

THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON CONSUMER BEHAVIOUR

By

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Abstract

Consumer behaviour is influenced by both internal characteristics and external factors that represent the environment in which the individual behaviour takes place. The recent Global Financial Crisis (GFC) is one such environmental influence that has had a strong impact on the behaviour of consumers.

There has been much research undertaken into the impact of the GFC. The majority of studies are revealing that this crisis has had a severe impact on the spending patterns of consumers. Whilst the GFC can be seen predominantly as an external influence, the psychological influence on consumers is also paramount. The GFC has forced consumers to question their beliefs and attitudes towards purchasing.

For companies, long-term strategies may be the key to future success. The marketing company that can treat and track the profound psychological changes in consumer behaviour may fare well as we move into post-recession times.

INTRODUCTION

The recent Global Financial Crisis (GFC) felt throughout the world has had an impact on the spending patterns of consumers as well as businesses. The model of consumer behaviour includes stimuli or major forces and events within the buyer's environment that affect the consumer's decision. The GFC is a major economic force that influences both the emotional and mental behaviour of consumers. Businesses should identify and understand how consumers will react to the difficult economic conditions within different cultures and economies.

How Has Consumer Behaviour Changed?

Studies undertaken by researchers into the impact of the GFC are revealing similar outcomes. Hermann (2009 p.1) stated in his Journal of Customer Behaviour that 'the current crisis is having a severe impact on consumer behaviour'. Aspects such as perceived risk, fear about buying, or hard tangible advantages become more important, while image and "nice to have" attributes move into the background. In this crisis, the customers' fear of the future strongly impacts their behaviour and is difficult to overcome. Of the four P's in the marketing mix - product, price, promotion and place, none emerges as a simple, effective means of overcoming customers' reluctance or refusal to buy. Hard value and cost benefits take on greater importance during a crisis. When times are tough, non-essential items start to feel the pinch. Companies that can offer hard value or cost benefits may be able to boost their sales, revenue and

market share. Willingness to invest falls dramatically during an economic crisis, but rapid savings become a priority for consumers.

The consumer that companies thought they knew pre-recession, can be almost unrecognisable. When times get tough, people re-examine old habits and brand loyalties. 'The rate of exchange can be phenomenal' says John Hayes, Chief Marketing Officer at American Express (Helm 2008 p.1). He goes on to say 'that in the past year alone consumers have far more negative perceptions of debt and spending on themselves' (Helm 2008 p.1).

While recent economic data indicates that Australia narrowly escaped a technical recession, consumer reaction to the looming threat of a recession over the past six to twelve months has been extraordinary. Nielsen's Global Online Consumer Survey conducted in April 2009, (Percy 2009) showed that almost two out of every three Aussies thought the country was in economic recession. The survey also reported that Australian consumer confidence levels have plummeted to an all-time low, driven primarily by concerns about the economy and job security. In response to these uncertain times, the average Australian consumer has changed their spending habits to make the value of their dollar stretch further. Consumers are watching their discretionary spending, eating-out less, entertaining at home more often, buying more private-label and shopping across banners to seek out the best bargains.

New McKinsey research undertaken into the behaviour of numerous US consumers following the economic downturn, has found that in any given category, an average of 18 percent of consumer-packaged-goods consumers bought were lower-priced brands in the past two years (Bohen, Carlotti and Mihas, 2010). Consumers are now learning to live without expensive products. Companies that are anticipating a rapid rebound in consumer behaviour – a return to normality, as after previous recessions, are likely to be disappointed.

The Consumer's Journey

Textbook theory on consumer behaviour posits that changes in the relationship between how much consumers are willing to pay, on the one hand, and their perception of the value they are receiving, on the other, underpins behavioural changes. Flatters' and Willmott's (2009, p.106) methodology into understanding the post-recession consumer used the approach that 'though recessions differ in their causes, depth and duration, and whom that affect most, it's possible to predict how consumers will behave post-recession by understanding how they've behaved in previous recessions; how this compares; and how their past experience will affect their response this time'. Flatters and Willmott used this approach based on two decades of consumer trend forecasting and analysis, to advise global companies on the recession's likely impacts on long-term consumer behaviour. Although the recent GFC was not as catastrophically deep and enduring as the Great Depression of the 1930s, such downturns shape the mind-set of whole cohorts of consumers and have a long-term impact on buying

behaviour. Most observers, including the IMF, the World Bank, the Organisation for Economic Co-operation and Development and nearly all private forecasting agencies, agree that the current recession is likely to be the most severe slowdown since the Great Depression and will affect most markets and consumers in all economic strata.

Consumers 'Hop' Around for Best Value for Money

The GFC has had an incredible impact on the way Australian consumers shop for groceries. A growing trend to have emerged in the past year has been the growing number of shoppers 'supermarket hopping'.

