A Literature Study: Behavioural Changes in Consumers with Response to Economic Crisis

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Abstract

There is nothing new about the fact that all companies are running the race to know the buying patterns of consumers in the present times, to gain greater market share and hence, competitive advantage. But what happens in the course of an economic crisis like an economic slowdown, or depression or even the loss in access to spendable income? This is when consumer behaviour changes and throws a curveball at marketers. Different crisis in the past have shown consumers adopting drastic changes to maintain self preservance and this is often done by cutting down purchases or deterring from the usual. The article discusses the impact of financial crisis on buyer behavior.

Keywords: *Financial Crisis, Buying Behavior, Behavioural Change, Economic Crisis, Consumer*

1. INTRODUCTION

Consumer buying behaviour or consumer behaviour has been a subject for extensive study over the years. Buying decisions and behavioural responses have been tested and studied in various situations. As much research has been done in a general scenario, the present times of crisis and recurrent limitations in spending for majority of the population has not been kept in retrospect while predicting the purchase decisions.

The present times have been hit with challenging and recurrent economic crisis situations. Financial calamities like recession, economic downturn, demonetization and the likes have shown that consumers take drastic steps to brace for such contingencies, leading to further setbacks for marketers and sellers. As unpredictable as it is already, the fact remains that at some point, consumers, producers and intermediaries have to be braced enough for the occurrence of a contingency. It can take place in the form of an economic down spiral, demonetization, recession or steep hike in prices of goods and services, amongst other occurrences.

The aftermath of these is devastating, especially to the common people. Jobs are lost, prices skyrocket for basic necessities, there is a sudden depletion in savings and at times, the very access to obtaining a means of purchase is cut off, resulting in a crippling effect for the masses.

2. ECONOMIC CRISIS

An economic crisis is a situation where in a country faces a rapid turn of events that lead it towards an economic down spiral which is the onset of a financial crisis. It is mainly recognised by symptoms such as inflation or deflation, fluctuation prices of commodities or a fall in GDP of a country. This can further lead an economy towards crisis commonly recognised as recession or a depression.

As much as economic financial crisis affects large scale producers, builders or manufacturers, financial houses, corporate sector and the likes, it hits the common man right at the very basic level, wherein the very existence of a person is threatened. When considering Maslow's Need Hierarchy theory, these are the needs at the very bottom of the pyramid, food, shelter and clothing, safety in self existence and self preservation, which are affected in times of economic crisis.

An economic crisis may be caused by multiple means. More often, a crisis can take form when tangible means of generating income like assets or companies in entirety are overvalued. It can also happen by a crash in the normal running of a system, a change in the behaviour or predicted mental makeup of people which can go out of control, unanticipated problems like widespread disease or physical attack on the sanctity of governance. It is to be kept in mind that even when suitable preparation is always done to be able to tackle an economic crisis, it can still happen, accelerate, or deepen. There are several explanations for the occurrence of the crisis, which can be recognised in the literature but are not discussed in the present dissertation as the research question is more interested in the outcomes of the crisis than the factors that caused it.

Over the years, the world has been rocked with several financial crisis ranging from the Credit Crisis of 1772, Great Depression in 1930, to the Financial Crisis of 2007, even the energy crisis of the 2000s. Both consumers and business organisations are affected by these in ways that are unprecedented. The financial crisis caused by the domino effect of the sub-prime mortgage crisis in the USA, had the capacity of reverberating its effect on an international scale and hampered several established, well run economies. When bringing focus to the same on a more local level, besides the above, there has also been the effect of demonetisation which came into being from November 2016 (DeutcheWelle, 2008).

There have been some other economic downturns that have completely different causes but have all displayed widespread unemployment, poverty, hunger, and social chaos. They include:

- 1998 Argentine Great Depression
- 2001 Turkish Economic Crisis
- 2008 Icelandic Financial Crisis
- European Debt Crisis
- 2014 Russian Financial Crisis

Events and times aside, all of the above have been consistent in noteworthy characteristics. Some of the major impacts the current financial crisis has on consumers are: job uncertainty and unemployment; decreased disposable income; decreased saving rates; fewer credit financing opportunities; greater consumption risk; higher product and service prices, massive reduction in taxes as well as profits for both government and private sectors, thus bringing growth of an economy to a complete standstill. (Allen and Gale, 2007; Gramley, 2008). This further result in loss of trade on a global level and plummeting of prices. There is an entire shift in buying behaviour of consumers, consecutively (Hawkins, 2008).

3. CONSUMER BUYING BEHAVIOUR

Buyer behaviour culminates the general traits of shopping that consumers have. This helps marketers form an idea of whether or not store concepts, product ranges and strategies of the companies they promote, are taking the appropriate measures of fulfilling consumer requirement. Consumer behaviour is unpredictable and thoroughly dynamic; this is why it is elemental to understand how an individual or groups decide to spend their available resources on consumption-related items.

