distress relative to before the 2007/09 crisis. This study examines empirically the heterogeneity of consumers' money attitudes in the post-recession economy. Based on a nationally representative sample of US consumers (n = 1202), we identify four post-recession consumer types, distinguished by important attitudinal and behavioral differences: "*Flourishing Frugal*"; "*Comfortable Cautious*"; "*Financial Middle*"; and, "*Financially Distressed*". While the prior studies offer broad strategic advice, this study indicates that marketers need differentiated strategies to target most effectively and deliver value to different consumer clusters.

1. Introduction

Economists label the period between 1982 and 2007 as "the Great Moderation" (Davis & Kahn, 2008), a time of almost uninterrupted macroeconomic stability and prosperity in the US. During this period, marketers guided consumers by defining the 'good life' through consumerism, with consumers often living beyond their means (Quelch & Jocz, 2009).

Then the Great Recession arrived and consumer excess gave way to mass frugality. Between December 2007 and June 2009, the US GDP declined by 4.3%, marking the most severe US recession since World War II (National Bureau of Economic Research: NBER, 2017). The unemployment rate increased from 4.5% in February 2007 to 10.0% in October 2009 (Bureau of Labor Statistics: BLS, 2017a), signifying "a labor market disaster of proportions not seen since the Great Depression" (Redbird & Grusky, 2016, p.197). Consumers became thriftier, reflected by increased price consciousness (Steenkamp & Maydeu-Olivares, 2015), greater use of private-labels (Hampson & McGoldrick, 2013), patronizing discount retailers (Lamey, 2014), and fewer purchases of status-rich goods (Kamakuru & Du, 2012).

Since July 2009, the US economy has experienced sustained expansion (NBER, 2017), and unemployment has been consistently at or below 5% since September 2015 (BLS, 2017a). Despite the upswing in macroeconomic performance, consumers have remained frugal (Pistaferri, 2016), as for decades after the Great Depression (1929–1939) (Schewe & Meredith, 2004). Consistent with predictions of a post-recession "age of thrift" (Piercy, Cravens, & Lane, 2010, p.3), by February 2017, the personal savings ratio (5.6%) was still almost 300% higher than in July 2005 (Bureau of Economic Analysis, 2017).

Slow consumption growth has implications for many businesses. For discounters and economy brands, prevailing consumer frugality is an opportunity to build market share. For most other brands however, it threatens the salience of non-price value propositions. Slow recovery in consumer expenditure is part of a vicious circle in the labor market that "will be a feature of the US economy for many years" (Card & Mas, 2016, p.6).

Seeking to understand this slow recovery in consumer spending, analysts emphasize issues related to adverse consumer confidence, income insecurity, and stricter credit access (Pistaferri, 2016). Marketing scholars conceptualize enduring frugal consumer behavior as more of a lifestyle than a financial choice. For example, Piercy et al. (2010) emphasize affective drivers of consumer frugality; consumers derive feelings of a "smart-shopper" buzz when securing bargains but they may perceive expenditure on luxury items as shameful. Such broad explanations of frugal consumer behavior risk ignoring diversity in consumers' financial situations. To our knowledge, no research yet explores differences among consumer segments post-recession. This is a significant research gap because macroeconomic performance affects households and their responses in different ways, thus requiring different marketing strategies (e.g., Quelch & Jocz, 2009).

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https://doi.org/10.1016/j.jbusres.2018.06.011
Received 6 October 2016; Received in revised form 15 June 2018; Accepted 17 June 2018
0148-2963/ © 2018 Published by Elsevier Inc.

We contribute to the literature by developing a typology of consumers, classifying them according to three money-related constructs: consumer confidence, perceived financial security, and consumer financial distress. We validate and test the typology using a model of frugal consumer behavior comprising five antecedent constructs (i.e., smart-shopper pride, consumer financial guilt, propensity to plan for money, consumer impulsiveness, and need for status).

The organization of the paper is as follows: Section 2 develops the research propositions; Section 3 describes the methodology; Section 4 presents the results; Section 5 explains the major theoretical and practitioner implications; and, Section 6 suggests opportunities for future research.

2. Consumer typologies

Consumer typologies classify heterogeneous populations into meaningful and distinct subgroups (Lee, Kim, & Lee, 2013). From a marketing perspective, consumer typologies provide a basis for more precise and effective segmentation, targeting, and positioning strategies (Yankelovich & Meer, 2006).

Recessions have variable effects on different consumer groups. During the Great Recession, many experienced a reduction in financial well-being, yet a minority experienced unemployment and financial distress (O'Loughlin et al., 2017). Some consumers even retained a positive financial outlook throughout the crisis (Quelch & Jocz, 2009). In September 2008, mid-way through the Great Recession, 47% of US consumers felt financially worse off than a year earlier, 20% felt no change, and 33% actually felt better off (University of Michigan, 2018). Although many brands sought ways to provide greater economic value during the Great Recession, some fast-moving consumer goods (FMCG) brands and luxury super-brands raised prices (Nunes, Drèze, & Han, 2011; Piercy et al., 2010). Focusing only on consumers seeking to reduce financial outlays risks alienating significant, high value, minority clusters (Hampson & McGoldrick, 2013).

