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CONSUMER INFLATION SENTIMENT

MARCH 2023 ■

**THE FALSE
APPEAL OF
DEAL-CHASING
CONSUMERS**

INTRODUCTION

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CONSUMER INFLATION SENTIMENT

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It is a tough time for merchants. Consumers are being squeezed to the breaking point, and PYMNTS' research finds that consumers have been cutting nonessentials and shopping with merchants offering lower prices.^{1,2}

One would be forgiven for thinking that deal chasing is at the forefront of the battle for grocery and retail shoppers' favor. PYMNTS' research, however, paints a very different picture: These consumers are a large but unprofitable group. Consumers prioritizing cost over all other factors will likely shop elsewhere to find the most affordable products. As a result, merchants may find the most profitable strategy is to target a specific group of consumers that we call the persuadables, who value a good price but also consider convenience and brand loyalty.

Consumer Inflation Sentiment: The False Appeal of Deal-Chasing Consumers is the eighth installment of this series, which explores consumers' outlook on the American economy. We surveyed 2,116 United States consumers between Feb. 3 and Feb. 8 to better understand how inflation and increased prices of consumer goods affect their shopping habits and relationships with retailers.

This is what we learned.

¹ Author Unknown. Walmart Warns That Shoppers Are Feeling the Squeeze of Higher Prices. SupplyChainBrain. 2023. <https://www.supplychainbrain.com/articles/36681-walmart-warns-that-shoppers-are-feeling-the-squeeze-of-higher-prices>. Accessed March 2023.

² Consumer Inflation Sentiment: Consumers Pull Back and Prepare for the Long Haul. PYMNTS. 2022. <https://www.pymnts.com/study/consumer-inflation-sentiment-finance-spending-economic-impact/>. Accessed March 2023.

Despite recent positive indicators that rising inflation may be stabilizing, consumers still expect elevated inflation rates for the foreseeable future.

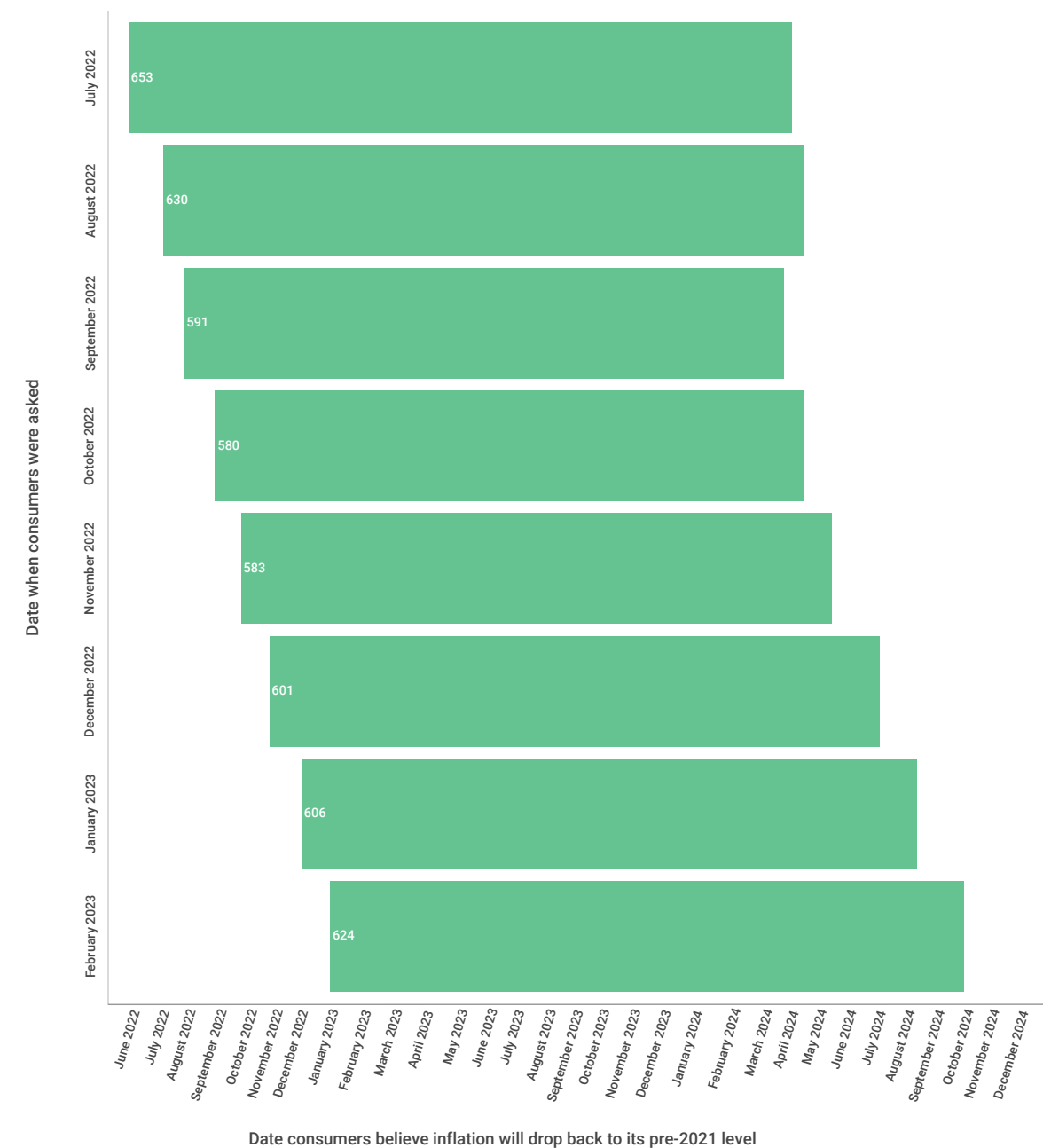
Even though inflation rates have declined since their recent peak in July 2022, consumers continue to push the date they expect inflation rates to return to normal ever further into the future.

Inflation reached 6.4% for the 12-month period ending January 2023. This peak was the smallest 12-month increase in prices since October 2021. Consumers' expectations regarding price increases have not improved, however, indicating they believe inflation rates will decrease much more slowly than they rose.

Seventy percent of grocery shoppers and 67% of retail customers expect significant price increases in the next 12 months. The average consumer does not expect inflation to return to normal until the end of 2024, suggesting that consumers suspect it may take longer for inflation to drop from the 6% range to the 2% range than it took to fall from the 9% range to the 6% range.

