

Impact of recession on buying behavior of Indian Consumers

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The paper focuses on the impact of recession on the buying behavior of consumers during recessionary times. The study was conducted on a sample of 50 retailers in Navi Mumbai. The data was subsequently analyzed and the results that came out were in accordance with what was expected by the researcher. The results indicated that Hypermarkets, supermarkets witness a greater change in shopping behavior than the kirana stores. They were also suggestive of the fact that the type of retail format would adversely affect the footfall of consumers for luxury items. The authors were also ascertained that the customers who shop frequently are more likely to respond to discounts vis-à-vis others. The findings recorded showed that the customers who shop frequently are more likely to spend a higher amount for shopping. It was also revealed that customers who shop more frequently are likely to witness higher fluctuations for luxury items than for regular items. It indicates, therefore that shopping for luxury items faces more fluctuations than regular shopping items, which indicates that customers shopping for luxury items may be postponed in times of recession but they continue to shop for regular items.

Key Words: Buying Behavior, Recession, Indian Consumers, Retail

1. Introduction

Over the last few years marketers having studied the Indian organized retail sector have concluded that India currently is in the second phase of the retail evolution cycle. Indian consumers today have become more demanding with their rise in standard of living and changing lifestyles. The major factors that have fuelled this growth are the increase in disposable income of the people, improved lifestyles, increased international exposure and high awareness among the customers. These macro level factors alone cannot be held responsible for this spectacular market growth. Simply having the money to buy does not necessarily translate into an actual purchase. The Indian consumers have used the retail boom to their advantage. They now have many more options than before and exert their power of knowledge very well. The retail market in India has started looking up after facing slowdown with the financial crisis across the world markets. The inflation or the economic slowdown adversely affected the retail industry. With the suddenly disturbed economic status, consumers gradually lost interest on buying. The effect of recession on the demand of various categories of goods is not the same. The recession has not affected retailers dealing in essential commodities and the food sector. The most affected sectors are the home appliances, footwear and textile.

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The current economic environment is bad for most retailers, but it has particularly hit the mid-level and upper-middle level retail giants that have to still maintain inventory while many of their customers go discount shopping at clearance stores or at smaller chains.

Recession, however, has not affected all product categories equally. A few luxury goods like real estates, textiles, automobiles are strongly affected while most of the necessity goods have not experienced such a slump. The approach for coping with an economic slump depends on a product's category which varies according to a product's brand category. An increase in market share during recession is very difficult since every rupee matters, during this time to consumers and this leads them to use greater discretion while making purchasing decisions. They refrain from trying new brands and tend to stick with brands they trust. As a result, businesses often find it difficult to position their brands in a market during a recession. But despite these difficulties, business can gain success if they position their brands keeping in mind their product brand category and the expectations of their consumers. The present study tries to study the purchase behaviour of consumers for aspects like frequency of shopping, footfall of consumers for luxury items, response to discounts, higher spending and frequency of purchase for luxury items for various retail formats.

2. Literature Review

Despite the global economic recession, Indians seem to be quite confident of the economy picking up in the near future – they have a firm belief that the global recession will have a limited impact on Indian economy due to large domestic consumptions. Though, the recession has had some impact on Information Technology, real estate and manufacturing sectors still economists are of the opinion that India will not suffer a great impact. Most Asian economies are models of prudence, unlike American and European households where borrowing is up to the hilt. Asia's emerging economies have witnessed their GDP growing at an annual rate of 7.5 percent over the past decade, two-and-a-half times as fast as rest of the world. In a recent study, A.T. Kearney's Global Retail Development Index 2008 suggested that India is still the best investment destination for the retail sector followed by Vietnam.

A few large corporate houses involved in the Indian retail sector have planned to go ahead with their expansion strategies as per the schedule, despite the world financial turmoil. The Consumer Confidence Index study (2008) further revealed that while Indians' intentions to spend on personal comforts such as new clothes, home improvements/ decorating, technology products are stronger than the global average, their intention to spend on holidays and out of home entertainment is much lower. In a nutshell, this indicates a general tendency among Indians to lead a comfortable day-to-day life by cutting out the frills. For the marketers, investment in brands today is necessary to secure brand loyalty for better times ahead. Ken Favaro, et.al (2009) is of the view that the retailers should use the following five rules for retailing in recession times. But even in these tough times, retailers may win new business and gain customer loyalty by focusing on people who are not their best customers but yet by making sure they offer what those customers really value and demand. The five rules as suggested by Ken Favaro to gain market share and protect margins are as follows:

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1. Focus on customers who are loyal neither to the firm nor to their competitors.
2. Close the gap between the customer's needs and the current offering.
3. Reduce the "bad costs", those producing benefits customers won't pay for.
4. Cluster the stores according to local similarities and differences in customers' needs and purchase behavior.
5. Retool the processes – customer research, merchandise planning, performance management, strategic planning to position the company in a much better manner.