In order to get the best value for their reduced income, consumers are shopping around for the best bargains and increasingly splitting their grocery expenditure across at least four different retailers. Nielsen's Homescan data

(Percy 2009) showed that an extra 270,000 households are shopping across more than four banners compared to the previous year. In response to this, we are seeing a significant push by the major retailers to drive loyalty to their store such as Woolworths recent linkage with the Qantas Frequent Flyers programme and Coles major media campaign launching its new slogan 'Coles, it all counts'.

As consumers shop across supermarket chains in search of the best value, specialty retailers have been feeling the pressure to compete.

Nielsen's 2008 Shopper Trends Report (Percy 2009) describes a decline in shopper penetration and patronage for specialty food outlets (fish shops,

butchers, bakers and green grocers), with financial concerns cited as the primary reason. There has been a fairly dramatic consumer shift away from quality being the top priority. Figure 1 illustrates the customer shift away from speciality outlets over the 2007/08 year.



Figure 1 Source: Nelson Consumer Shopper Trends Report 2008

Retailers are increasingly introducing low priced private-label ranges onto their supermarket shelves. The private-label product is becoming an attractive alternative to the price-sensitive shopper during periods of economic downturn. In a Nelsen online survey conducted in April 2009 (Percy 2009), 56 per cent of consumers said they were switching to cheaper grocery brands during the economic crisis and around one-third said they would continue to purchase cheaper grocery items even when the economic downturn improves.

The Challenge for Businesses

Flatters and Willmott (2009) identified four key trends for businesses resulting from the affects of the GFC:

A Demand for Simplicity

Downturns are stressful and typically increase people's desire for simplicity. Even prior to the downturn, many consumers were feeling overwhelmed by the profusion of choices and 24/7 connectivity and were starting to simplify. This trend will continue to accelerate through the recovery into the long term. Unlike consumers in previous recessions, who greeted the return of financial stability with a buying spree, consumers will continue to buy simpler offerings with the greatest value.

A Call for Ethical Business Governance

The financial crisis has put spotlight on corporate governance in that misbehaviour that boards might get away with in good times arouses the ire of customers and regulators when the economy goes south. Like the simplicity trend, the focus on the boardroom has been building for years, spurred by the notorious governance failures at companies like Enron and WorldCom early in the decade. In recessions, people seek to punish the perceived sources of their dire circumstances; in good times disciplining bad business as a lower priority.

A Desire to Economise

Though some consumers have no choice but to be thrifty, increasingly many affluent consumers are economizing as well. Research undertaken by Flatters and Willmott (2009) among affluent consumers have revealed mounting

dissatisfaction with excessive consumption. The recession has made discretionary spending acceptable – even fashionable. This trend should regain momentum over the long term as consumers continue to find personal and practical satisfaction in it.

A Tendency to Flit from One Offering to Another

Easy access to information and friction-free purchasing is making consumers ever more agile and less loyal. Technology and social-network-enabled shopping strategies will allow this trend to pick up steam will into the recovery and beyond.

These growing trends make challenging times ahead for businesses. The results of the survey conducted by McKinsey (Bohen, Carlotti & Mihas 2010), is ominous for firms that depend on premium pricing, particularly those that sell products with little scope for differentiation apart from price. Looking ahead, firms need to better understand consumer's motivations for their purchases.

Critical Analysis of Research Findings

Consumer purchases are strongly influenced by two groups of factors (See figure 2 below). On the one hand there are internal characteristics that determine behaviour – psychological and personal. The other influences are external that represent the environment in which the individual behaviour takes place.

The study of economic psychology or the “human” side of economic decisions began with the pioneering work of George Kantona (Solomon 2009). Kantona's work studied how consumers' motives and their expectations about the future affect their current spending. Consumers' beliefs about what the future holds are

an indicator of consumer confidence, which reflects the extent to which people are optimistic or pessimistic about the future health of the economy.

The research findings into the impact of the global financial crisis reveal that whilst it is predominantly an external economic influence, it may also be found to have a strong social impact on consumers. It may be said that the GFC has forced consumers to question their beliefs and attitudes towards purchasing. The most difficult part for marketers after a crisis like this is understanding what is going on in the consumer's mind.

For companies, long-term strategies may be the key to future success in the marketing environment. Mark Choeuke in his 'Marketing Week Journal' (2009) predicted that when we exit out of the gloom times, consumers may consciously decide not to drop all of their new habits and revert back. A growing number of consumers are 'shopping around for a bargain' and this was evident in the findings of the Nielsen's Homescan Research (Percy 2010). Loyal customers may become more prominent elements of the marketing mix going forward.

It may however not be all doom and gloom. News Chairman and chief executive, Europe and Asia, James Murdoch's advice to marketers is 'to shape up and stay fit' (Jack 2009). The economic crisis may be an opportunity that favours the brave and the chance for firms to reinvent their brand to the consumer's changing needs. The answer may not always be better prices, but better value for money and the right promotion and incentives.