Figure 1
Consumer prediction of inflation stabilization

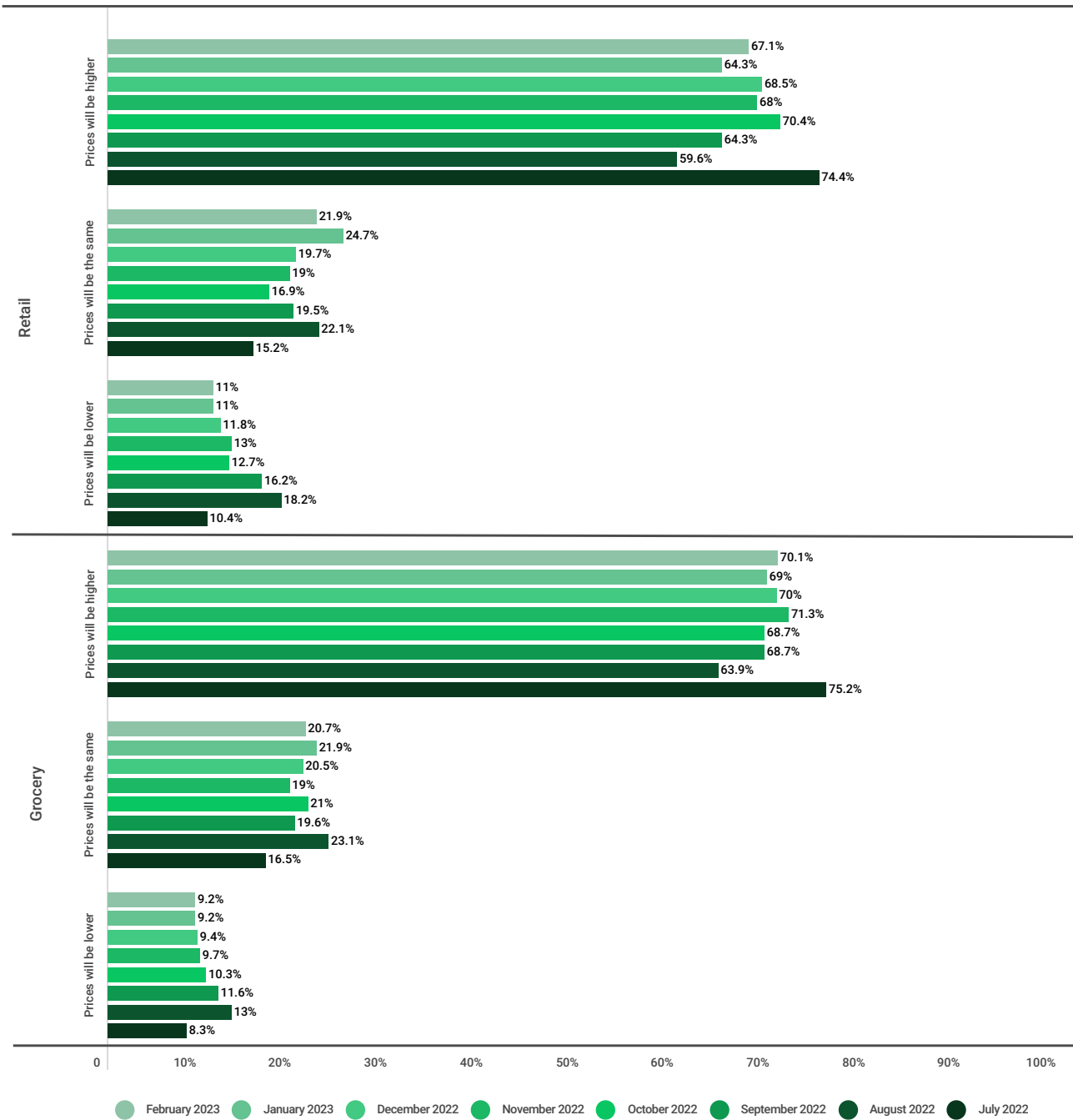
Consumer prediction of the average number of days before inflation returns to pre-2021 levels



Source: PYMNTS
Consumer Inflation Sentiment, March 2023
N varies by month surveyed; N = 2,116: Whole sample in February 2023, fielded Feb. 3, 2023 – Feb. 8, 2023

Figure 2
Consumers' expectations for retail and grocery in 2023

Share of consumers with select price expectations for the next year, by type of product



Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N varies by month surveyed and type of products purchased; N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed in February 2023; N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed in February 2023, fielded Feb. 3, 2023 – Feb. 8, 2023



