

FINDING YOUR BRAND'S BEST PROSPECTS TO PENETRATE AMERICA IN A POST-PANDEMIC MARKET

AMG can immunize your brand
from coronavirus pandemic
fallout

IT'S NOT OVER TILL IT'S OVER

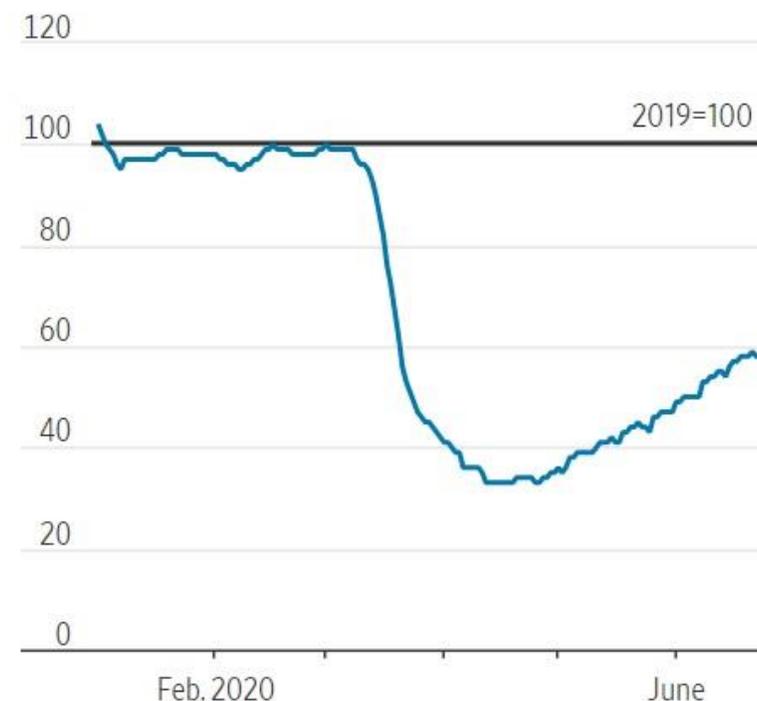
Fortune magazine reports “‘Zero chance’ of a ‘V’-shaped recovery as coronavirus cases soar again.”

Unlike other recessions, this one which officially began in February is unpredictable because many more variables are at play than just financial concerns.

After the economy experienced an uptick in April, continued spread of the virus “all but stalled” the recovery, said economist Andre Kurmann of Drexel University.

The ‘V’ Starts to Roll Over

Economic Activity Index



Note: Index components include public transit ridership, traffic congestion, flight activity, foot traffic at discretionary verticals, state unemployment web traffic, online job listings, small business hours and restaurant bookings

Source: Jefferies

THE CORONAVIRUS BLACK-SWAN EVENT CHANGED EVERYTHING

The coronavirus shutdown has forced a reset to consumers' purchasing behavior across the globe and at every income level.

In a blink of the eye, consumer spending shifted from discretionary to necessity purchases and has remained that way throughout the first five months of 2020.