2.1 Retail Pricing Strategies in Recession Economies

A recession economy can cause severe price destruction and can force retailers to react strategically. Resource abundant firms may use a predatory pricing strategy to maintain their predominant position in a market, but resource-scarce firms must join the price destruction war. However, even for the wealthiest firms, aggressive pricing may not be the solution for success in a recession economy. Many studies have pointed out that the overuse of price as a promotional tool may damage the prestige of the brand (Chapman and Wahlers 1999). It is dangerous for firms to rush into price competition without considering the possible side effects (i.e., the consumer perception of the quality of products or services). Firms need to consider both internal and external influences on pricing when forming a sustainable strategy to cope with price destruction.

2.2 Internal Influences on Pricing

To deal with the price destruction caused by a falling economy, the most prestigious brands may be able to resist price attacks by competitors and preserve their competitive edge. Nevertheless, most companies need to participate in a price war. The most cost-efficient companies may be able to survive by driving the firms that are short on resources out of the market (Guiltinan and Gundlach 1996). It is understandable that resources, whether intangible or tangible, are the key for companies to outperform their competitors during episodes of price destruction. Thus, as stated by the resource-based school of thought, a resource-based view should replace the product-based view in marketing decision making (Wernerfelt 1989). A resource-based approach to marketing suggests that a long-term cultivation of corporate level resources and capabilities will bring the organization a sustainable competitive advantage (Barney 1986). Indeed, since the 1960s, models of strengths, weaknesses, opportunities, and threats have been widely applied to strengthen organizations' competitive advantage by promoting both environmental analyses and resource-based strategies. Firms make a constant effort to use internal strengths to seek external opportunities and to eliminate potential damages from outside threats. Firms are advised to select resources that are compatible with themselves and that enhance their capability in acquisition and cultivation in order to build up long-term competitive advantage.

2.3 External Influences on Pricing

Although the availability of organizational resources is an important perspective in the consideration of an aggressive or predatory-pricing strategy, the demand-side effects of

such a strategy are another concern. Most consumers are sensitive to price. As Mazumdar and Papatla (2000) note, consumers tend to use reference price as a supplementary guide for consumption decisions, in which price information is accumulated either from previous experiences or from comparisons made among available brands. As long as consumers use price as an index for shopping, firms can use price to influence consumer behavior. For example, Miller, Ogden, and Latshaw (1998) show how price can be used to trigger consumer behavior. In their analysis, they manipulate price and product features to influence consumers' preferences for an assortment of products. They find a negative connection between price level and willingness to buy. However, when a product features key values that fit with consumers' needs, firms can raise the price while keeping a preference for the product stable. Chaudhuri and Holbrook (2001) provide a similar observation that Brand affect resulting from a wanted hedonic value can increase loyalty to the brand and thus allow for more room for price to rise. Indeed, for a costly purchase, consumers tend to believe that a price is fair when they agree with it. To some extent, price can be subordinate to product worthiness in the consumption decision. In contrast, reference price can also be used to signal product quality (Teas and Agarwal 2000; Yoo, Donthu, and Lee 2000). Chapman and Wahlers (1999) report a positive link between reference price and consumers' opinion about product quality. Although a high-priced product (the actual price) can require a certain amount of sacrifice on the part of consumers, it is equally true that the higher the price (reference price) of a product, the greater is the esteem in which consumers hold the product. Therefore, perceived value is the trade-off between perceived sacrifice and perceived prestige. Yoo, Donthu, and Lee (2000) also observe that a frequent use of price deals results in an unfavorable quality perception and blocks brand associations and awareness. These findings echo traditional beliefs in brand management that consumer preference for a certain brand can be easily damaged after price promotion (e.g., Guadagni and Little 1983; Ogilvy 1963; Scott and Yalch 1980). However, a few studies oppose this assertion (e.g., Davis, Inman, and McAlister 1992). This inconsistency may be because of contingent factors that moderate the price-quality bond. As Hoch and colleagues (1995) demonstrate, consumer demographic variables, such as age, education, family size, and income, shows a much stronger impact on price sensitivity than competitive variables. To be insensitive to price suggests that these consumers tend to give more weight to other product values, such as quality or hedonic attributes, thereby weakening the connection between price and product quality. Raghurir and Corfman (1999) also report the role of industrial conditions and the use of experience in conditioning the use of price as a quality cue in consumption. They argue that price-quality bonds tend to be diluted when price promotion is common in the relevant industry.