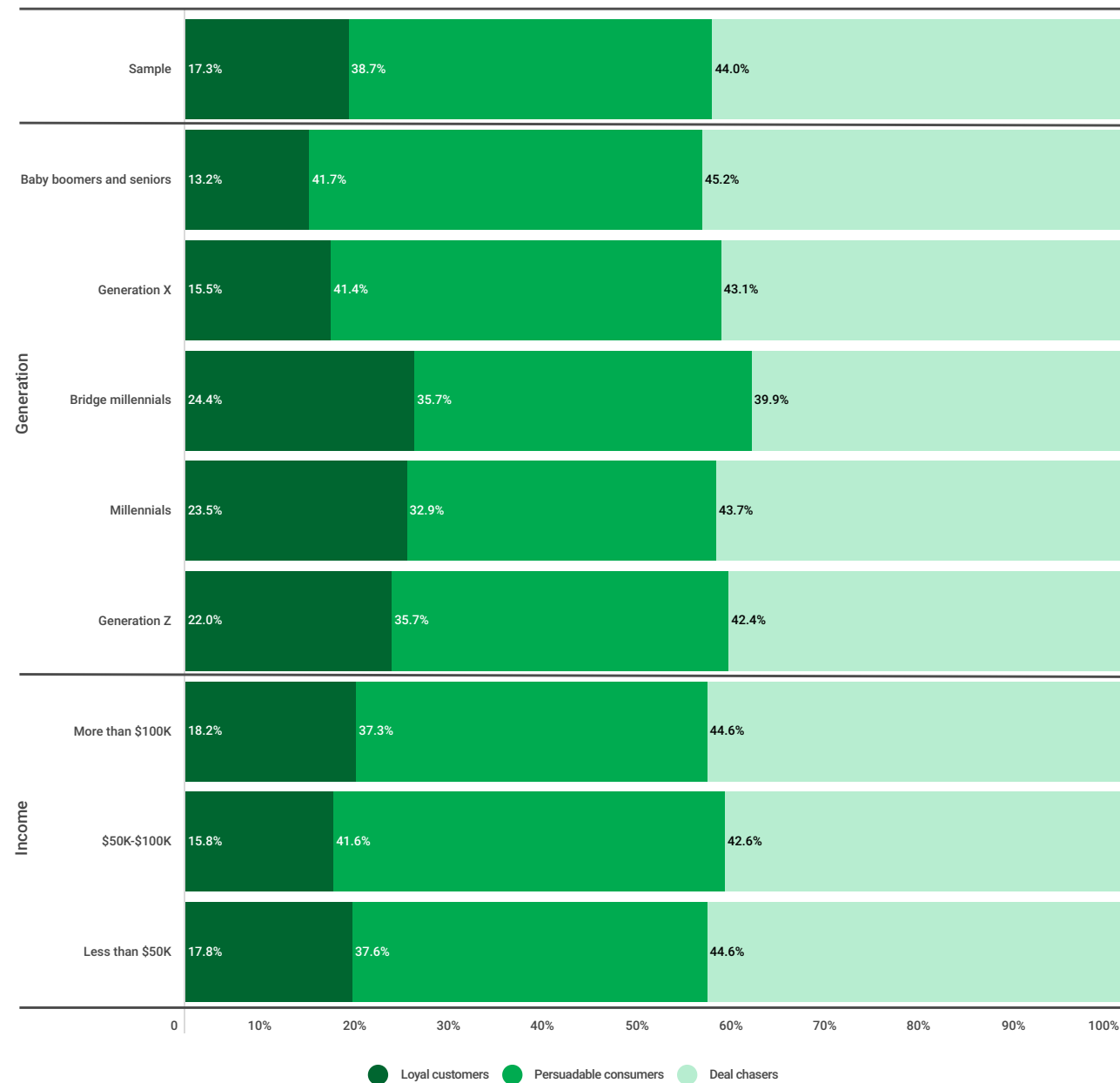
Deal chasing has become mainstream in the U.S., with nearly half of consumers shifting to merchants with more significant discounts and offers in the last year.

Nearly half of grocery and retail shoppers would leave their favorite brand for a less expensive competitor, and approximately one-fifth consider themselves loyal customers of specific brands. The remaining one-third of shoppers try to strike a balance between brand loyalty and pursuing better deals. This group is what we consider persuadable consumers.

Our data shows that half of consumers say finding better deals has become a much more important, if not the most important, factor when choosing where to buy retail or grocery items. Middle-income retail shoppers are the most likely to have shifted toward giving greater importance to better deals, with 59% saying so. Persuadable customers are the most likely to say price increases have not impacted their grocery shopping behaviors, at 20%.

However, building brand loyalty remains a profitable strategy, as loyal customers are more prevalent among the young and affluent. High-income consumers and millennials are the most likely to consider themselves loyal customers in both the retail and grocery segments. Brands with the right strategies could not only attract persuadable consumers but also convert some of them into loyal customers.

Figure 3A
The three types of shoppers
Share of grocery shoppers in each persona group, by demographic

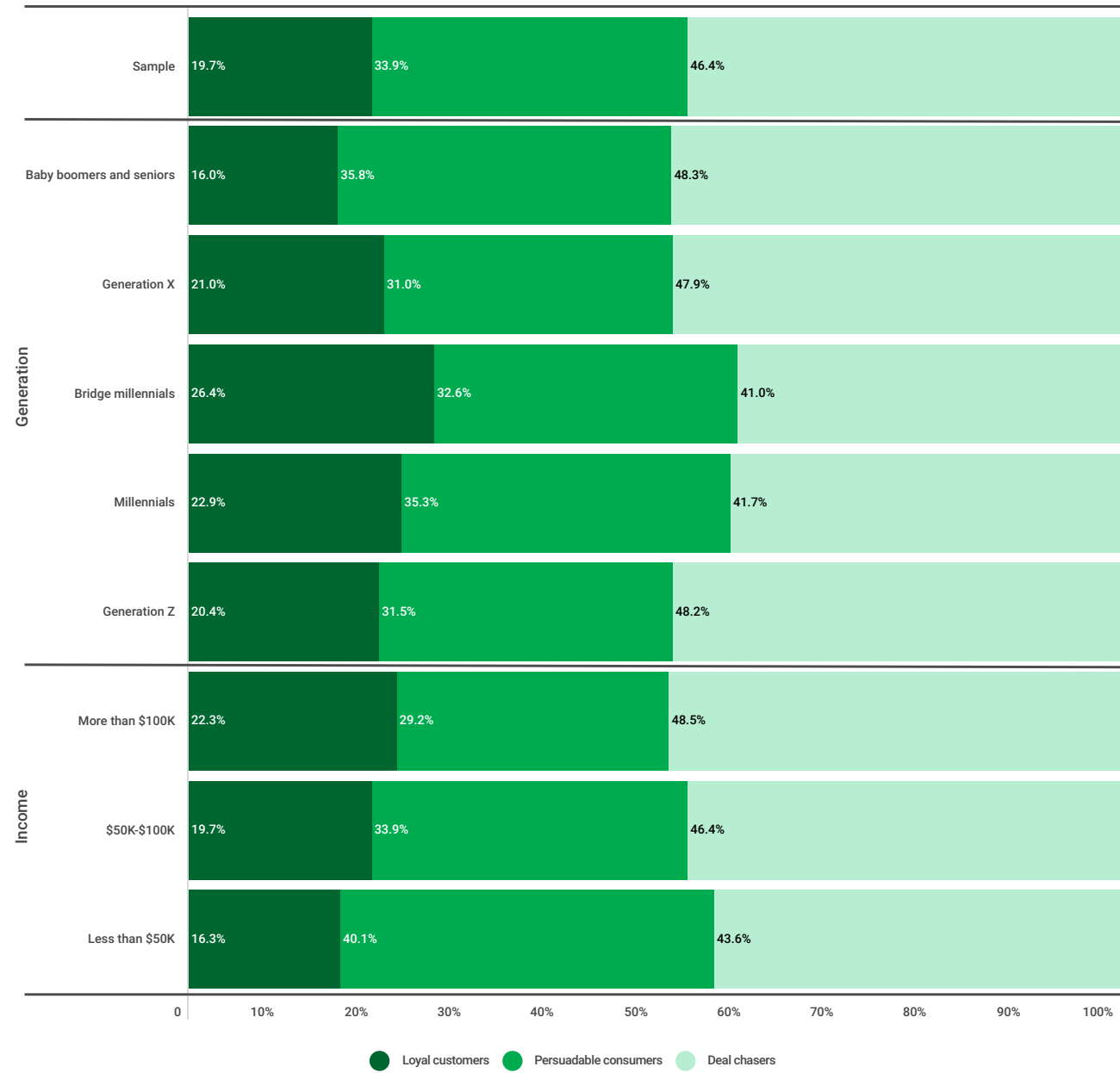


Source: PYMNTS
Consumer Inflation Sentiment, March 2023
N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023

