

## L.E.K. Consumer Sentiment Survey: Targeted Opportunities Appear in Key Consumer Segments

Americans' outlook on the economy, employment and their own financial standing continues to be cautious, which is leading consumers to predict curtailed spending during the next six months. That said, L.E.K. Consulting is seeing specific consumer segments and categories that will likely outperform the rest of the market during this period.

To understand opportunities for retailers and consumer products companies, L.E.K. contacted more than 2,000 U.S. consumers in April 2011 for its sixth L.E.K. Consumer Sentiment Survey (CSS). The semiannual survey tracks consumers' spending predictions for the next half year based on their perceptions of their personal finances and the economy.

### Consumer Sentiment Remains Muted

Consumers' attitude toward the economy remains sour and has hovered in the same general range for the past 18 months. As the economy continues to struggle with no clear end in sight, consumers have become less confident about the health of their personal financial situation. Employment is also an ongoing source of anxiety, as nearly half of respondents are "moderately" or "very concerned" about losing their job.

Overall perceptions about the economy's health slid 0.5% in April 2011 compared to the October 2010 survey. This brings consumers' sentiment about economic conditions down nearly 11% from a year ago (April 2010 to April 2011). Further, the forecast for personal financial recovery – a harbinger for consumer confidence – is sharply divided.

More than 40% of respondents aren't expecting to see their finances return to pre-recession levels for at least two years. This pessimism is counterbalanced by more than one-fifth of respondents, generally more affluent households, who feel that their finances have either already recovered or were never impacted.

### Six-Month Consumer Spending Forecast

L.E.K. queried consumers on their expected spending habits during the next six months to gauge spending going forward. The L.E.K. CSS finds that on an income-weighted basis, consumers expect to decrease their spending only slightly, if at all, during the next six months (<1%). The primary reasons for this spending shift include economic uncertainty and rising prices on core items including food, gas and other non-discretionary items. In contrast to the broader population, affluent individuals are planning to bolster their spending during the next six months.

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*L.E.K. Consumer Sentiment Survey: Targeted Opportunities Appear in Key Consumer Segments* was written by **Francois Mallette**, a Vice President and head of L.E.K.'s North America Private Equity Practice; and **Jon Weber**, a Vice President at L.E.K. Consulting in the Retail and Consumer Products Practices. Please contact us at [retail@lek.com](mailto:retail@lek.com) for more information.

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## Affluent Consumers Maintain Positive Outlook

High-income households are generally bullish about their personal wealth and the overall economy. Households earning more than \$200,000 annually have a vastly different perspective on the economy than their lower-income neighbors.

Affluent households are an average of 12% more optimistic about their personal finances today than in October 2010 when consumers were equally split between having both positive and negative outlooks. And 9% of wealthy households plan to “strongly increase” their purchases, which is nearly double the percentage of any other income group.

By contrast, consumers’ personal financial sentiment in all other income levels has dropped since October 2010 and remains pessimistic. And individual households earning less than \$200,000 plan to be more austere in their spending. As an example, the \$75,000-\$200,000 household group continues to have a negative outlook toward their finances (a net negative shift of more than 15% since last April). This sentiment dips dramatically for lower income households (see Figure 1).

It is important to note that the survey results show consumers’ self-reported perceptions during the time of the survey. Actual spending will be affected by many factors, some of which include inflation, macroeconomic changes, sentiment bias and retailer actions.

## Targeted Opportunities Across Multiple Categories

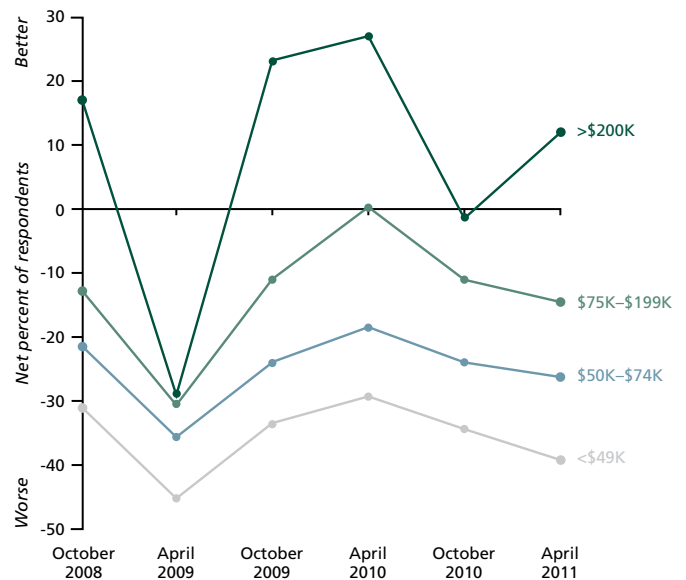
The L.E.K. CSS also asked consumers to share their projected spending during the next six months across 16 categories. L.E.K.’s results illustrate likely purchasing patterns by income bracket across multiple consumer spending categories (see Figure 2).

Overall, grocery purchases are expected to go up, but spending in all other categories are forecast to go down. Home entertainment products and dining out are expected to fall the most.