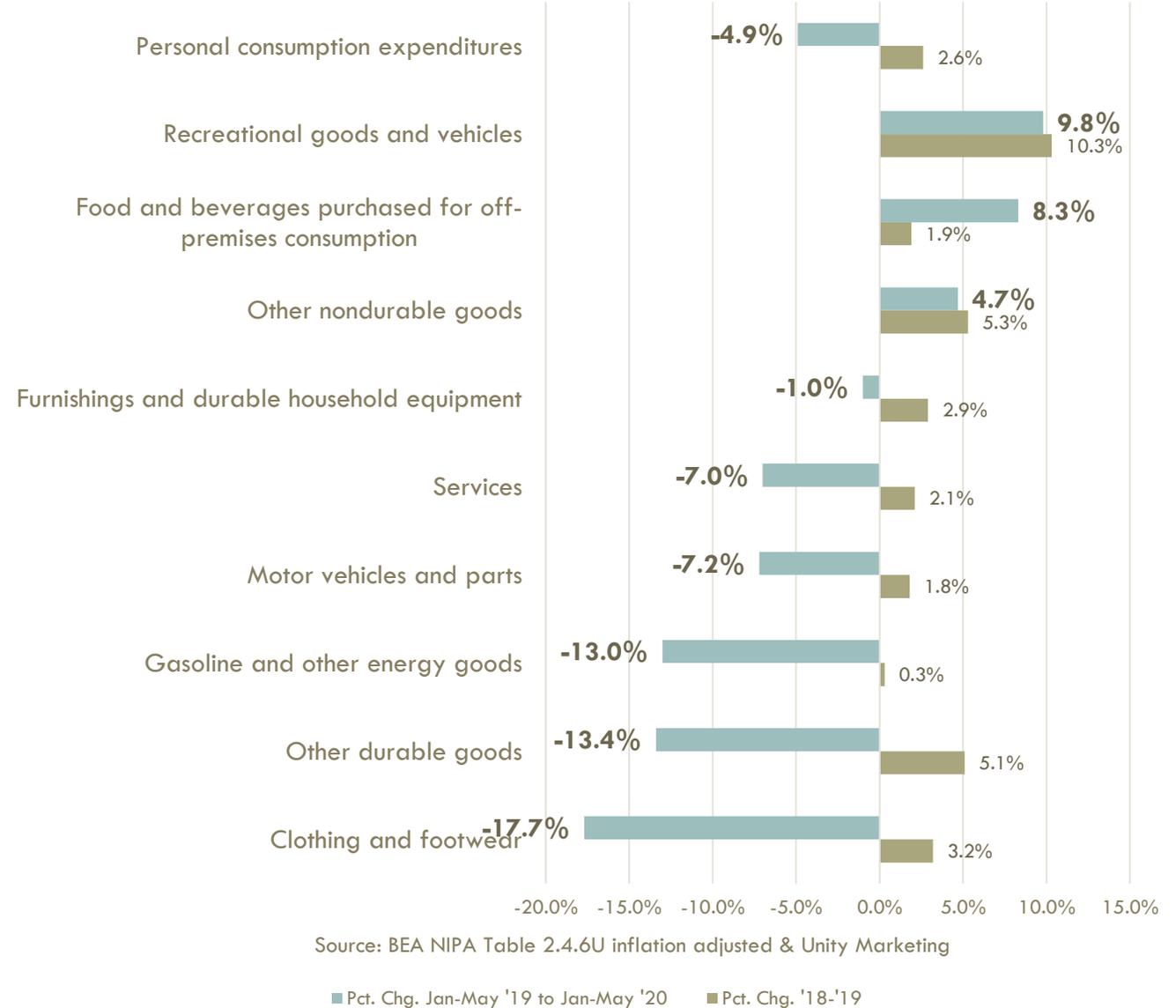


HOW AMERICANS ARE SPENDING PRE- AND POST-COVID

After growing 2.6% from 2018 to 2019, personal consumption dropped 4.9% in the first five months of 2020 compared to same period in 2019.

That amounts to a \$269 billion economic loss in consumer spending in the span of only five months.

Change to Personal Consumption Jan-May '19-Jan-May '20 Compared with Total Change '18-'19



TRENDS IN DURABLES PURCHASES PRE- AND POST- COVID

As a class, consumer durable spending was basically flat in the first five months of 2020 compared to same period last year, after rising 3.5% from 2018-2019. Consumer durables are defined as goods that have a useable lifespan of 3 or more years. Total durables expenditures were \$1.8 trillion in 2019, up 3.7% year-over-year.

- **Autos** (-7.2% Jan-May 2020 compared same period last year): A downward trend in spending on new autos continued from 2018-2019, with spending in the first five months of 2020 on foreign autos (-36.1%) off more than domestic brands (-24%) compared with same period in 2019.
- **Home Furnishings** (-1.3%): This category declined including furniture, lighting, carpets, appliances, and tableware. A notable exception to the spending decline was tools and equipment for home repairs (up 6.1%) and outdoor living equipment and supplies (up 4.6%). Also rising in first five months of 2020 are carpets and floor coverings, up 2.2%, and small household appliances, up 3%.
- **Recreation goods and vehicles** (+9.8%): People want more fun and this category gives it to them. It includes video, audio, photography and computer equipment, as well as sports and recreational vehicles, musical instruments, and sporting equipment, such as guns and ammunition.
- **Other Durable Goods** (-13.4%): This category made up of primarily luxury goods (e.g. jewelry, watches, luggage) is way off, with jewelry and watch spending down 18.1%, eyeglasses off 17.7%, and luggage down 25%.

TRENDS IN NONDURABLE GOODS PURCHASES PRE- AND POST- COVID

Overall nondurable goods consumption rose 3.2% year-over-year, though through the first five months of 2020, it only advanced 1% year-over-year. As a segment of the U.S. consumer economy, nondurables totaled \$3 trillion in 2019, as compared with \$1.8 trillion in durable goods spending.

- **Food and Beverages** (up 8.3% first five months of the 2020): This is a huge category of spending, \$989 billion in 2019, that posted strong growth this year, as restaurants closed and people prepared more food at home. Across the board, food and beverage purchases rose, including wine and spirits up ~11% and beer 7.1%.
- **Clothing and Footwear** (-17.7%): This segment, including fashion and fashion accessories, was particularly hard hit the first five months of 2020. Across the board, segments here were down double-digits.
- **Gasoline** (-13.3%): Consumers enjoyed lower gasoline prices this year, as well as the stay-at-home orders kept people off the roads.
- **Other nondurable goods** (+4.7%): This broad category includes many necessity purchase that have been required by the pandemic, including pharmaceuticals and household cleaning supplied. In addition, the lockdown turned otherwise discretionary recreational purchases, like toys, games, flowers and plants, into necessities, driving an increase of 7% in this category. Personal care, beauty and cosmetics were flat, and stationery purchases declined 5.9%.

