Changes in Consumer Behaviour During an Economic Crisis

Ştefura Gabriela  
“Alexandru Ioan Cuza” University of Iaşi  
gabi.stefura@gmail.com

Abstract  

In times of recession, consumers have a pronounced tendency to modify their current buying behaviour, due to the financial problems which come along with an economic crisis. They become more selective and focus only on what they think it is essential in order to survive.  

This paper aims to create a theoretical framework around the changes made by consumers in their behaviour during or after an economic crisis. The information gathered may be useful for theoreticians in the marketing field, but also to companies who want to adapt to the new market.

Key words: consumer, behaviour, recession, changes  
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1. Introduction

Economic crises have been a point of instability for many times and caused important changes in entrepreneurs and consumers lives.

Consumers have reported different behavioural modifications regarding their shopping behaviour, a very important field of study, especially in the last few years, when the economic situation had suffered dramatic changes all around the world.  

This paper is built around the theoretical considerations found in the speciality literature regarding the subject of consumer behaviour during and after times of recession.

In the second part of the paper the phenomenon of economic crisis is described, along with some practical implications. The third part regards some influences of the behavioural change among consumers and the fourth gives some insight about the types of behaviour adopted during or after an economic crisis.

2. What is an economic crisis?

An economic crisis refers to the situation in which the economy of a country suffers a fall caused by several financial factors: a decrease in the GDP, increased inflation etc. The economic literature also reminds about the term “financial crisis” which describes “the situation in which the supply of money is outpaced by the demand for money [10, p. 100].”

Hemming, Kell and Schimmelpfenning remind about the different forms that a financial crisis might take [3, p. 3-4]: currency, debt and banking crises. They also emphasize on the fact that the most recent economic crises have affected all of these domains.

All financial crises had a certain starting point and so has had the latest global crisis and may be the most challenging one in the last 20 years. Specialists place the origin of the global economic crisis in the US financial market, especially in the excess of housing credits [4]. The sudden fall in the US financial market affected soon the economies of the other countries, the labor market, the currency, in short, the stability of the world economy.

The most severe consequences of the financial crisis could be seen in the growth of the unemployment rate, the bankruptcy of many financial institutions and companies from different economic sectors (automotive, commerce, retail etc.), the growth of the external debt of already economically unstable countries. All of these have been the determinants of a decrease in consumption and, consequently, a change in the buying behaviour of all types of consumers.
3. Influences of the behavioural changes

Due to the negative economic environment, the majority of the consumers have cut down on expenses and will continue to do so [1], until they will be able to feel some stability regarding their finances.

During the recession, but mostly after, the purchasing behaviour of all types of consumers suffers some dramatic changes (from the companies’ viewpoint) and these changes are determined by a series of important factors.

Pop and Roșca and Perrison et al. think that the most obvious factor is represented by the uncertainty of the future [7; 6]. During the period of recession, many unexpected changes bring to the consumers a feeling of insecurity, they doubt about the nature of the upcoming events and, so, they become much more careful when dealing with certain expenses.

Perriman et al. divide the factors of influences in two categories[6]: internal and external. Internal factors refer to psychological and personal characteristics of consumers. Personality, attitudes, motivation have a great importance in making a purchase. All of these may be affected in a certain way in times of economic distress, maybe more than all the other factors and it can be very difficult to change the psychological effects of the financial crisis.

External factors are related to the changes that consumers are forced to make by the environmental influences. These do not depend on them and are very difficult to control.

The authors also underline, as an influencing factor, the experiences that consumers had during a period of recession. And so, they become more demanding and expect more from the marketing environment, after the recession has passed.

The job insecurity is stressed out as an important factor in determining consumer behaviour during or after recession [11]. The job security variable is negatively correlated to the increase of consumption. As the job market is very unstable, the unemployment rate is very fluctuant (especially rising), the companies have less and less profit, consumers feel unsafe regarding their employment and become cautious when making expenses. In case of the job loss, the income is visibly smaller and consumers must adapt their consumption behaviour.

To better synthesize the influencing factors of behavioural change, during or after a recession, the most important are [1]:
- Housing market depreciation;
- The growth in credit interest rates (and mortgage);
- The decrease in saving funds;
- The increase of prices;
- Job insecurity.