3. Methodology and Research Design

The study is descriptive in nature wherein a survey was conducted of 50 retailers in and around Navi Mumbai. The sample size was limited to 50 retailers mainly due to the paucity of cost and time. These retailers were administered a structured Questionnaire which was designed to find out the change in sales during the year 2009 due to recession. The data collected was collected by way of convenience sampling.

3.1 Research Questions and Hypotheses

To accomplish this study, the following hypotheses were formulated, based on the literature review to ascertain the buying behaviors of consumers during recession.

H1: The type of retail format would positively affect a change in frequency of shopping.

H2: The type of retail format would adversely affect the footfall of consumers for luxury items.

H3: Customers who shop frequently are more likely to respond to discounts vis-à-vis others.

H4: Customers who shop frequently are more likely to spend a higher amount for shopping.

H5: Customers who shop more frequently are likely to witness higher fluctuations for luxury items than for regular items.

3.2 Limitations

The study focuses and emphasizes on a sample size of 50 in and around Mumbai due to the time and cost constraint. Since the area of study has only been Mumbai and also on a select sample of 50 the results may or may not be applicable to the other cities in India.

4. Discussion of Findings

The data collected was first collated into digital form. Quantitative Analysis was then done on the data collected using SPSS 12.0

Type of retail format The sample comprised of hypermarket, supermarket, departmental stores and kirana stores. It constituted more of kirana stores as shown in **Figure 1**. The various retail outlets in the sample included Pantaloons, Shoppers Stop, Spinach, Westside, Big Bazaar, Food Bazaar etc.

Footfall in FIGURE 2 means the number of people visiting these stores. It has been found that according to 72% of the retailers there has been a decrease in footfall. No change observed in footfall of kirana stores.

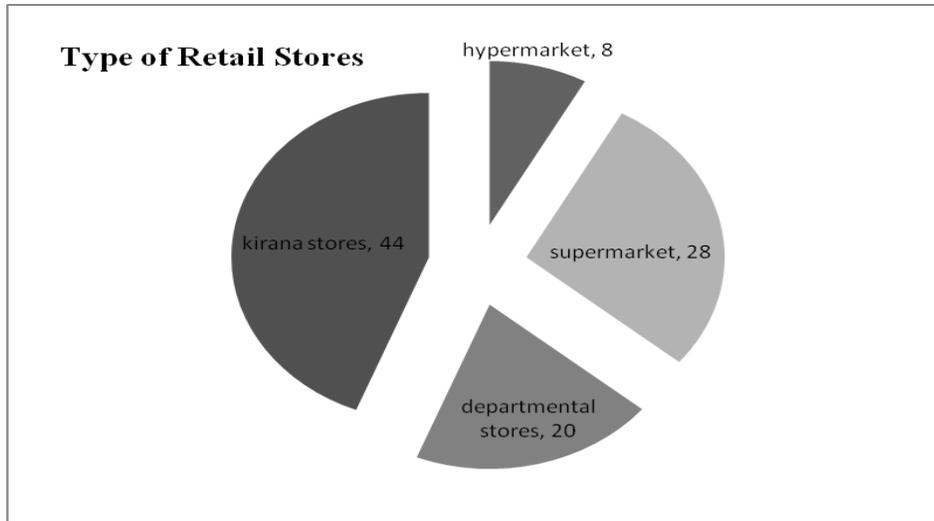


FIGURE 1



FIGURE 2

Frequency of regular customers in FIGURE 3 implies that most of the regular customers used to shop for more than once a week before recession.

Change in frequency of shopping as shown in FIGURE 4 suggests that 60% of the retailers found that their regular customers have been less frequent now for shopping. Hence people have changed their frequency of shopping.