The GFC hasn't so much as put an end to consumer's indulgences for socially conscious consumption, but rather propelled some consumer trends forward. A demand for simplicity appears to be the maturing trend that has been accelerated by the recession. This trend will continue to accelerate through the recovery into the long term.

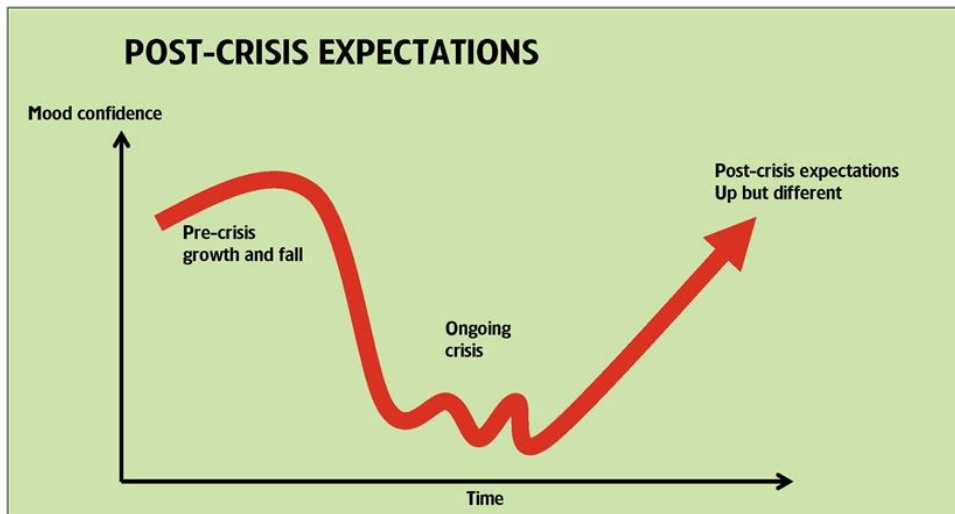
The question for marketing firms is 'is the impact of the GFC prevalent in all countries in the world?' The answer may be 'no' and that firms need to adjust their marketing messages carefully, for each region, turning up or down the focus on the economy and price depending on anxiety levels. According to data from the Ipsos Global Advisor study (Marketing Week 2009), countries including US, Britain, Brazil, Russia and China reported a drop in consumer purchases. However in other countries including Netherlands, Sweden and Germany, consumers have remained reasonably confident throughout the GFC. This may be because the recession has not yet had a massive impact in these nations or because culturally, cutting back on food is not a personal priority for people in these areas. It is apparent that both demographics and cultures continually need to be considered by international marketers at all times including recessions. While this information is important in good times, in a recession it can mean the difference between making a profit or loss.

Areas for Future Research

A psychological approach

Research undertaken by Peter Cooper (2010) offers insights into the mental and emotional behaviour of consumers towards the GFC and the role of marketing in reflecting the optimism of people for post-recession in the US and Great Britain. Cooper's findings indicate a moving towards new marketing research to help lead consumers into the future. He further adds that 'consumers want to go beyond the crisis to a new reality'.

Figure 3 below illustrates the changes in consumer expectations from the before, during and after the financial crisis.



Source 'Money can't buy me love' Market Leader 2010

The scars of this crisis will be with us for some time, influencing the way consumers think and feel. New needs are evolving in which consumers are seeking new reality from brands and communication. Marketing firms need to create that future. Consumers have been and still are going through profound psychological changes. Firms need to treat and track that psychology. A new

segmentation has emerged based upon responses to the crisis that goes well beyond conventional pre-crisis targeting. Post-crisis consumers are looking for more from marketing – they are moved by more sophisticated emotions, a new morality and a new intelligence as a result of their experiences.

Other Trends Emerging

Research indicates that prior to the intensification of the credit crunch, there was an emergence of a growing sense of responsibility amongst consumers to the awareness of the need to manage the many risks facing them in life. It is expected that this trend will intensify and accelerate and the marketing businesses and brands that understand and respond to this challenge will fare well.

With signs pointing to the end of the recession leading into 2010, many analysts, economists and marketers have shifted focus into assessing the post-recession consumer. Most expect behaviours and patterns adopted by many during the recession will continue well into the recovery and beyond. Less consumption and a return to simplicity are already shaping as the dominant trends in the post-recession era.

Conclusion

The impact of the recent global financial crisis on consumer spending cannot be underestimated. Research has found that consumers' fear of the future strongly impacts their behaviour and that this fear is difficult to overcome. The downturn has increased people's desire for simplicity and has forced consumers to question their beliefs and attitudes. Future marketing research may have a role to play in helping consumers to seek new reality after the GFC.

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