TRENDS IN SERVICES SPENDING PRE- AND POST- COVID

Consumer spending on services is far larger than that for goods, \$3.3 trillion in services compared to \$1.95 trillion in goods. Overall spending on services declined -7% for the period Jan-May 2020 compared to same period last year, after rising 2.1% from 2018-2019.

Services is a broad sector. Here are highlights:

- Housing and utilities (+1.3%); Healthcare (-13.5%); Transportation services, including auto maintenance (-19%); Recreation services (-26.7%); Food services (-22.8%); Financial services and insurance (+3.2%); Communications (+.9%); Education (-.04%); Professional services (+.9%); Personal care (-32.9%); Social services (-9.1%); Household maintenance (-6.7%).
- **Travel** is included in the services sector. Spending on foreign travel for U.S. residents declined a dramatic 50.8%, while spending by foreign travelers in the U.S. dropped 43%.



As an artist, motive means
opportunity

Siren Waroe

**ONE SEGMENT IN THE CONSUMER MARKET IS
LARGELY IMMUNE TO THE COVID ECONOMIC CRISIS
— THE AFFLUENT**

In order to survive, even prosper, in the U.S. post-pandemic market, brands need to fix their eyes on the consumers that have the need, the desire, and, most importantly, the ability to spend.

While a pandemic-induced recession will hurt consumers across the board, it will hurt those in the middle-and-lower-income brackets far more than those at the top with the highest income and wealth.

These are the affluent, roughly the top quarter of the nation's 131.4 million U.S. households.

They will have the means, opportunity, and motive to continue to spend in the post-pandemic market, whereas the vast majority of American households will not.

What Siren Waroe said about artists applies equally to marketers:

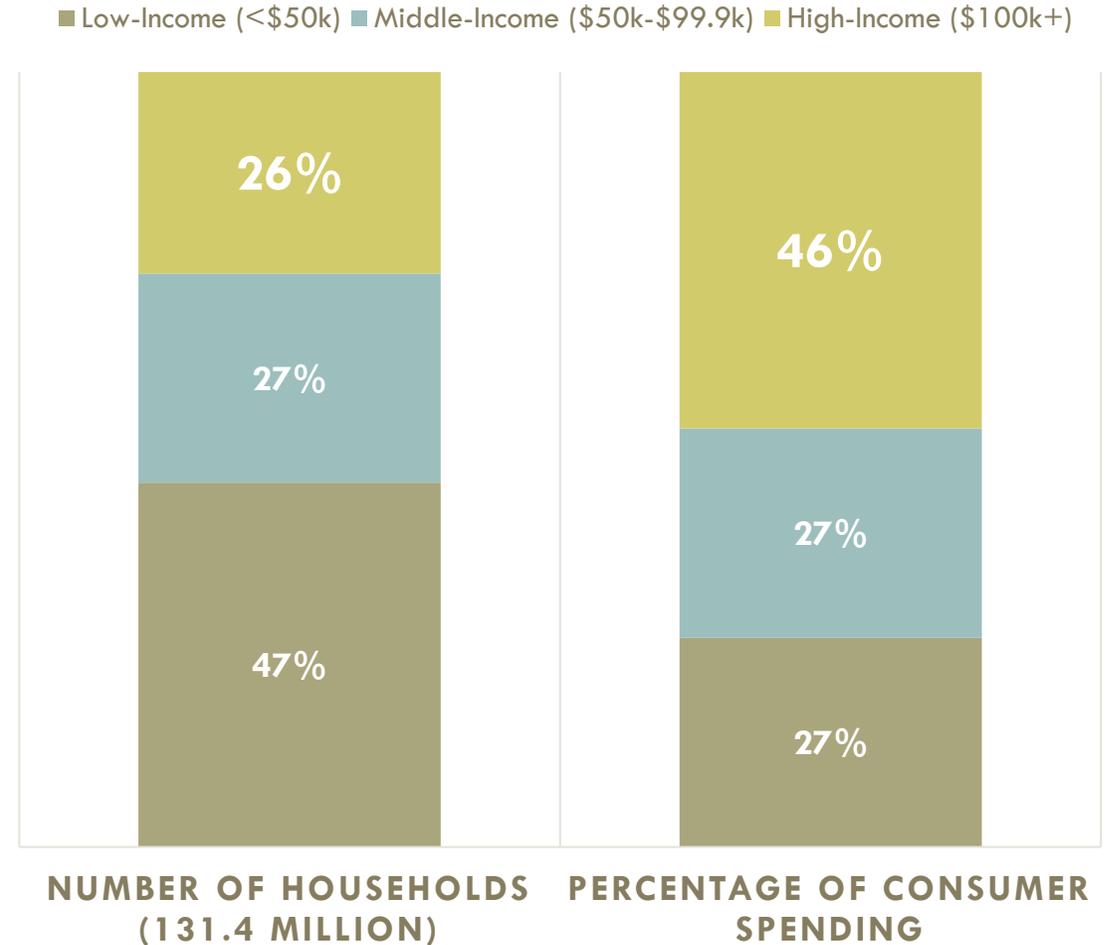
“As a marketer, motive means opportunity.”