4. How consumers behave in times of recession

The financial crisis has determined consumers to revaluate their own beliefs and attitudes towards buying [6]. They become more rational, more careful with what they purchase [1; 7; 8].

In general, the purchasing behaviour has been significantly different, in all sectors, in proportion of 34%. Only 7% of the consumers hadn’t made any special changes [8].

In a study made by Booz&Comp. in 2008, the main conclusion withdrawn was that mostly all of the consumers have significantly reduced their expenses and will continue to do so until the market will be more stable [1]. They underline the fact that the most affected activities are leisure, shopping and driving. Consumers spend and will spend more time at home, will drive less and shop with caution. Many people expect their savings and income to decrease and debts to increase and they become more pragmatic.

Another study [8] brings into discussion the development of a new trend on the market: practical consumerism. Consumers, forced by the economic situation, now choose products or services with more caution, they think twice before buying, giving up on impulsive buying. Now, they are selective and take advantage on promotions, discount coupons and all the methods that help them save money.

Zurawicki and Braidot identify two types of reactions among consumers [12]: reactive and proactive. The reactive reaction comprises the adaptation of the consumption. Consumers give up on or postpone some expenses that are not necessary, they
revaluate their own needs by changing their priorities. Now the basic needs take the lead in most of the consumers’ lives.

The proactive reaction refers to temporary measures such as the liquidation of assets, using the savings, different types of credit or finding a second job or, the extreme, taking in account illegal activities.

Consumers now spend more time when searching for information before actually buying an item [8; 7], sustained by the fast development of the technology and communication methods. They evaluate more alternatives and get help especially from the Internet, sometimes a good and very cheap environment for shopping [8.].

Goodell and Martin think that the changes in consumer behaviour happen very fast in times of recession [2]. Also, they state that recessions do not affect people in the same way. The effects can be direct and indirect or financial and psychological. The main reactions of the consumers are described below:

- Consumers defer major purchasing decisions;
- Consumers are more price-sensitive;
- They can be resistant to the attempt of the companies to reinstate pre-crisis prices;
- They can temporary give up on buying from the usual place or person, due to budget constraint.

The financial crisis has determined consumers to pass from an extravagant lifestyle to a restrained one, by minimising expenses and buying only what is absolutely necessary [8; 12].

Latham and Braun discuss about four types of consumers that manifest during a period of recession [5]:

- Substituting (who are looking to replace a product or service with a similar one, but cheaper);
- “Satisficing” (who search for adequate solutions in the absence of ideal ones);
- Reducing (who decrease the consumption of a certain product, because they cannot/will not totally give up on that product);
- Negotiators (who search to renegotiate certain aspect of the existing commercial relationships: a price reduction, extra services etc.).

The specialists from PriceWaterhouse Coopers think that in the near future, consumers will not concentrate on buying premium products, they will start to look for the best deal in matters of quality and price [8]. They also affirm that even though the economies will fully recover, the consumers might not reinstate the pre-recession behaviour.

Zurawicki and Braidot discuss about a change in the lifestyle of the consumers, which can be, in many cases, a permanent one [12]. That is why companies should reassess their marketing strategies in order to be able to conquest the new market.

The recession might be a good opportunity for companies to reinvent themselves [6], to respond to the new needs and expectations. Understanding consumer reactions can be very helpful in predicting the changes related to certain expenses they will make [12].

Reeves and Deimler advance some basic pieces of advice to be taken in consideration by companies [9]:

- Introducing new types of services;
- Adopting new price strategies;
- Entering new markets;
- Searching the best ways to gain competitive advantage.

No one can guarantee that following any specialist advice will bring automatically success and profit for a company, but the safest way is to make appropriate changes.

5. Conclusions

The economic chaos from the last 2 to 3 years was not very different from any other time of recession, but as it acted at a global level, more people were and still are affected by its consequences.

Due to financial problems (job loss, increasing debt, price fluctuation, inflation etc.), consumers were forced to change their priorities regarding purchases and now focus only on what is truly important. This change in consumer behaviour should influence to companies to reassess their strategies on the market, in order to survive these hard economic times.
The speciality literature has very little information on consumer behaviour during economic crises and this is a very important topic of research. Also, a comparison between consumers from different countries could bring more light regarding this subject.

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7. References