Chapter 1

America, Land of Plenty? The Times Are Changing

Even before immigrants came to Ellis Island looking for a new life filled with bountiful opportunities, the United States of America had declared itself the "land of the free, home of the brave, land of plenty," and was residence to some extremely successful entrepreneurs. Since then, individuals and families such as the Johnson family (Johnson & Johnson), Sam Walton, Jimmy Dean (Jimmy Dean Sausages), Mary Kay Ash (Mary Kay Cosmetics), Martha Stewart, Leslie Wexner (Limited Brands), and Ralph Lauren have built their consumer product empires from the ground up. These individuals exemplified the American dream: that anyone could become successful and wealthy. People throughout the world believed that once they reached America, this dream could be a reality. One caveat, that was before September 11, 2001.

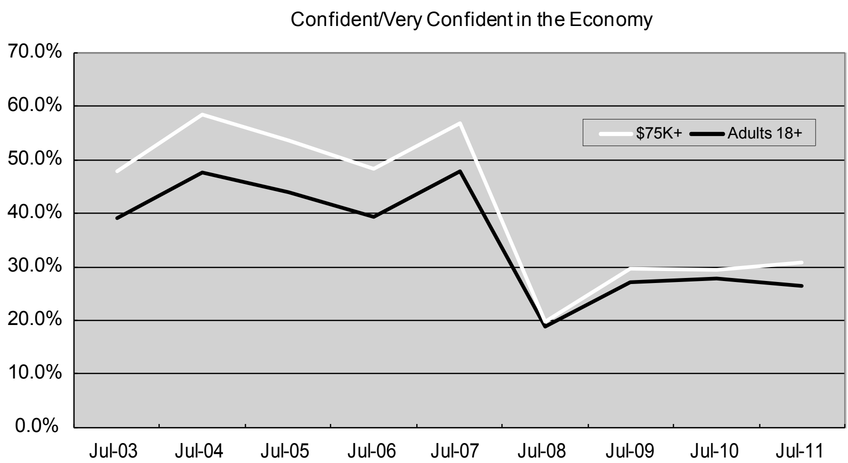
On that day, the unspeakable happened. The United States experienced the worst case of terrorism in its history. It was made even more horrific by being televised on every national and international news channel twenty-four hours a day. The images were ingrained in consumers' brains. It felt like the beginning of the end. American consumers experienced the end of feeling safe, the end of feeling secure, and definitely the end of prosperity. September 11 changed the landscape of the American consumer.

Do we have confidence in the economy?

Consumer confidence is critical to the wellbeing of an economy. The more confidence consumers feel toward the economy, the more likely they will shop, take vacations, spend money, and invest in the stock market. This spending activity generates much needed tax dollars. It is a cyclical action that also helps get politicians re-elected. When consumers believe that the economy is doing well, they typically vote for the incumbent. Businesses generate sales and profits, consumers get new "stuff," and politicians keep their jobs. Ah, everyone is happy.

Let's look at Figure 1.1 to see consumers' confidence in the economy. BIGinsight surveyed 8,000 consumers nationwide. The black line represents all consumers, while the white line represents consumers who had a household income of $75,000 or more. In July 2003, 39.1% of the population sampled was confident about the economy, and 47.9% of those who earned $75,000 or more were confident. This figure improved slightly as the years progressed. But take a look at July 2008. Confidence in the economy took a nosedive. An average of only 18.8% of consumers was confident about the economy, with only 19.9% of consumers earning over $75,000 expressing confidence. Despite politicians' statements on national television that we were "headed in the right direction," consumers weren't buying the stories. By July 2011, consumers expressed only a bit more confidence about the economy: 26.5% of all households and 30.7% of households earning $75,000 or more were confident or very confident regarding the economy. These statistics look better than 2008, but, of course, it also means that approximately three-fourths of the consumers surveyed had little or no confidence in the economy. No wonder Washington was in a frenzy for much of 2011.