HOW THE U.S. CONSUMER MARKET STACKS UP

Across the 131.3 million U.S. households, the higher-income consumer segment (\$100k+) makes up only 26% of all households, but accounts for nearly 50% of all consumer spending, according to the Bureau of Labor Statistics Consumer Expenditure Survey.

For any brand looking to penetrate the U.S. market, they need to go where the money is. That is targeting the 34.2 million higher-income consumers.

DISTRIBUTION OF U.S. HOUSEHOLDS BY INCOME & SPENDING



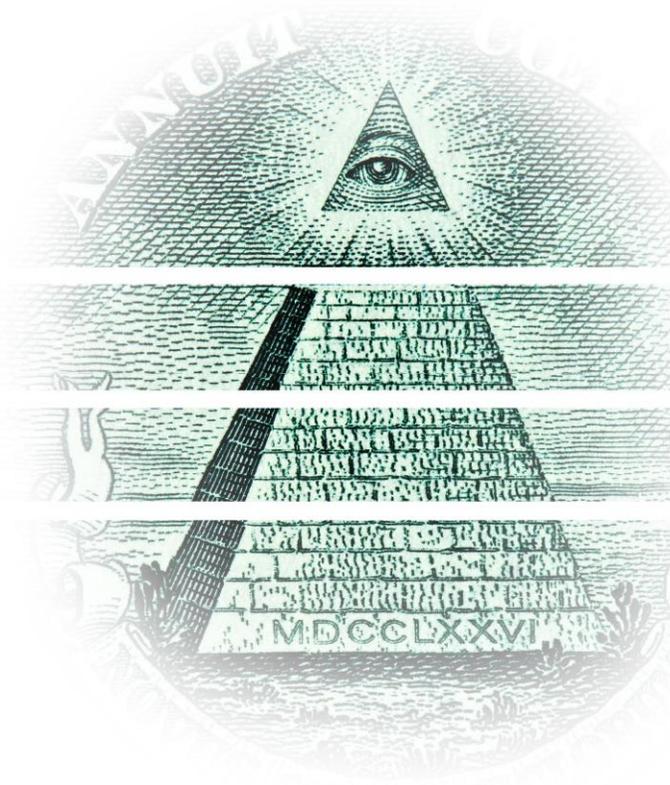
Source: Bureau Labor Statistics CEX

A man in a dark suit is seen from behind, pointing his right hand towards the word "OPPORTUNITY" which is written in large, white, fluffy clouds against a bright blue sky with scattered white clouds. The man is standing on a dark surface, possibly a ledge or a platform.

OPPORTUNITY

**\$6.1 TRILLION —
THIS IS YOUR OPPORTUNITY**

The affluent accounted for some \$6.1 trillion spending in the total \$13.3 trillion U.S. consumer economy in 2019.



ULTRA-HIGH-NET-WORTH CONSUMERS
Those UHNIs who have a net worth of \$30m+

HIGH-NET-WORTH CONSUMERS
Those HNIs who have a net worth of \$6m - \$30m

HANNAs; High Achiever Not Noticeably Abundant
Net Worth \$1m - \$5m

HENRYs; High Earners Not Yet Rich
HHI \$100k - \$250k

**BUT A ONE-SIZE-FITS-ALL APPROACH TO
THE U.S. AFFLUENT MARKET DOESN'T
WORK**

American Marketing Group identifies four distinct targets in the affluent consumer market.

Each target segment requires unique strategies and tactics that we have perfected with the PALM methodology,

- PENETRATE AFFLUENT + LUXURY MARKETING

CHANGES ON THE HORIZON

In the new-normal, post-coronavirus world, the U.S. consumer market is going to be profoundly changed by profound changes to the affluent's mindset, priorities, and values.

“Consumption is driven by very strong motivations, like emotion, identity, and social connection. Those motivations aren’t going anywhere. But the values, habits, and norms that shape what we consume and how we consume could shift dramatically.”

Erica Carranza, Ph.D. and vice president of consumer psychology at research firm Chadwick Martin Bailey.



Changes Ahead

HERE ARE THE CHANGES AND
OPPORTUNITIES WE SEE AHEAD

Forewarned is forearmed

OCCASIONAL LUXURY INDULGENCES

As the affluent emerge from their cocoons where they have had ample time to reflect on what's most important to them now and in the future, their spending habits are likely to take a radical shift.

