MOVING FROM THE CRISIS TO SUSTAINABILITY

Emerging issues in the international context

Edited by
Grazia Calabrò,
Augusto D'Amico,
Maurizio Lanfranchi,
Giovanni Moschella,
Luisa Pulejo,
Roberta Salomone

FrancoAngeli

ECONOMIA - *Ricerche*

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PREFACE

Luigi Ferlazzo Natoli

The current serious economic and financial crisis affecting Europe and the United States makes it all the more necessary to identify innovative and more effective development policies, capable of assuring revival of the economic-production system and making it compatible with maintaining the essential level of State provided social services that citizens enjoyed in the XX century.

To this end, individual States, as well as European and international institutions, have been intensifying their efforts to emerge from the crisis and set in motion a virtuous process based on a new model of sustainable development.

An interdisciplinary and comparative approach was taken to various topics of particular interest and importance in the context of the current delicate international situation, which involves the political, economic and social institutions of individual States, as well European institutions, proposing original solutions for the economic-financial and legal problems faced by governments, business people and citizens-consumers, along with effective models of sustainable development. The aim is to respond to the difficult challenges posed by the crisis, with development policies capable of safeguarding the foundations of the Welfare State, while, at the same time, not compromising development opportunities for future generations.

Part I
ECONOMIC CRISIS: EFFECTS AND REMEDIES

CHANGES IN CONSUMER BEHAVIOR AND MARKETING STRATEGY AS A RESPONSE TO ECONOMIC CRISIS

Alina Filip[1]

Abstract: The present paper aims to highlight major trends in consumer behavior during economic crisis and consequently, how marketing strategies should be redesigned to meet new needs and demands. The low level of consumer confidence in economic recovery, their negative expectations regarding future revenue and perceived risks relative to possible layoffs generates a high psychological pressure on individuals, which react by changing buying behavior from impulse purchases to more prudent and rational buying choices. In recession many companies opt for an assortment selection strategy, withdrawing from the market those products that record a continuous decline in demand. A price reduction is probably the most likely decision, but it has to be properly managed taking into account long term consequences. Intermediaries who underperform are likely to be eliminated and distribution is mainly focused on discount stores. Investments in advertising and other promotional activities become more efficient due to lower costs of exposure in mass-media and a week pressure from competitors' campaigns.

Keywords: Economic crisis; Environment changes; Consumer behavior; Marketing strategy; Business adaptation.

1. Introduction

Economic crisis has become a global phenomenon affecting many different countries and industries in Europe and worldwide. Business and social environment are changing in the context of increased macroeconomic uncertainty,

[1] The Bucharest Academy of Economic Studies, Marketing Department, Bucharest, Romania (filip.alina@gmail.com, alfilip@ase.ro).

both consumers and companies having to adapt their decision-making processes in response to more difficult market realities.

The raise of unemployment and inflation rates, the considerable drop in purchasing power mainly due to the reduction of people income, increasing indebtedness of individuals as a result of the depreciation of national currencies and excessive lending, have all adversely affected consumption levels for the vast majority of products and services. Although the economic crisis does not affect all industry equally, the decrease in demand being much more visible in some sectors than in others, recessions certainly bring significant changes in the global and local business environment [1]. Because every organization is a product of its external environment, changes occurred during economic crisis will most likely influence business performance and in specific cases will even determine firms' survival. Consequently, organizations need to co-evolve with their environment [2], to permanently monitor and adapt to new economic, technological and competitive environment realities, in order to ensure business stability, long-term market share and greater economic benefits.

The present paper aims to highlight major trends in consumer behavior during economic crisis and consequently, how marketing strategies should be redesigned to meet new needs and demands. The research is fundamental in nature and builds on existing literature in an attempt to delineate the main lines of actions recommended for companies in times of recession. The paper is structured in two main sections. The first consists of an analysis of the global effects of economic crisis on consumer behavior and their actual consumption patterns. Based on the trends identified at demand level, next section focuses on firms' reactions to these new market conditions, by taking into account the managerial implications on business performance, as a consequence of the changes occurred in buying behavior. In response to economic crisis businesses are likely to adapt their marketing strategies and to redesign the product, price, place and promotion tools to meet the needs and requirements of more rational consumers and thus to achieve their satisfaction and loyalty. The paper brings contribution to marketing theory in an attempt to highlight which are the necessary changes to be implemented at the marketing strategy level, so as to provide an appropriate business response to economic crisis.

2. Global effects of the economic crisis on consumption and consumer behavior

The actual financial crisis has its beginning in the United States of America and was mainly determined by over-consumption and excessive lending [3]. Due to globalization, crisis has spread in many countries and few industries remain unaffected by these phenomenon. Economic crisis has adversely affected people income at both individual and household levels, many governments especially from countries severally affected by recession, taking measures to reduce citizens' wages, dismissing in the same time a large number of employees from the public sector.