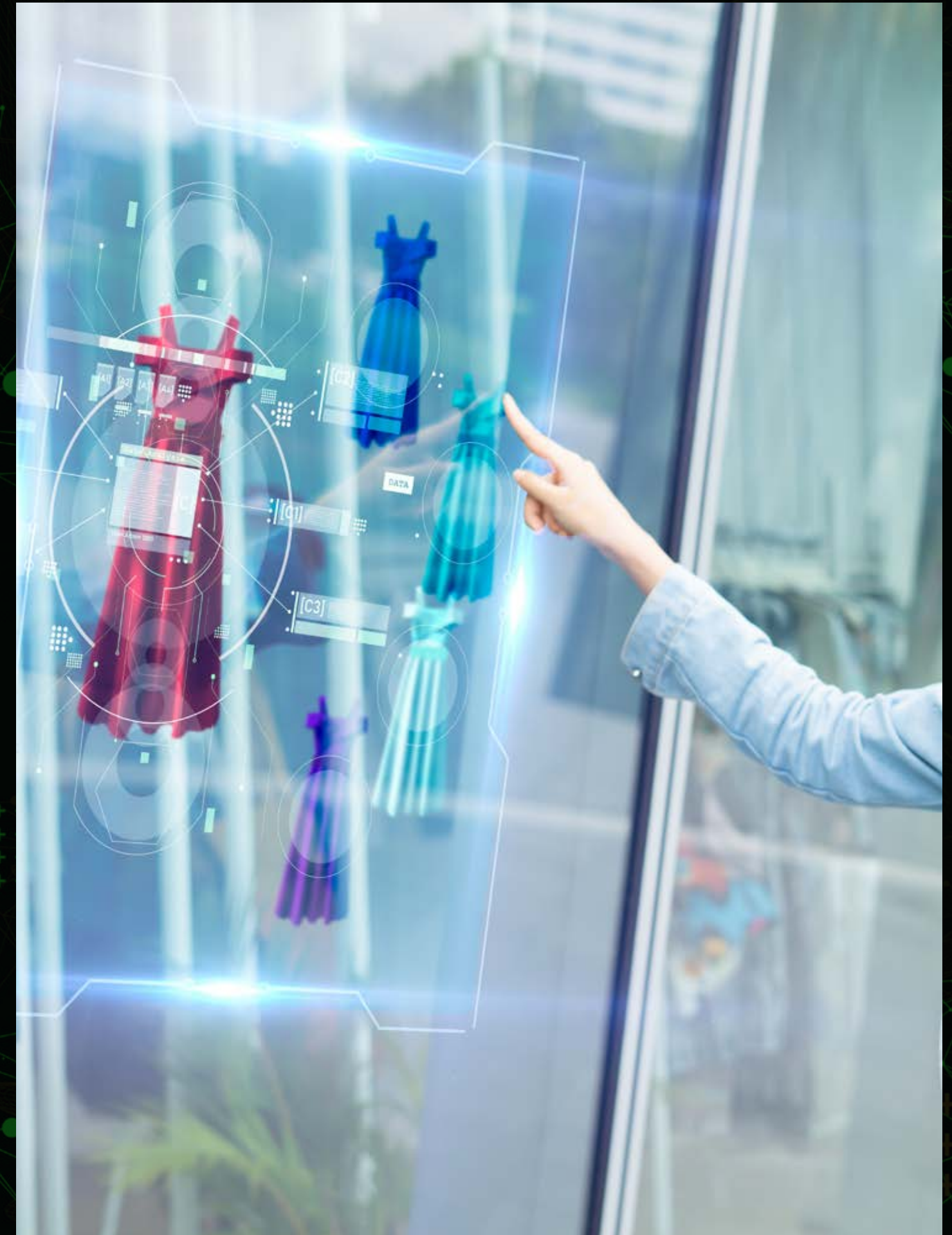
Figure 3B

The three types of shoppers

Share of retail shoppers in each persona group, by demographic



Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023



Deal chasers are the most pessimistic about inflation stabilizing and have lost the most purchasing power.