Every commercially driven business enterprise is keen on being successful, for which it absolutely should take into account the intricacies of buyer behavior when developing their strategies. Buyer behaviour refers to the steps that individuals take when purchasing and using goods and services. Marketers ought to deeply analyse buyer behavior, especially during the case of a financial crisis, where normal sale and purchase of goods and services has been over ruled with an entirely different set of purchase values that come from consumer attitudes, their fears and apprehensions often triggered by social factors and lifestyle trends.

Additionally, Kotler (2012) suggested that consumer behaviour has a huge impact on a firm's marketing decision making process every year. There is a risk of what a consumer does not inflict on his or her behaviour and generate consequences (Snoj, Pisnik, Korda and Mumel, 2004). Cultural, social, individual, and psychological factors have an impact on consumer decision-making from the time a person recognizes a need through post-purchase behavior. We will examine each of these factors in more detail. It is important to understand the relevance of these influences on consumer decision-making.

Consumers transverse through a series of steps as they choose products to buy. The scope of consumer behaviour dwells into the decisions consumers make and the course of action they uptake to make them; looking at the what, when, where, why and how of product consumption. For example, companies always are in a race to determine why consumers buy certain products, and what are the needs that are satisfied through their consumption? These needs can be in the form of basic needs, like hunger and shelter along with the desire for physiological and psychological fulfilment through products that provide pleasure or meaning.

The ‘what’ of consumer behaviour can also be critical for marketers, who want to know what kind of things consumers buy in such times. This can be determined by several socio-economic factors such as status, class, focus groups as well as psychological factors, pressure to purchase a particular item to fit in with a given group, and whether these factors come into play when there is limited spending. Even on any given day, when circumstances are usual, it is difficult for marketers to be able to correctly decipher the expected behavior of consumers. This becomes more so a challenge when the market, consumers and the marketers themselves are hit with an economic crisis.

4. CHANGE IN BUYER BEHAVIOUR DURING ECONOMIC CRISIS

The buying patterns of people tend to change during hard and stressful times such as economic crisis (Nistorescu and Puiu, 2009). The consumer reacts to any change in the economic situation around him by changing his consumption. This happens due to a change in the levels of his perception of risk. Financial crisis affects the customers not only economically but also psychologically. People become more money minded. They do not want to spend money on premium products anymore, even if they still could afford to do so. They only buy necessities, switch to cheaper brands and have a more rational view on promotion. They start to compare different products and select based on price compromising quality (Nistorescu and Puiu, 2009).

According to Valaskova and Kliestik, “the longer the crisis, the more vigilant the consumers. They focus strongly on the purchase of products, whether food or non-food, on sale and discounts and consistently compares prices.”

The change in consumer behavior further hits the economy as a whole. Growing unemployment, increasing inflation, “freezing” or even decreasing of wages, the decreasing of purchasing power, bad economic situation are facts that affect the consumers in almost all national markets. As long as people are reading more about economic crisis and as long as the press is focusing in reflecting the crisis effects, there is a psychological effect with negative impact on consumers (Amalia and Ionut, 2009). More often than not, consumers react aggressively to any change in the economy and entirely change their buying behavior to counteract the negative effects of the economic crisis.

Technology adoption and the recession are two key factors that have likely impacted consumer’s definition of necessity (Rodrigues 2009). Due to expansion of information technology and the Internet, information is now cheaper and available to almost all consumers. It is no wonder, that more and more consumers are buying online and online services and social media have become the main source of information. Smart shopping needs to be mentioned as many consumers more often look for bargains. On the other hand, consumers are less likely to visit entertainment centres, eat out, etc. and they incline to stay at home and spend time there.

As a consequence of all the economic changes, several new trends in shopping behaviour were set in Retail & Consumer Insight (Kantar Retail and PricewaterCoopers 2010). They concluded that the economic recession has caused many changes that led to a new type of consumer behaviour. The wasteful and impulsive behaviour was replaced by the rational, responsible and socially acceptable one.

5. CONCLUSION

Consumer buying behaviour is characterised as a bundle of decision-making processes, which are influenced by a range of internal and external factors. However, as the literature suggests, there are several influential factors recognised that alter a usual and common purchase decision, one of the most prominent being the external economic environment.

The negative effects of the economic crisis can be observed to hit the overall purchasing behaviour of different consumers as both planned and unplanned buying behaviour are significantly affected, which further changes their buying pattern. Considering the damage caused to the daily routine of consumers that runs like a well-oiled machine otherwise, the remedial actions they take to recover and stabilize their functioning through changes in purchase decisions has marketers and strategists reeling from their impact.

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