Romanian government, for example, decided to decrease the wage income of every employee in the public sector by 25 per cent. This measure was introduced starting with June 2010 and was applied over a period of six month. People have been affected both economically and psychologically, taking into account that in many Romanian families there was at least one adult working in the budget area. The public sector in Romania is one of the most oversized relative to other EU countries and according to national statistics, in May 2010, the number of public sector employees was 1.38 million, representing 32% of the total number of employees in the economy [4].

Moreover, the confidence level of Romanian citizens have been affected even in a greater extent when one month later, the VAT was increased from 19 to 24 per cent. This measure was highly criticized in the local and international media, as it generated significant increases in prices, affecting even more the purchasing power of individuals. Measures have continued in the same period with establishing higher rates for indirect taxes and also with the taxation of different categories of incomes which until then had not been taxed [5]. Although not as severe as in the case of Romania, a number of anti-crisis measures to reduce public sector expenditure or budget deficits and to increase the VAT, have also been taken by other European governments from Greece, Latvia, Spain, Portugal, Finland etc.

Politicians have tried to present these kinds of decisions and actions as being painful for citizens, but necessary from a macroeconomic perspective. However, the real effects of the economic crisis on consumption and consumer buying behavior are difficult to estimate with high accuracy. This is due to many differences existing between individuals, not only related to demographic and income characteristics, but especially with regard at their psychographic profiles, in terms of risk perception and uncertainty aversion.

In the marketing literature different authors stated that during recessions consumers adapt their shopping behavior, habits and consumption patterns to be able to adjust to the changing financial conditions and they certainly behave differently compared to situation of economic growth [6]. Therefore, the low level of consumer confidence in economic recovery, their negative expectations regarding future revenue and perceived risks relative to possible layoffs generates a high psychological pressure on individuals, which react by changing buying behavior from impulse purchases to more prudent and rational buying choices.

The decrease in consumers' propensity to spend on goods and services translates in quantitative terms into a smaller number of items purchased, the demand for many products and services recording a visible decrease, with great differences from one industry to another. The car industry and many services sectors like tourism, hotels, restaurants, air transport are likely to be most seriously affected then retail or grocery store chains because regardless of economic difficulties, people will make efforts to satisfy their basic needs and, for instance, will never completely stop purchasing food and other product for the strict necessity.

In consequence, being affected by the economic crisis, consumers are generally reacting by reducing wastefulness, spending less for dining out, leisure activities and for buying clothing or accessories [7]. For example, according to the Romanian National Institute of Statistics, in the second quarter of year 2010, in average a percentage of 41,4% from a Romanian household budget was spent on food products, 15,4% on utilities and only 1,5% on hotels, restaurants and coffee shops. Small percents were also recorded for other services like communications (5,1%) or recreation and culture (3,6%) and also for furniture and appliances (3,9%) [8].

The principal change in consumer behavior during crisis is most likely related to a significant increased of price sensitivity, the cost performance of the product being an important selection criterion. Besides price, the effectiveness and durability of products are also supposed to have a high importance in making buying decisions. Thus, products costs and functionality are carefully evaluated by consumers and decisions are made based on larger amount of factual information. Accordingly, purchase decision-making processes become more complex and lengthy due to more detailed analysis of each product advantages and disadvantages. Information search involving comparing prices, content and product benefits across brands will be more intense during an economic crisis and this arise from aversion to risk and greater uncertainty avoidance [7].

Even in those sectors where the global demand does not record significant declines, in times of economic downturn companies can expect a certain change in the market share held by different brands. Thus, if in the case of luxury goods and services, demand is exposed to drastic decrease, for more essential products such as food, cloth, health-care, cosmetics or personal hygiene products, demand will be less affected, but the general trend showed by consumers is to switch to cheaper brands, usually from better-known to lesser-known brands [9]. Depending on the severity of economic downturn, consumers switching behavior may occur in many steps. For instance, in a first phase consumers may move from premium to challenger brands and in a second phase, as crisis worsens, consumers will most probably choose generic products. However, buyers don't behave in the same manner regardless of the product category. Switching behavior is less likely to occur for those products and services with a high perceived risk or relationship ending costs, like financial-banking services [7]. The same is applying to strong equity brands which provide consumers with multiple guaranties and a sense of security. During economic crisis, some individuals may become more conservative and take fewer risks, favoring stronger brands and firms [10].

A general conclusion regarding consumer buying behavior is that in countries severely affected by economic crisis, consumers tend to become more price oriented, but some of them will also take into consideration attributes such as product durability and value for money, the product life-cycle costs or the product maintenance costs over the entire period of product usage. For instance, according to one representatives of Daedalus research group, Romanian retail market is increasingly influenced by store promotions, about 97% of buyers choosing the products on the selves by having in mind this criterion.

In terms of shopping behavior, price sensitivity translates into an increased purchase rate from discount stores or from supermarkets and hypermarkets that frequently make promotions or apply various other price reductions. Neighborhood stores are also searched by consumers who aim to decrease additional transport or time costs. Consumer rationality is also visible in the search for information process and in the analysis of promotional messages sent by companies through different communication media [6]. Due to financial difficulties and uncertainty feelings, individuals tend to prefer more informative or factual messages and in a lesser extent the image-based advertisements.