FIGURE 1.1: CONSUMERS' CONFIDENCE IN THE ECONOMY



Source: BIGinsight.com

What do you mean my neighbor was laid off?

Another component of the economy and spending patterns was employment. After 9/11, news analysts (not just news anchors but elevated news analysts) talked about the economy. Consumers heard that the country was *entering* a recession. As time moved along, analysts changed their wording to state that America was *at the beginning phases of recession*. As one year turned into another year, *America was formally in a recession*. By then, news analysts and consumers alike talked about the country and how it was suffering another Great Depression.

Employment layoffs across the country were daily topics of conversation. It didn't matter if the company was large or small, from a rural community or a big city, employment downsizing made the front page. What was once considered a large employment sector was now viewed as small. Southern states experienced double-digit unemployment figures. Consumers regularly compared notes on family and friends in other states. Conversation revolved around questions regarding who had a job, who was laid off, who was about to be laid off. Meanwhile, there was speculation that the reported unemployment figures were low because many people had stopped getting unemployment checks or simply had given up.

Look at Figure 1.2. In July 2002, 7.8% of all households worried about layoffs. Concerns about job losses were not confined to consumers in lower income brackets. Of the households earning $75,000 or more, 12.2% worried about keeping their jobs. As consumers saw their neighbors get laid off, concerns increased. By July 2006, there was some breathing room. Businesses were doing a bit better and concerns regarding job security were a bit lighter. By July 2011, consumers were less nervous about joining the ranks of the unemployed. The really interesting statistic between July 2002 and July 2011 is that the consumers earning $75,000 or more annually felt more vulnerable about their jobs than did those earning less money. It is as if rising up the corporate ladder was no longer a guarantee of employment security.

FIGURE 1.2: Concerns Regarding Unemployment

	Jul-02	Jul-03	Jul-04	Jul-05	Jul-06	Jul-07	Jul-08	Jul-09	Jul-10	Jul-11
Adults 18+	7.8%	6.2%	5.0%	4.0%	4.5%	4.0%	6.0%	7.9%	3.9%	3.6%
$75K+	12.2%	7.6%	5.5%	4.3%	5.3%	4.4%	7.0%	8.8%	4.5%	4.6%

Source: BIGinsight.com

Big bankrolls

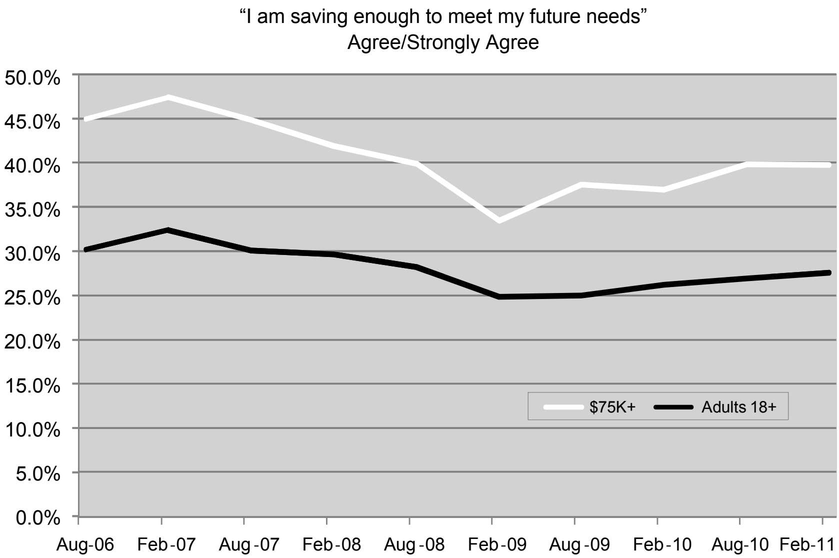
The 1980s were characterized by big bankrolls and huge houses that were home to two-income families earning more than their parents could ever imagine, driving import luxury cars, and taking exotic vacations. Baby boomers built themselves a reputation of excess. Even their backyard clothes consisted of designer sweat pant suits accented by gold chains and diamond tennis bracelets.