They will refrain from indulging in luxury goods as much as their income allows to saving and only occasionally indulging in more modest, discreet luxuries where high-quality and long-lasting utility take precedence.





WELLBEING ENCOMPASSES WELLNESS & SUSTAINABILITY

The white-collar professionals and the creative-class affluents will make a dramatic shift toward wellbeing, across the dimensions of physical, emotional, and financial health and security.

While consumer marketers have been leaning into wellness and environmental sustainability as macro-trends shaping the future, wellbeing is going to be the emerging macro-trend that will subsume wellness and sustainability as micro-trends within it.

THREE DIMENSIONS OF WELLBEING



Physical Health



Emotional Health



Financial Health



NEW LUXURY OF HEALTH

Marketers are well versed in applying Maslow's Hierarchy of Needs in their advertising and positioning. They have always played to promising satisfaction of the higher-level needs of social belonging, esteem and self-actualization, taking for granted that their affluent target customers has the lower-level physiological and safety needs covered. After the coronavirus pandemic, they can't take those lower-level needs for granted, which Maslow theorizes must be satisfied in order for people to focus on their higher-level needs.

In effect, the coronavirus pandemic has turned Maslow's Hierarchy of Needs upside down. Shopping, even for the affluent, has shifted toward the basics with many affluents for the first time experiencing online grocery shopping.

Free time that they once spent shopping to meet social belonging, esteem, and self-actualization needs is now being spent doing other things, like connecting with friends and family via their devices (57% doing more), decluttering their homes (45%), crafting or hobbies (35%), spending time outdoors (26%) and exercising (23%), according to YouGov Affluent Perspective survey conducted in early April.

Affluent's shift toward decluttering is particularly noteworthy. Those same rigorous judgments they are using now to clean out their closets is likely to be applied once they can get back into the stores later when deciding what new to buy.

With affluent's physical health and safety threatened, time spent in isolation has forced a reset to consumers' priorities.

CHECK ON CONSUMERISM

“The silver lining in all of this is it brings a lot more focus on health and wellness,” Beth McGroarty, director of research and public relations at the Global Wellness Institute.

“Post-pandemic behaviors will change just because people will have adopted new ways to survive, even thrive. It will be a radical check on our blatant consumerism. People have been forced to stop it, and they realize that it doesn’t matter. It doesn’t make them happier,” she shares.

“It’s not like people will just buy really expensive organic soaps or organic food or sustainable fashion,” McGroarty believes. “Over-consumption in the sustainability movement can ultimately do more harm than good.”





NOBODY IS GOING ANYWHERE

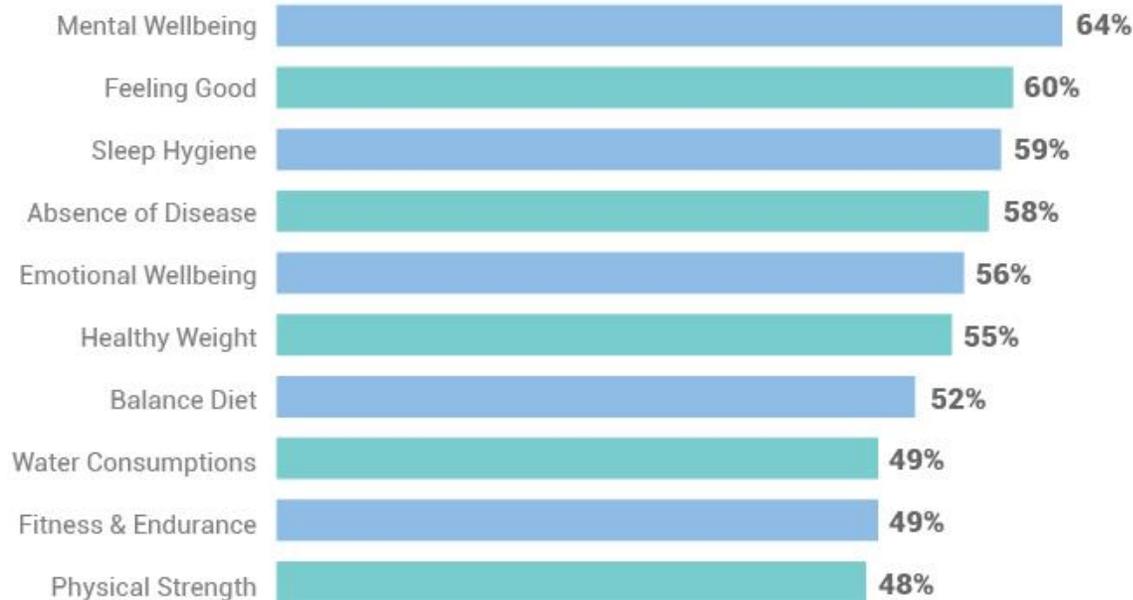
Spending on travel, as well as spending while traveling, have historically contributed greatly to the wellbeing of the luxury industry. It is estimated that as much as 30% or so of all luxury goods purchases happen while traveling, with wealthy consumers across the world heading to destinations where they can buy such goods at a lower markup or places where their local currencies go further.