The existing recession-focused research uses primarily behavioral constructs as bases for consumer typologies. For example, Hampson and McGoldrick (2013) use behavioral adaptations (e.g., store disloyalty, store brand usage and less ethical consumption) to develop a four-cluster consumer typology during the 2008/09 recession (i.e., *Maximum Adaptors*; *Minimum Changers*; *Eco-Crunchers*; *Caring Thrifties*). This approach identifies important differences in how consumers adapt to economic contractions but offers limited insight into underlying motives (Yankelovich & Meer, 2006). In contrast, attitude-based typologies can offer sounder bases for understanding the differences in the predictive powers of salient variables on managerially-relevant behaviors (Lee et al., 2013).

2.1. Bases for segmenting consumers post-recession

With our focus on economic conditions, we use money attitudes as the bases for developing the consumer typology. Researchers distinguish between consumers' attitudes toward the broad macroeconomic environment and attitudes toward their personal finances (e.g., Kamakuru & Du, 2012). Even consumers unaffected personally by economic contractions might make significant expenditure adaptations in response to shifting societal expectations and norms during an economic downswing (Kamakuru & Du, 2012). To measure consumer attitudes toward the national economy we use *consumer confidence*. With regard to individuals' attitudes toward personal finances, Duh (2016) distinguishes between conservative money attitudes (cognitive evaluations regarding personal financial security and ability to budget for future needs) and affective money attitudes (positive/negative feelings evoked by beliefs about personal financial-well-being). Reflecting themes in contemporary research on money attitudes, we use *perceived financial security* to reflect the conservative money attitudes component and *consumer financial distress* to capture the affective component of money attitudes.

Consumer confidence is a subjective measure of customers' expectations of positive or negative changes in the economic climate (Hunneman, Verhoef, & Sloot, 2015). Consumer confidence indices explain changes in economic activity, including near-term consumer expenditure and savings growth, even when controlling for more objective economic indicators such as jobs, inflation, and money supply (e.g., Dees & Brinca, 2013).

Perceived financial security reflects individuals' subjective judgments of their own economic well-being (Haines, Godley, Hawe, & Shiell, 2009). Individuals' evaluations may include job security, ability to pay bills and debts, and resources to cover unexpected costs (Logan, Guo, Dodd, Muller, & Riley, 2013). Financially insecure households typically become more careful with money and focus on precautionary savings to mitigate future income loss (Prawitz, Kalkowski, & Cohart, 2013).

Consumer financial distress is a negative affective construct, arising when an individual appraises a (potential) change in their financial situation as being harmful and/or threatening (Prawitz et al., 2013). Distress is associated with negative feelings, including hopelessness, anger, irritation, and difficulties relaxing or staying calm (Henry & Crawford, 2005).

These different bases for segmentation highlight the need to recognize the heterogeneity in economic situations of post-recession consumers. In the context of wage growth among higher income groups (Redbird & Grusky, 2016), some consumers are confident about their finances, job security, and the general economy (Magni, Martinez, & Motiwala, 2016). Simultaneously, other citizens experience continuing financial stress, which can result in economic alienation, with self-efficacy and self-confidence tested severely (O'Loughlin et al., 2017). Among US households, Shoss (2017) identifies a growing sense of economic and psychological distress associated with job insecurity and perceived economic vulnerability.

Since September 2015, US unemployment has been at or below 5% (BLS, 2017a); however, other indicators present a more nuanced and pessimistic account of the situation. Specifically, there have been increases in both long-term unemployment (for over six months; BLS, 2017b) and the number of discouraged workers (jobless adults who give up seeking work; BLS, 2017c), and a decline in labor force participation (BLS, 2017d). This consumer heterogeneity on money-related constructs leads to our first research proposition:

Research Proposition 1. Consumer confidence, perceived financial security, and consumer financial distress are meaningful bases for classifying post-recession consumers.

2.2. Cluster validation

Effective consumer typologies should demonstrate that different segments have unique consumption-relevant attitudes and behaviors (Pires, Stanton, & Stanton, 2011). We focus on the drivers of frugal consumer behavior (FCB), that is, "the degree to which consumers are both restrained in acquiring and in resourcefully using economic goods and services to achieve long-term goals" (Lastovicka, Bettencourt, Hughner, & Kuntze, 1999, p.88). FCB manifests in various forms, including discipline in spending, resourceful product usage, and not spending impulsively (Shoham & Brenčič, 2004). In contrast to the three clustering constructs that relate more to financial wellness, we identify five antecedents of FCB from the literature that relate to spending and consumption behaviors:

- Consumer financial guilt is a negative emotion associated with personal accountability for doing a "bad thing" (Niedenthal, Tangney, & Gavanski, 1994, p.587), perhaps detrimental to personal financial well-being (Dahl, Honea, & Manchanda, 2003). Negative emotions such as guilt can undermine well-being and self-esteem, encouraging people to avoid actions that might create negative

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