Just like a roller coaster, what goes up must come down. The good times feeling came smashing down to earth along with everything else in the recession. After 9/11, suddenly having "all the good things" wasn't so good anymore. As it turned out, consumers were drowning in credit card debt. Jumbo mortgages and second and even third mortgages were crippling consumers' income flow when a spouse was laid off. The thought of saving for the future was just that—a thought. For many, the movie *Wall Street* epitomized the '80s, particularly Michael Douglas' character, Gordon Gekko, and his explicit "greed is good" attitude. Unfortunately, for the majority of us consumers, when we acquired shiny and pretty objects using credit, we weren't saving for our future needs.

Look at Figure 1.3. In August 2006, BIGinsight asked customers if they were saving for the future. Only 30.2% of all the consumers agreed and 45.0% of households earning $75,000 or more agreed that they were saving for the future. By February 2009, the number of consumers saving for the future declined: 24.9% of all households and 33.4% of households earning $75,000 or more were saving for the future. February 2011 revealed slight increases in consumers saving patterns but still lower than 2006.

The twenty-four-hour news cycle addressed the sad state of the economy. It provided consumers with an awareness of the lingering recession. Some would say that this information should have resulted in a greater number of consumers saving for the future. However, politicians' inability to fix double-digit unemployment throughout the country clearly impacted consumers' earning power. Rising prices for gas, food and clothing impeded combined with unemployment or paychecks that haven't risen in years contribute to consumers challenges in saving to meet future needs.

FIGURE 1.3: Consumers Saving for Future Needs



Source: BIGinsight.com

Mama needs a new pair of shoes

If the '80s represented the philosophy that "more is better," it was also the era of placing *wants over needs*. No one really needed a new car every two years. The status of obtaining a car every two years, however, said, "I am successful and made a lot of money." Okay, so what if the car was a lease? So what if you were losing money on the car? Think about the enjoyment you got every time someone said, "Hey, is that a new car?" Who cares if you were shelling out $350 or more every month for the rest of your life? Think about the gratification you obtained from the new car smell.

Let's now fast-forward to 2002. It's as if consumers throughout America woke up from a very, very bad dream. The only problem was that it wasn't a bad dream. It was reality. Wait a minute! The guy who complimented you on the new car wasn't paying the car payment. The continual car payments—on not one but *two* cars—sucked the financial lifeblood out of the family wallet. Family *wants* all of sudden looked frivolous. You know the wants we are talking about: matching dirt bikes for the kids, a new set of golf clubs guaranteed to shrink the score, a premium gym membership that was used once a month—maybe... and the list went on. Individually the wants weren't all that expensive, or so it seemed. But add them all up each month and they made a staggering dent in an already fragile wallet.

The recession—if only consumers could forget about the recession. But the recession was only getting worse and getting bigger headlines in the news. No, sir! The tide had turned. The "me generation" of consumers woke up and changed their attitude. They took action and decided to *focus on their needs instead of wants.* They learned their lesson. Excess is bad. A survey of consumers during July 2003 revealed that 54.6% of all consumers surveyed said they placed needs before wants. Consumers who earned $75,000 or more also learned their lesson: 49.6% stated they now placed needs before wants.

Anyone who has ever graduated from high school has heard of Maslow's hierarchy of needs. Maslow stated that consumers satisfied their physiological needs first, which included food and shelter. The second set of needs to be satisfied was safety. The third type of needs was social (centered on love and belonging), followed by esteem, and finally, self-actualization. Check out Figure 1.4. Instead of reverting back to their old ways, an increased percentage of consumers in both groups (all consumers *and* consumers earning $75,000 or more) stated they focused on needs as opposed to wants. By July 2011, 58.5% of all consumers and 52.4% of consumers in households earning $75,000 or more focused on needs. These consumers focused on housing, food, and medical bills. The overt desire to display wealth was gone. The recession had changed consumers' attitudes toward consumption patterns. The question now to be answered is how will companies react to consumers' attitudes?