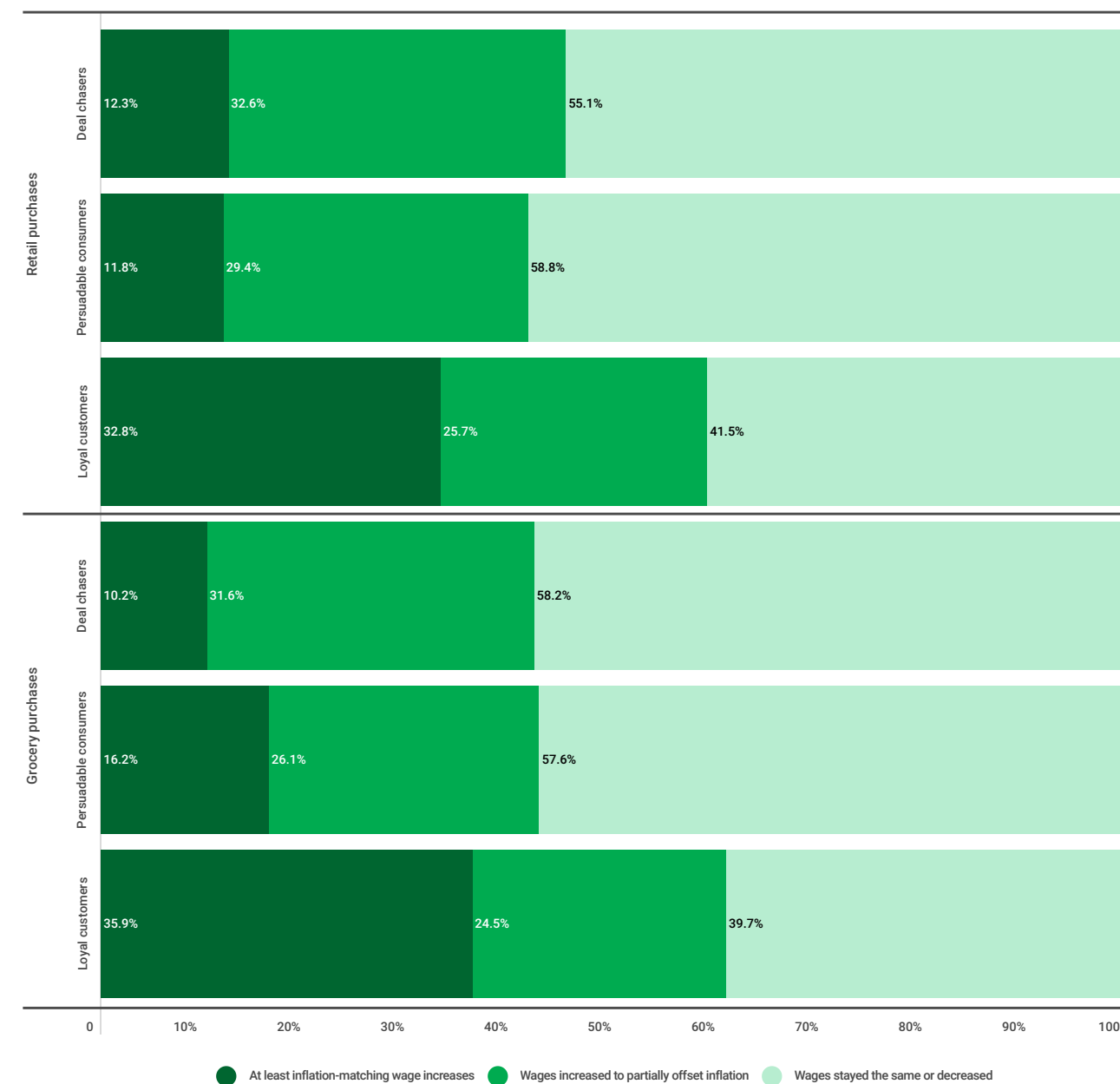
More than half of deal chasers report that their wages have stayed the same or decreased in the last 12 months. Although deal chasers and persuadable consumers have seen inflation take similar hits on their purchasing power, deal chasers are more pessimistic about excessively high inflation’s duration, expecting it to last until close to the end of 2024.

All types of shoppers have cut down on nonessentials when grocery shopping, but deal chasers are more likely to have broadened this to retail purchases as well. Sixty-eight percent of all consumers have cut down on nonessential grocery shopping; 74% did the same for retail purchases. Higher prices have, in turn, made loyal customers more mindful of local businesses. Deal chasers, however, were less apt to shop with local merchants. One-third of loyal customers purchased more from local stores in response to higher prices. By contrast, just 21% of deal chasers did the same.

Figure 4

Wages versus inflation

Share of consumers reporting select changes in income relative to price increases in the last 12 months, by type of purchase and persona group



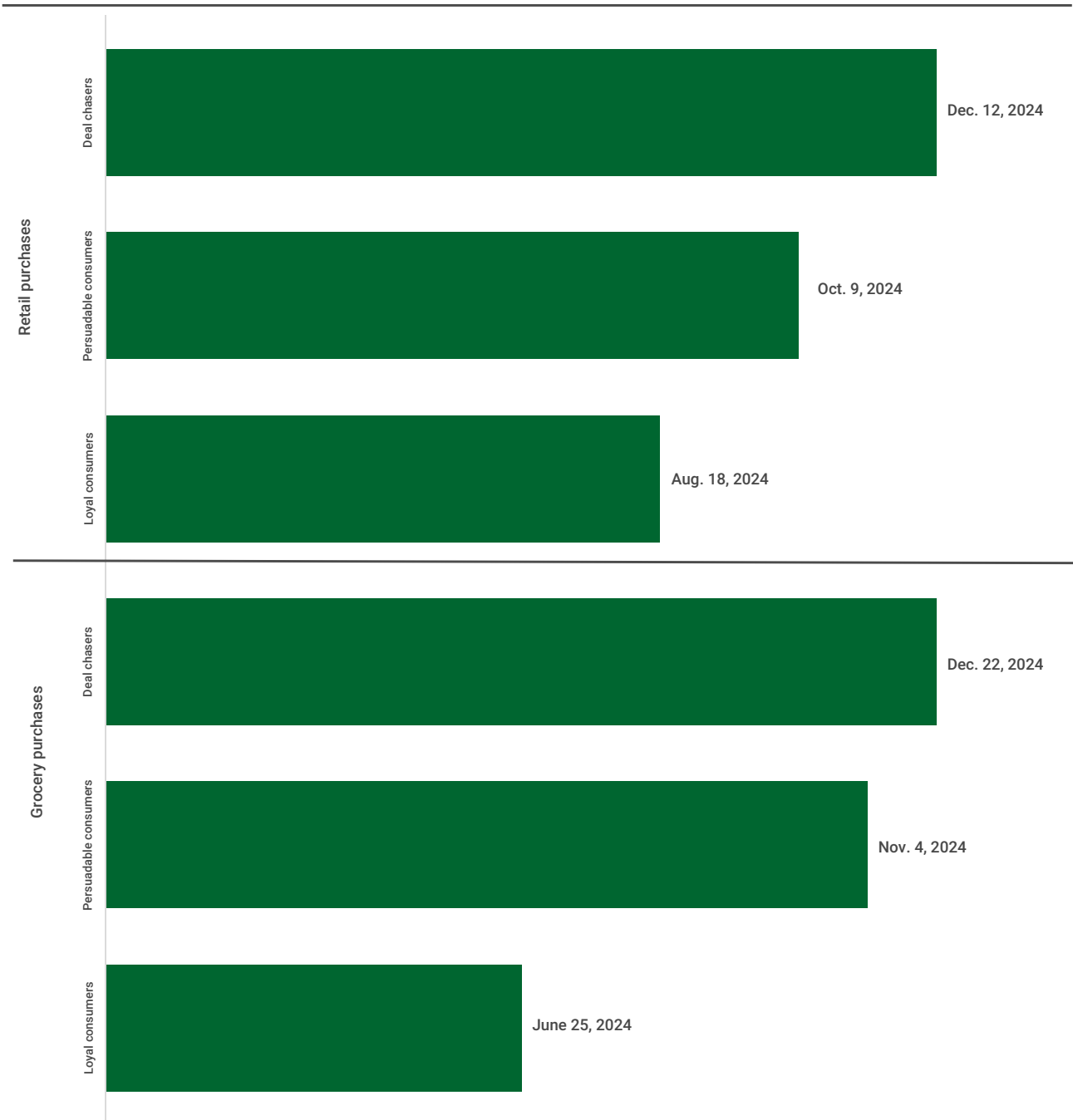
Source: PYMNTS

Consumer Inflation Sentiment, March 2023

N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed; N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023

Figure 5
Consumers' inflation predictions

Average expected date of inflation stabilization, by type of purchase and persona group



Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed; N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023



Good deals or ease of shopping are not enough to please increasingly discerning, cash-strapped consumers.