Figure 1

Personal Financial Sentiment has Increased for Affluent Consumers, Declined for Other Households Since October 2010

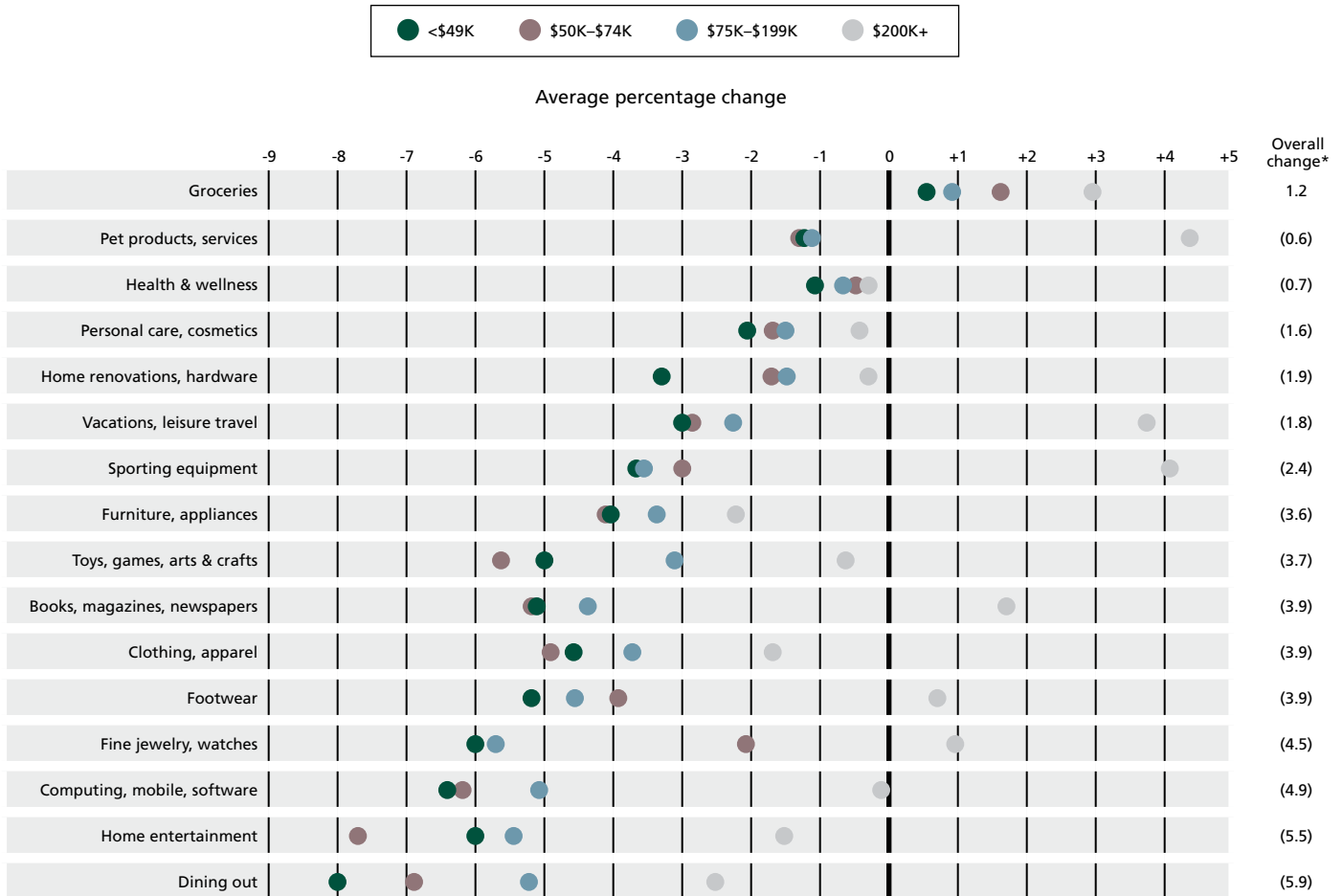
Sentiment on personal finances by household income, today vs. pre-recession



Source: L.E.K. Consulting

Closer examination of the data reveals that affluent consumers foresee marked spending increases in categories including vacations & travel; sporting equipment; books, magazines & newspapers; footwear; and fine jewelry & watches. This is especially important because affluent shoppers account for a disproportionately large percentage of expenditures in retail and other consumer-focused industries.

**Figure 2**  
**Expected Change in Spending Within the Next Six Months**  
**by Category and Income Level**



\* Weighted by percent of spending attributable to the income groups <\$49K, \$50K-\$74K, \$75K-\$199K, and \$200K+

Source: L.E.K. Consulting

### Key Takeaways

Taken as a whole, consumer sentiment on the economy and personal finances has declined slightly since October 2010. Until macroeconomic fundamentals show a more significant improvement, it will be structurally difficult for sales in retail and other consumer sectors to grow rapidly.

Importantly, the brighter outlook of affluent consumers provides a stark contrast to the downbeat expectations that other demographics have about their personal finances. As such, high-earning individuals are breaking away from all other income groups, and are expecting to increase their spend in a number of categories while other consumers reduce theirs.

Overall, in large part, L.E.K. expects consumer-based businesses to continue to have to take share from their competitors to fuel growth. However, companies whose sales are more exposed to high-income consumers should outperform those who are not.

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