Consumer spending on luxury experiences, like travel, dining, cruises and entertainment, grew far faster (10% CAGR) than spending on luxury goods (CAGR 6%) from 2010 to 2017, according to Bain's latest worldwide luxury study.

All that traveling and spending has ground to a screeching halt due to health concerns of catching COVID-19 in an airplane or a cruise ship. When people start traveling again is totally dependent on the course this virus takes, but marketers should count on it coming back very slowly.

Mental Wellbeing Rise in Importance in Light of Pandemic

Global Top 10 Most Important in Meaning of "Being Healthy" 2020



NEW LUXURY OF EMOTIONAL WELLBEING

Much of affluent's purchasing behavior is driven by a search for more meaning and happiness in their lives.

Happiness is an emotional state and while being healthy is a first critical step toward happiness, it is only part of the journey.

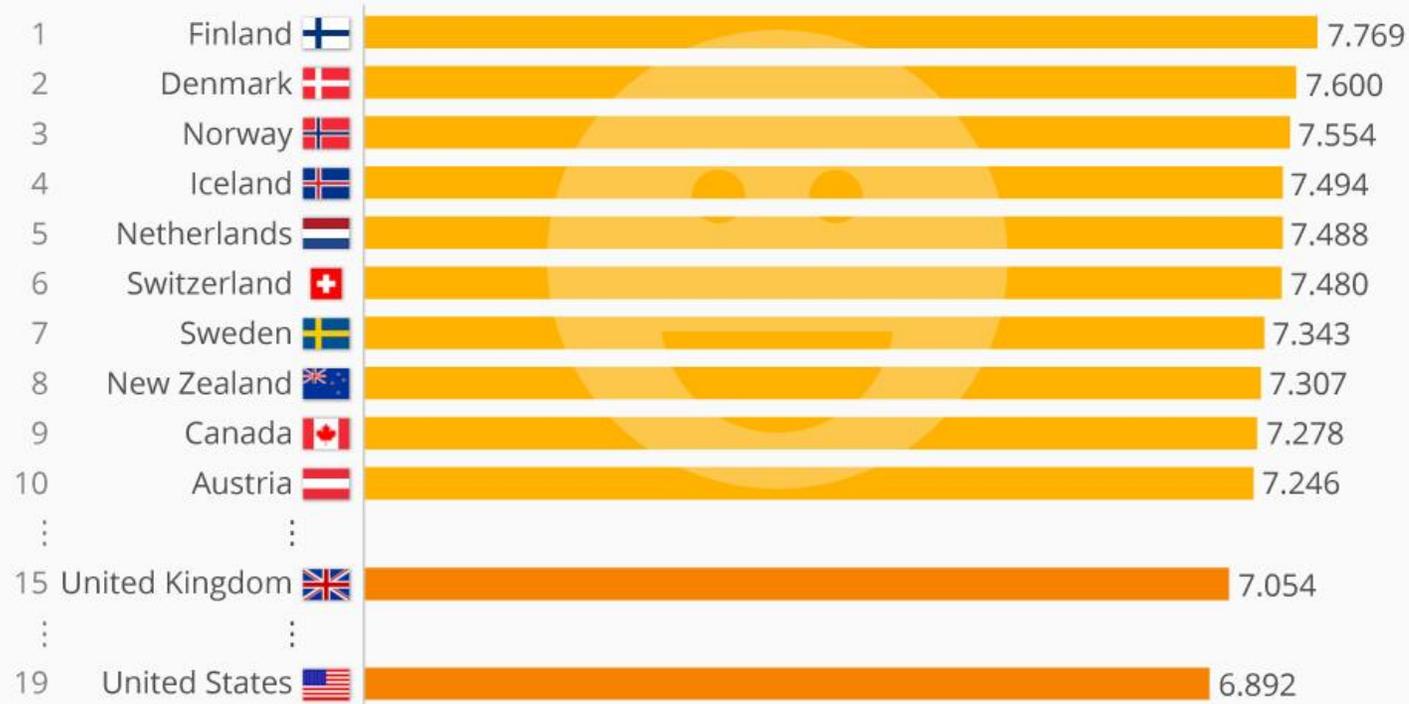
"Mental and emotional wellness has been the biggest trend in the wellness space before coronavirus and it will become even more important after," McGroarty says, as she expects more people to suffer post-traumatic-stress levels of anxiety and fear caused by the threat to health and extended social isolation.

"The crisis of social isolation and loneliness is one of the biggest health threats to the world," she says. "And it is getting worse since the digital age, especially among young people with growing rates of suicide and anxiety."

The latest World Happiness Report found a distressing and growing happiness gap in countries across the world. And the gap isn't explained by physical health or the GDP of the nations.