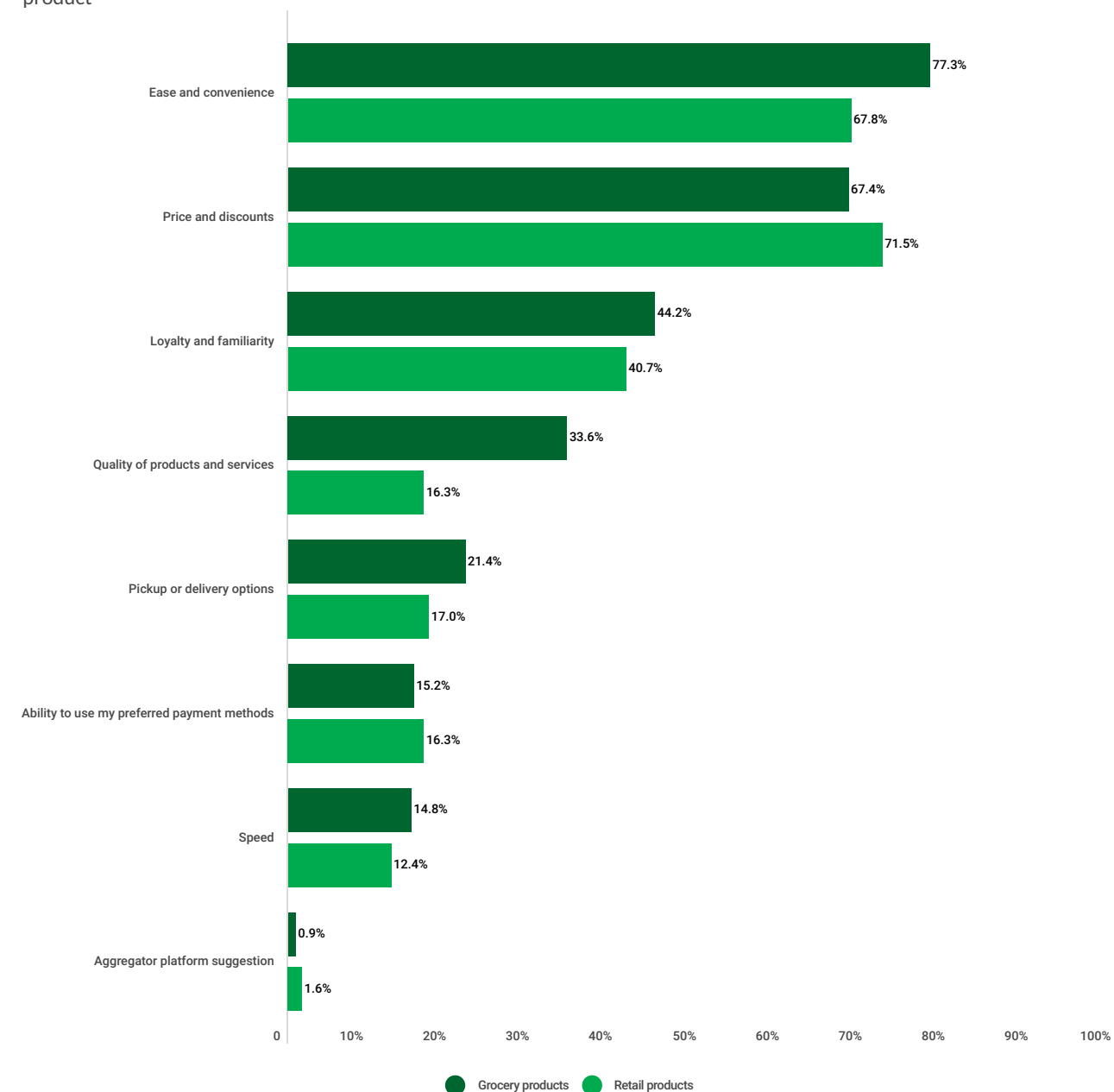
When deciding where to shop, even loyal customers investigate a merchant’s ease of shopping and prices. Thirty-four percent of deal chasers and 35% of loyal customers say ease and convenience were the main reason they chose where they most recently shopped for groceries. Just 13% of loyal grocery shoppers and 18% of loyal retail shoppers cited loyalty and familiarity as the primary driver of their choice in where to shop for their last purchase.

Better prices attract deal chasers but may not convert them to long-term customers. We found that 62% of deal chasers said prices and discounts drove their most recent retail purchase, suggesting that most would shift merchants again for lower prices. A more profitable strategy may be balancing reasonable prices, good service, the right products and other amenities. Our data shows that 63% of persuadable retail shoppers and 68% of loyal retail shoppers are motivated by factors other than price.