All these changes that occur in consumer buying behavior in times of economic difficulties will certainly influence company performance and its market position. Consequently, marketing strategies must be periodically redesigned to better adapt to changes of consumption and people purchasing patterns during recessions.

3. Business adaptation and changes in marketing strategy during economic crisis

Once faced with economic downturn, businesses react in different ways to new behavioral patterns outlined in the market, depending on their organizational potential and managers' risk-taking propensity. Most companies will consider the crisis as a significant threat and will adopt retrenchment, cost-cutting or rationalization strategies, while others will implement pro-active strategies, making additional investments and understanding the opportunity to increase profits and market share during recovery years [11]. At the marketing function level, these strategic decisions translate into different approaches and tools of implementation. During economic crisis, it is important that marketing strategies to be designed by taking into account not only the immediate consequences on business profits, but also the long-term effects on competitiveness and customer relationships. According to Roberts, marketing is one of the activities that organizations should invest aggressively in during recession [12]. The author's findings are consistent with PIMS (Profit Impact of Market Study) studies which show that businesses that continued investing in marketing and even increased their spending, did not make significantly less profit during recession. On the contrary, profits increased much faster after the recession by these companies, compared to the ones that cut their costs. However, this is not a general recommendation that can be followed by any company, the level of investments and its efficiency being dependent on both internal and external environmental conditions, such as organizational resources, firms' market share, competitors' power, product category, consumers' priorities and their specific behavior and many others.

In times of recessions, the market strategy of a company is expected to change as a response to more intense competition and decrease in consumers demand. According to Ang *et al.*, businesses should withdraw from markets in which they are weak in order to fortify markets in which they are a leader or strong challenger [7]. This applies mainly for those companies that have limited resources, whose products didn't gain a strong market position and are not differentiated by attributes valued by consumers during economic crisis. Such a change in the market strategy may facilitate a better managerial focus on core competencies. This decision is also supported by the fact that under recession, brands with maintaining or developing potential are either generic products, either brands with a strong image. Another strategic option is to penetrate new and profitable external markets; this is valid especially for those organizations affected by economic downturn on their domestic markets.

Regarding the *product policy*, as consumers are buying necessities and have a tendency to migrate to generics or cheaper brands, in recession many companies opt for an assortment selection strategy, withdrawing from the market those products that record a continuous decline in demand, in order to allocate scarce resources to brands that can generate higher sales and profits. Organizations who decide to launch new products should prioritize sustainability, functionality or durability features requested by consumers and augment products with additional warranties, starting from the premise that these characteristics are consumer priorities during economic crisis [6].

Introducing a lower version of a premium brand is considered an adequate strategy to maintain relationships with quality oriented customers and also to prevent and protect the business from future competition initiatives. In times of recessions, some buyers who are less risk exposed or have a lower uncertainty aversion will continue to spend on brands with a good image even if their budget will be decreased and better planned. Thus, launching second-line brands will aim to retain these customers, considering the positive association with existing brand and the advantage of buying a good quality product at a lower price.

Launching new product and extending existing lines is a strategic option with a lower frequency of occurrence during recessions, but if the company aims to achieve long-term economic benefits, it would be advisable to avoid reducing research & development efforts [13]. DeDee and Vorhies found that an increase in product development capabilities, and careful control over the types of R&D expenditures, were positively correlated to the change in the return on common equity [14].

A *price reduction* is probably the most likely decision during economic crisis in order to increase sales volume in a short time, but it has to be properly managed so as to avoid unfavorable effects on brand image and long-term profitability. Because during economical downturns, prices and costs are essential factors in consumers' purchasing decisional processes, companies are forced to do radical changes in their price decisions [15]. According to Ang *et al.*, in times of recessions, organizations could apply two main strategic alternatives, to charge the same prices for higher quality goods or to charge a lower price for the same quality product. The first option is focused on achieving customer loyalty through offering superior product value, with a fairly high probability of loosing unprofitable customers. Although in the short term, the organization can record a decrease in market share and profitability, this strategy may bring long-term image benefits; in recovery times, the company will more easily extend the line with higher profitability products. The second strategic option is developed with the aim of raising the company market share during economic downturn, in those markets with high competitive pressure. In this case, it can be more difficult for the firm to increase the price during recovery period and the brand image could be also adversely affected. Therefore, a better alternative to stimulate demand may consist of applying promotions or temporary price reductions. Charging lower price for lower quality is not a proper strategy that can ensure business stability in the future, because consumers are likely to perceive the product as being of poor quality, even after more improvements.

In terms of *distribution policy*, companies will have to eliminate intermediaries who underperform in order to reallocate resources to those channel members that record a greater profitability [12]. Efforts are frequently directed to discount stores and self-service retailers, due to consumer propensity to make a more detailed comparative analysis of the products at the point of sale. Another strategic direction is to identify alternative cost-effective channels of distribution, such as the Internet or other non-store retailing methods. The use of mail, telephone or door-to-door distribution may be used in combination with tradi-