The Happiest Countries in the World

Ranking by highest index value*



**SOCIAL CONNECTIONS =
HAPPIER PEOPLE**

Social connections are the number one determinant of happiness because of a strong sense of community and connections with real people and trust in a society's institutions," McGroarty says, pointing to some poorer countries that are happier than richer ones, like Costa Rica which ranks higher than the United States in happiness.

Further, the research indicates that countries with rising incomes don't necessarily gain in happiness. And for the happiest countries, like No. 1 Finland and Nordic countries overall, people's strong sense of social cohesion that is fostered by trust in their governments is a major contributor to happiness.



HOW DO BRANDS CONNECT?

Luxury brands, in particular, have been trying to mimic that sense of community and belonging for their customers, but it is a poor substitute for real personal connections. After all, people have to pay a high price to be connected to any of these brands. And the very act of displaying one's connection can cause problems all their own.

“You see the media reports of the rich people renting \$6,000 a night beach houses in the Hamptons, hoarding all the food, and flying in their private jets to escape,” she shares. “It seems like all the pain and misery is falling on the lower classes. It just highlights income inequality.”

Prominent luxury logos that display one's wealth and extravagance will appear distasteful in a post-coronavirus world.

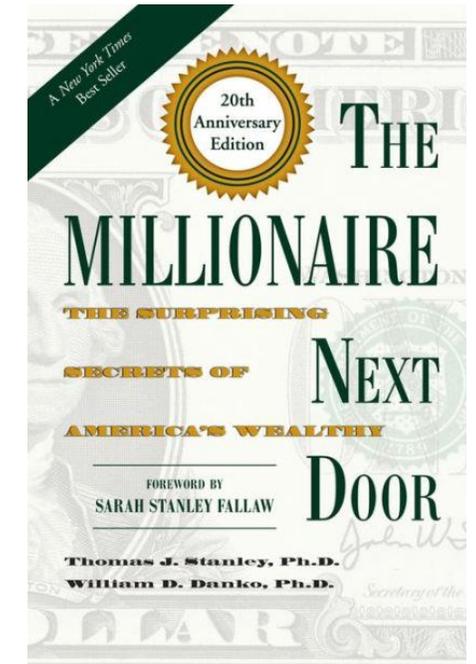
NEW LUXURY OF FINANCIAL WELLBEING

People don't reach a state of financial wellbeing and security by spending all their money; the *Millionaire Next Door* proves it.

Post-pandemic with an economic recession bearing down on them, the affluent are going to be focused on preserving rather than spending their wealth.

7 DENOMINATORS OF WEALTHY PEOPLE

- LIVING WELL BELOW YOUR MEANS**
- USE TIME, ENERGY & MONEY EFFICIENTLY**
- FINANCIAL INDEPENDENCE NOT WEALTH ARTIFACTS**
- NO "PARENTAL ECONOMIC SUPPORT"**
- SELF-SUFFICIENT ADULT CHILDREN**
- LEVERAGE MARKET**
- CHOOSE THE RIGHT VOCATION**





THE ENDS DETERMINE THE MEANS

“Shopping behavior is always a means to an emotional-based end,” explains Chris Gray, PsyD., founder of consumer psychology consultancy Buycology and one of the early pioneers in the shopper psychology field with Saachi & Saachi.

“Behaviors happen for a reason, always,” he continues. “If you can get to the bottom of why – the reason it is happening – you can start to understand consumer behavior.”

Since emotions are at the core of luxury consumer spending, the luxury industry is largely dependent upon their customers’ feelings to make sales. Rational decision-making takes a back seat in the world of luxury. “We are feeling a sense of insecurity at a very basic level. The intensity of that anxiety is new to most of us,” he says, and adds customers can only manage that level of anxiety for so long.

“People get worn out. They react with a desire to buy things that show the world that they are here and safe. After an emotional crisis, the rebound is about identity building and showing the world that you are in a good place,” Gray explains. This will then lead to more identity-building and personal-reinforcement purchases, of which luxury brands are the pinnacle.

“Showing your identity is a very important emotional aspiration that plays into shopping behavior. Luxury says to the world that I’m doing well and that I can afford this. From that comes a greater sense of comfort and security,” he believes, and continues, “The spending that comes after hard times is more about identity and security.” That’s the reason we are seeing headlines now about how Chinese consumers have emerged from quarantine ready to spend and spend lavishly.



ANXIETY WILL PERSIST

Short-term backlash spending, or as some call it reward or revenge spending, is not going to last, suggests Michael Baer, Ipsos senior vice president and managing director U.S. Ipsos Affluent Intelligence, based upon how affluent consumers behaved after the 2008 recession.

Ipsos found that affluent's feelings of financial anxiety persisted long after the recession recovery. From 75% of affluents who were "very worried" about the state of the economy in 2009, there was only a 10-percentage point decline by 2011, when 65% remained in a very worried state.

