

## **The Death of the Monthly Payer and Selling to the Debt-Averse Consumer**

Innovation is about anticipating fundamental shifts in society and individual behaviour and serving those new needs before everybody else. Here is a big shift for some inspiration:

The last 25 years, the economies of the world have relied on the US consumer. He is indeed the ideal consumer: give him \$1 and he will spend \$2! The easy credit provided by the central banks created the no-money down and low-interest incentives that proliferated in the era of the FIRE economy: finance, insurance, real estate. Like Schumpeter predicted in his 1939 book *Business Cycles*, you'll find trouble whenever a load of debt was "lightheartedly incurred by people who foresaw nothing but booms". He was right. Now this era of unbridled, debt financing consumer spending is over, and the monthly payer is out of action.

This has major implications for your communities whose businesses relied on this scheme – especially consumer-oriented companies. Here are some implications to think about:

### **Winning Over Debt-Averse Consumers**

To win over debt-averse consumer, companies will need to go back to what made successful companies in major downturns: value and utility over luxury and brand. Not convinced? Here is what veteran Howard Davidowitz - a widely recognized expert on the retail sector who has lived through booms and busts, seen the rise and fall of winners and losers – had to say on the return to sustainability in retail:

*"I think the American consumer recognizes they've got to hunker down, spend less, and they're doing it. Saks and Neiman Marcus have the worst sales on the planet, and the dollar stores and Wal-Mart are doing terrific because they offer value. That's a huge change in the mind-set of Americans. It's going to be with us forever. Living standards, of course, can never be the same. You can't put [the US] in this kind of financial condition. In our [federal] budget, we have 4% of the budget for debt service. That's going to go to 8. Now, when you do that, what happens to living standards?"*

Consumers will react to these new marketing messages: life simplification and getting back to basics.

### **Canadian SMEs: Getting Out of the NAFTA Comfort Zone**

With this major shift occurring in the US economy (an economy that is 70% consumer based) – Canadian businesses need to think about other markets sooner rather than later. UPS has recently commissioned a survey of SMEs (by TNS Canadian Facts) in the Fall of 08 and the most optimistic SMEs are in the Prairies. The survey also indicated a shift toward the domestic market which is comprehensible considering the rapid decline in the US economy and the strength seen in agriculture and natural resources in Saskatchewan.

It is somewhat a dangerous long term trend not to focus on opportunities in other markets.

Since 2007, sourcing goods from outside of Canada among Ontario SMEs has jumped from 30 to 40 per cent. Meanwhile, Alberta — where SMEs had the lowest level of global trade in Canada in 2007 — saw an increase in sourcing from abroad from six per cent in 2007 to 39 per cent in 2008, and an increase from eight per cent to 23 per cent in selling abroad. “Entrepreneurs in Ontario and Alberta have clearly seen the benefits of conducting overseas trade and are using it to their advantage during these difficult economic times,” said Mike Tierney, president of UPS Canada.

According to UPS, the US remains the main source for sourcing and selling goods but they are seeing new trends amongst SMEs who are feeling the downturn in the US. Businesses are beginning to realize the wealth of opportunities outside of the NAFTA comfort zone and are taking advantage of them as a means of weathering the economic storm.