FIGURE 1.4: Focus on Needs Rather than Wants

	Jul-03	Jul-04	Jul-05	Jul-06	Jul-07	Jul-08	Jul-09	Jul-10	Jul-11
Adults 18+	54.6%	54.0%	44.3%	52.0%	47.4%	58.1%	59.9%	58.0%	58.5%
$75K+	49.6%	46.7%	38.6%	48.6%	45.2%	56.7%	59.3%	53.6%	52.4%

Source: BIGinsight.com

Cash, credit, or debt?

It would be *so* easy to blame our actions on the state of today's economy. We could say that the terrorists of 9/11 made all the bad things happen to the economy. For example, after 9/11 the U.S. economy tanked. Well, this may be the simplest answer, but it is also not entirely correct. We will concede that many things went wrong after 9/11. However, history revealed that our economy and all it encompasses was heading for difficult times.

Prior to the '80s, anyone without a full-time job typically had a difficult time in obtaining a credit card. In those days, everything was paid for with cash. Cashing a check at a store required so many pieces of identification that it often wasn't worth the trouble. Then credit card companies realized that they were missing a very big target market, namely, the college student. By 2000, credit companies hit college campuses with a vengeance. Companies thought that parents would pay the outstanding balance. Once a student hit the limit on one card, another card was opened. It was "normal" for college students to have five credit cards.

Of course, consumers with jobs also hit the credit card scene hard. They played with credit card balances in a game of financial Russian roulette. When one company offered 0% interest on balance transfers, it was like a holiday, but somehow the credit card never got paid off and interest on new purchases kept adding up.

Look at Figure 1.5. Of the entire sample in July 2003, 29.9% said they were trying to pay more with cash, and 28.6% of the households earning $75,000 or more said the same. This trend continued as the recession dragged along. By July 2011, 24.4% of adults over eighteen tried to pay with cash, while 23.5% of the households earning $75,000 or more did the same. To a country addicted to plastic, these numbers were significant. Credit card debt across the U.S. was down as consumers realized that debt was not their friend. There was a very big difference between need and want and interest on a card makes a huge impact on the family budget.

FIGURE 1.5: Decision to Pay with Cash More Often

	Jul-03	Jul-04	Jul-05	Jul-06	Jul-07	Jul-08	Jul-09	Jul-10	Jul-11
Adults 18+	29.9%	26.7%	22.7%	22.5%	19.7%	23.8%	25.3%	24.4%	24.4%
$75K+	28.6%	26.8%	23.5%	25.0%	20.7%	22.8%	24.4%	24.7%	23.5%

Source: BIGinsight.com

Summary

America is the land of the free, the home of the brave, and the land of plenty. Wait, scratch "land of plenty." America is land of the free and you really need to be brave in this economy. The recession hit hard and it hit deep. Consumers of all income brackets were impacted. Life as we knew it before 9/11 no longer exists. If you want to visit that lifestyle, read a book. Just don't go there for too long, you might get depressed.

The new millennium is a rough and tumble existence. Or maybe it simply means that we are going back to the basics. We as consumers are learning to live within our means, learning that more isn't always better, learning that our needs must be satisfied before we consider our wants, and learning to check our ego at the door when we shop. Saving money by using coupons, outlet shopping, and purchasing store brands is smart.

All lessons aren't necessarily easy to swallow. The lessons learned since 9/11 were financially driven and significant. With a little bit of luck, one day, America can go back to being the land of plenty. In the meantime, let's just keep progressing toward learning our lessons.

Top five lessons learned

1. The recession hit consumers hard, and only a quarter of consumers are confident about the economy.
2. Higher income wage earners worry more about being unemployed than do consumers earning less than $75,000 annually.
3. Most consumers are not prepared financially for the future.
4. Gone are the days of excess and satisfying our every desire. Consumers are thinking more about needs than wants.
5. Cash is king, debt is crippling, and credit will kill. An increased number of consumers are paying with cash.