Since the global financial ramifications of coronavirus have yet to be realized, it is predicted to be worse all over the world – even China – than that experienced in the 2008-2009 financial meltdown. That's why Baer advises, "[The] anxiety and a healthy paranoia are likely to linger – possibly for a long time."

Further, affluent's extended financial worries played out in pronounced changes in their discretionary purchase behavior. Affluent consumers' attitudes toward fashion purchases didn't change overnight, and took a gradual downturn and remained depressed ... even while the recovery was well underway.

"This suggests that early on in the crisis, consumers were still clinging to their attitudes – but the economic context then caused them to change behaviors," he writes. "And those behaviors stayed changed even as the economy came back."

Baer concludes, "The key takeaway is to recognize that consumers are going through anxiety – which will in turn lead to behavioral shifts – and this won't likely snap back to pre-crisis norms, post-crisis."



DREAM
BIG.

AFTER THE PANDEMIC, CONSUMERS
WILL BE READY FOR NEW DREAMS

On a positive note, Buycology's Gray foresees luxury brands could get a boost after this crisis because for luxury consumers, the short-term hardships will open up to new long-term possibilities after the crisis has subsided.

"Luxury items provide a sense of possibility and freedom to dream. When you are in the middle of a crisis, it is hard to dream," he says.

"People are focused on the day-to-day versus being able to think about how life may be better in the future. This opens another opportunity for luxury brands to be able to provide people with that sense of aspiration and possibility."



WELLBEING IS THE JOURNEY NOT THE GOAL

The Global Wellness Institute defines wellness as “the active pursuit of activities, choices, and lifestyles that lead to a state of holistic health.” It distinguishes wellness not as a “static state of being (i.e. being happy, in good health, or a state of wellbeing), but rather the “active process of being aware and making choices that lead toward an outcome of optimal holistic health and wellbeing. “It further stresses that individuals have self-responsibility for their choices, behaviors, and lifestyles which are significantly influenced by “the physical, social, and cultural environments in which we live.”

Those environments have been radically altered by the coronavirus pandemic. Premium, high-end and luxury brands, which represent the pinnacle of social status and cultural aspirations, need to ponder how their consumers’ values and lifestyles will change as a result of the reset they have experienced.

WHERE DO LUXURY GOODS FIT?

People's sense of aspiration and possibility needs to align with a new drive toward wellbeing across the dimensions of health, emotional, and financial wellbeing.

Where does a new piece of jewelry, handbag, or pair of expensive shoes fit into that pursuit, even if said items are produced responsibly?

For premium, high-end, and luxury brands the goal has traditionally been to sell most stuff (i.e. the object of desire). But in the post-COVID world where consumers have been forced to get off their habitual buying-and-spending treadmill, consumers, most especially the affluent, will emerge with a new set of priorities: i.e. the experience of a life journey.





THE POST-PANDEMIC AMERICAN CONSUMER MARKET PRESENTS CHALLENGES

AMG understands what those challenges are and can help you overcome them.

AMG | The American Marketing Group

DISCOVERY

Two hour virtual session with all three AMG partners, assessment of your marketing, follow-up recommendations

2,500

In-person, half-day or full-day sessions at your location, pending COVID-19 restrictions, can be quoted on request.

AMG | The American Marketing Group

INSIGHTS

Competitive and customer snapshots, virtual S.W.O.T. session, written directional insights to develop strategy

5,500

Includes general secondary research, plus a presentation to you and your team of our insights. Additional research can be quoted on request.

AMG | The American Marketing Group

STRATEGY

Marketing strategy, including brand identity, positioning, USP, target and market identification, tactical recommendations

12,500 to 25,000

Includes a comprehensive report and presentation to you and your team.

AMG | The American Marketing Group

PLANNING

Campaign planning based on growth goals within a fixed timeframe, including paid, earned and owned media strategies

Budgeted to media expenditure

Includes media recommendations based on the most efficient and effective means of reaching the target audience.

AMG | The American Marketing Group

PENETRATE

We can provide everything you need to reach, persuade and call to action your target in a measureable, compelling way.

Budgeted to Plan

We can provide creative, supervision, monitoring and reporting; as well as analysis and recommendations on improving performance.

ARE YOU READY FOR THE OPPORTUNITIES AHEAD?

Our PALM (PENETRATE AFFLUENT + LUXURY MARKETING) methodology follows an interactive step-by-step plan that can take you as far as you want or need to go.

Our team can successfully map your post-coronavirus journey to penetrate America.

Contact us to schedule a free 15-minute call with no obligation. We can help you save thousands if not millions of dollars as you plan your marketing campaign.

Use this link to schedule a telephone consultation Tuesday or Thursday mornings (<https://calendly.com/pamdanziger>).

For other times, email pam@unitymarketingonline.com or call Pam @ 717-336-1600.



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