Figure 6A

Factors influencing consumers' choice of merchant

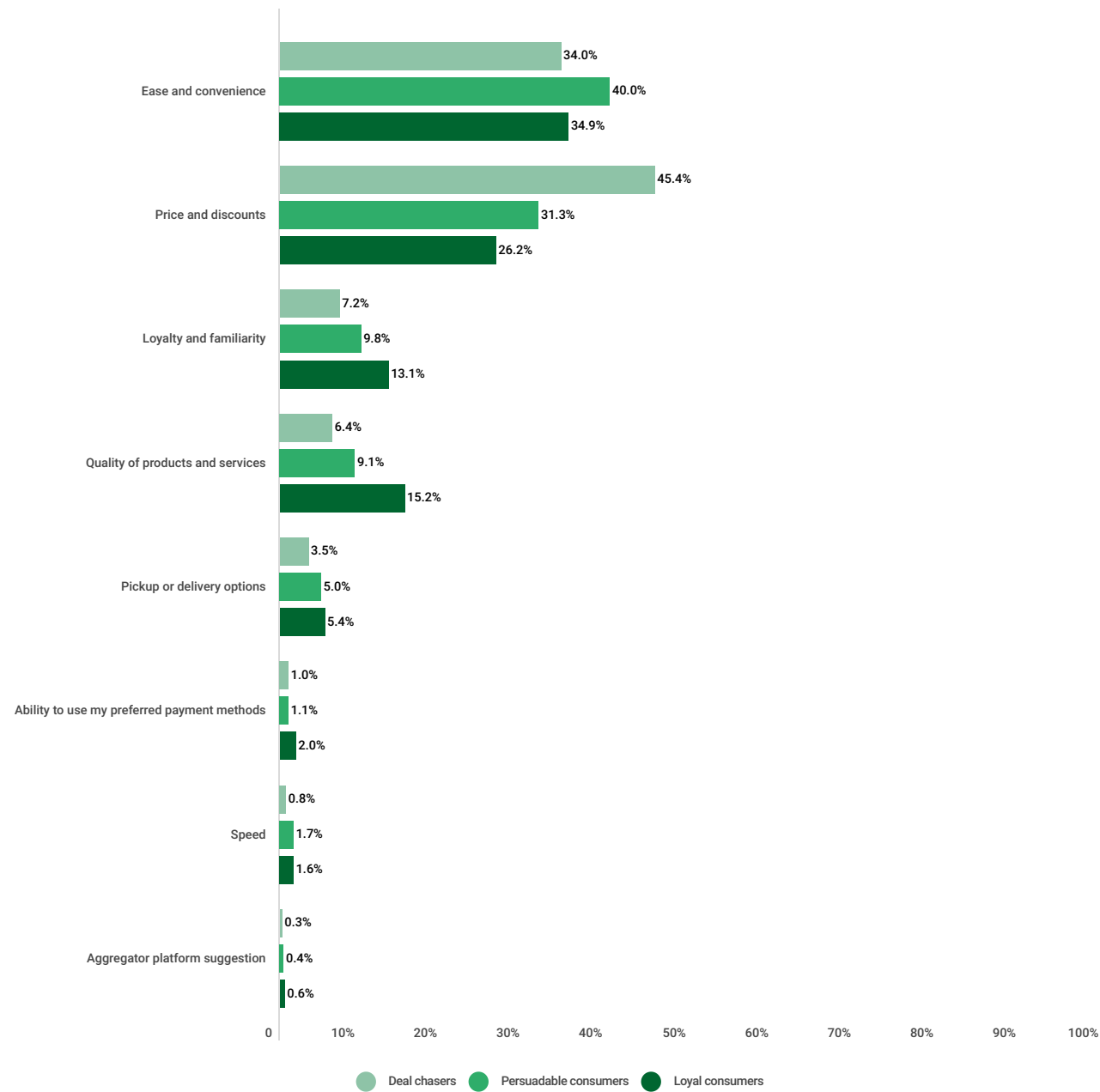
Share of consumers citing select factors that influenced their decision of where to make their most recent purchase, by type of product



Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed; N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023

Figure 6B
Factors influencing consumers' choice of merchant

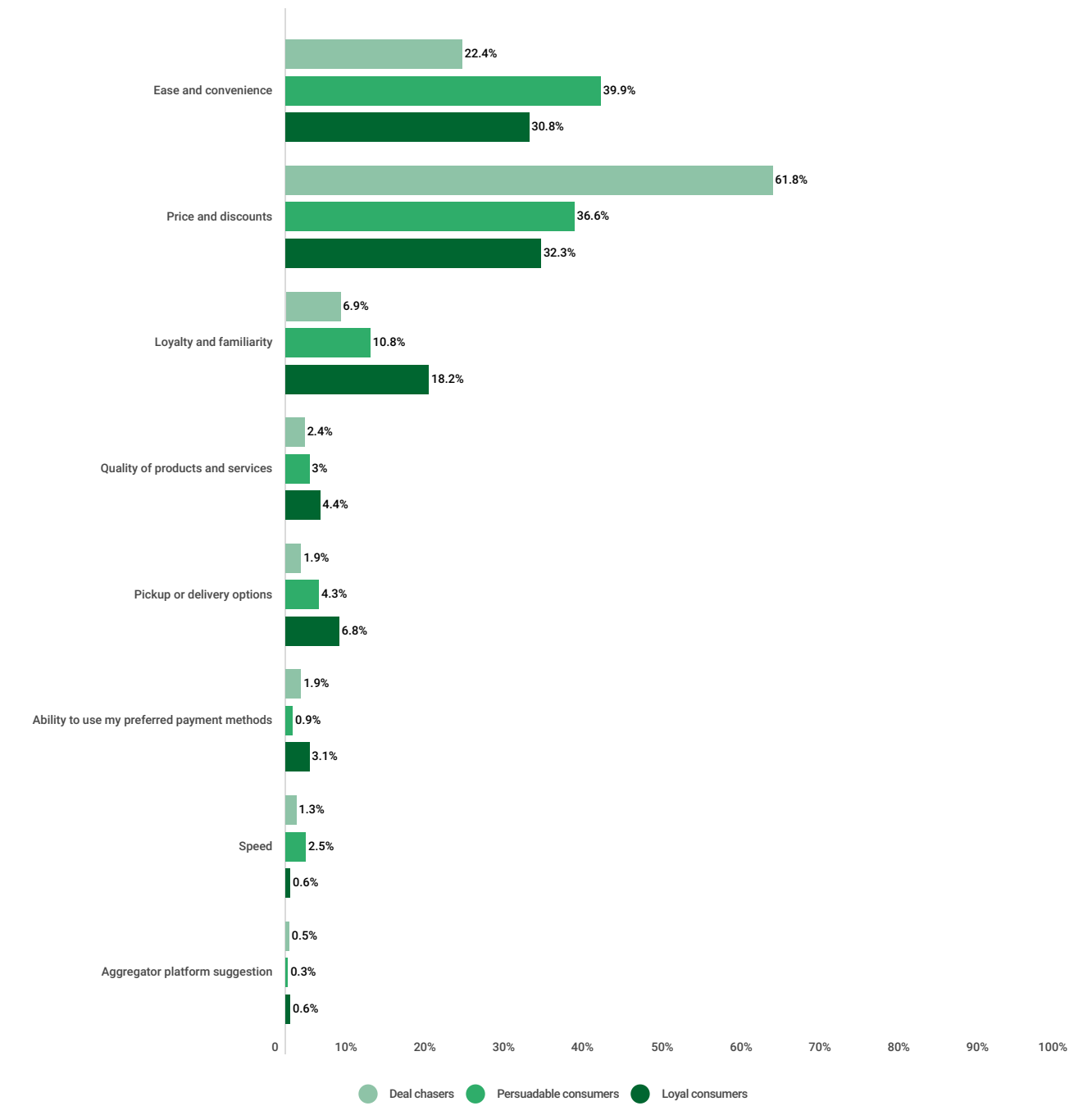
Share of consumers citing select factors as most influential on their decision of where to buy groceries, by persona group



Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023

Figure 6C
Factors influencing consumers' choice of merchant

Share of consumers citing select factors as most influential on their decision of where to buy retail products, by persona group



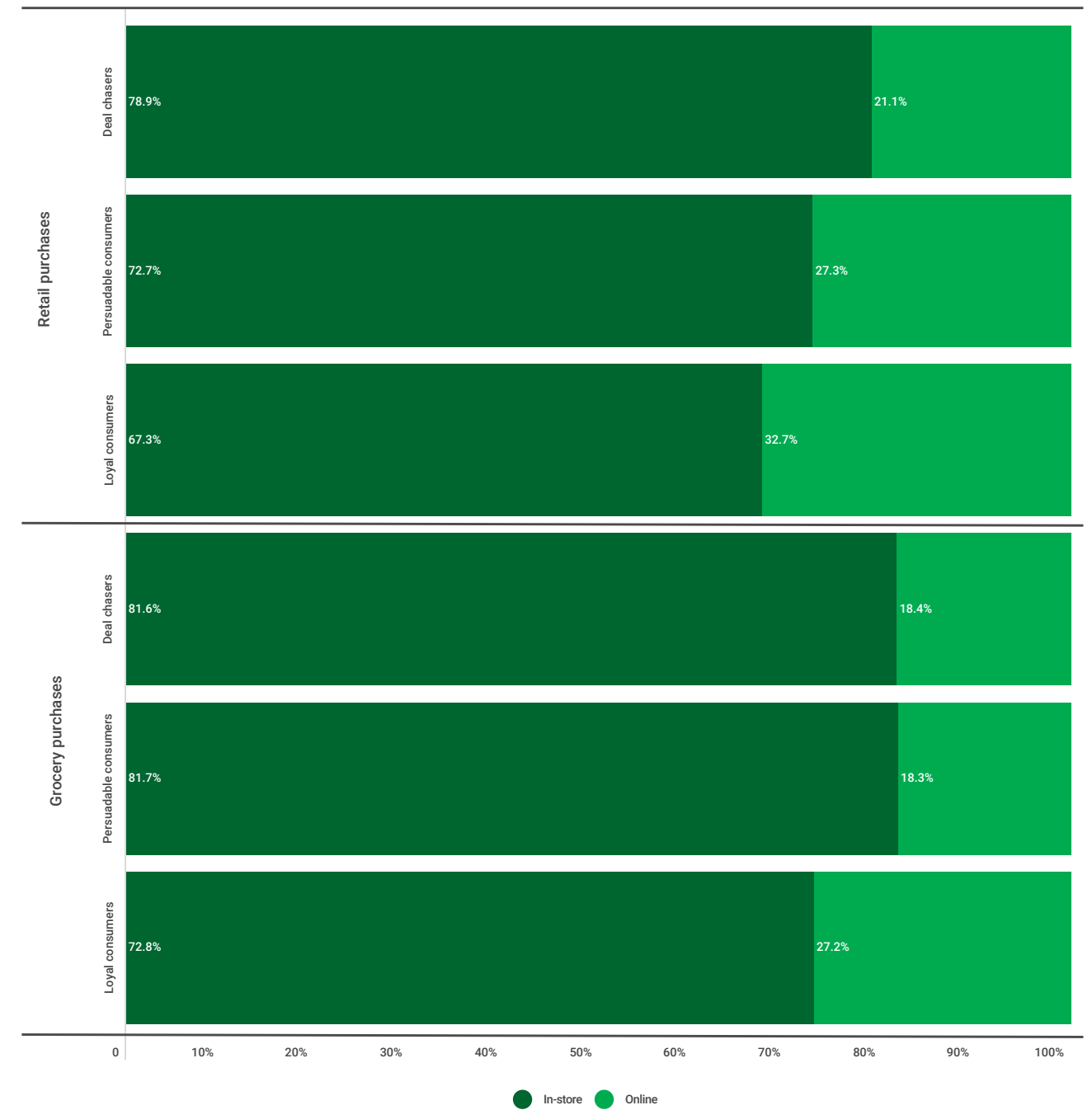
Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023

Loyal customers are more likely to shop online and expect more of a merchant’s digital capabilities. Twenty-seven percent of loyal grocery shoppers made their last purchase online, compared to 18% of deal chasers. Meanwhile, 33% of loyal retail shoppers used digital means to acquire their last retail purchase, compared to 21% of deal-chasing retail shoppers. If businesses want to maintain existing brand loyalty, they would be wise to make sure their digital storefronts meet and exceed consumers’ expectations.

Figure 7

How consumers get the goods

Share of shoppers who made their most recent purchase online or in-store, by type of purchase and persona group



Source: PYMNTS
 Consumer Inflation Sentiment, March 2023
 N = 1,876: Respondents who purchased grocery products in the 30 days prior to being surveyed; N = 1,232: Respondents who purchased retail products in the 30 days prior to being surveyed, fielded Feb. 3, 2023 – Feb. 8, 2023

CONCLUSION

Deal chasers hold a strong allure for merchants, but attempting to convert them is an exercise in futility. Because these consumers are likely to leave whenever they find a better price elsewhere, they are unlikely to be profitable customers overall. Instead, attempting to attract persuadable consumers and retain loyal customers through a delicate balance of excellent service, reasonable prices and high-quality products is a better strategy, even if it may initially seem more challenging.

METHODOLOGY

Consumer Inflation Sentiment: The False Appeal of Deal-Chasing Consumers, produced independently by PYMNTS, examines and analyzes inflation's impact on consumers and their habits. We surveyed 2,116 U.S. consumers between Feb. 3 and Feb. 8 about their experiences and perceptions. The sample was balanced to match the U.S. adult population in a set of key demographic variables. Our respondents' average age was 48, 52% were female and 36% annually earned more than \$100,000.

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