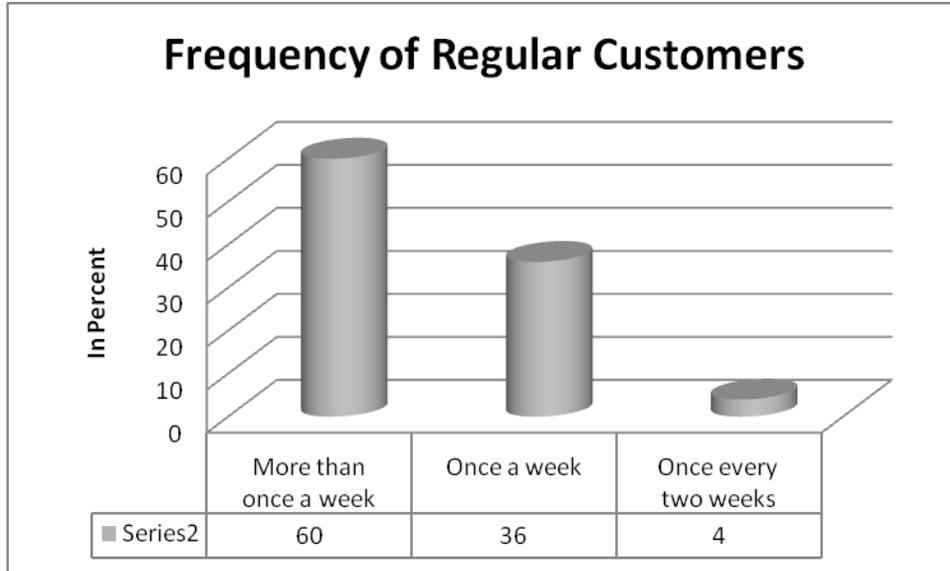


FIGURE 3

Change in frequency of shopping

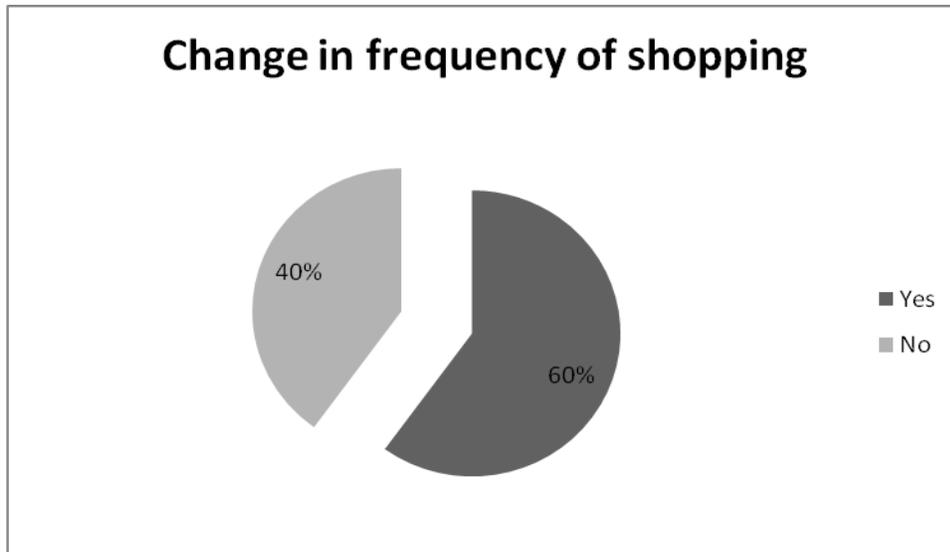


FIGURE 4

Customer response towards sales, discounts and schemes as in FIGURE 5 shows that most of the retailers find that their sale boosts up during sales, schemes and discounts. This is because people are cautious of spending money now.

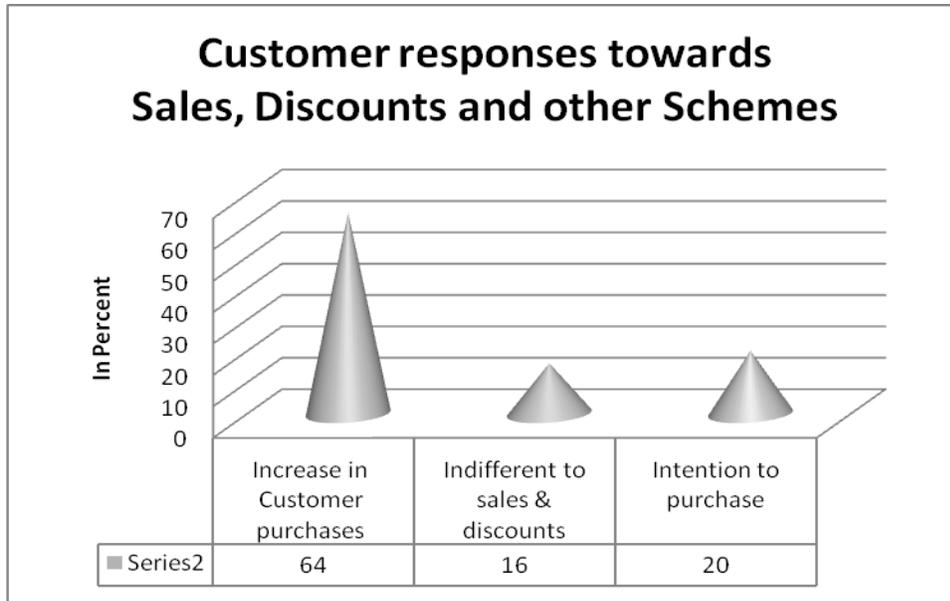


FIGURE 5

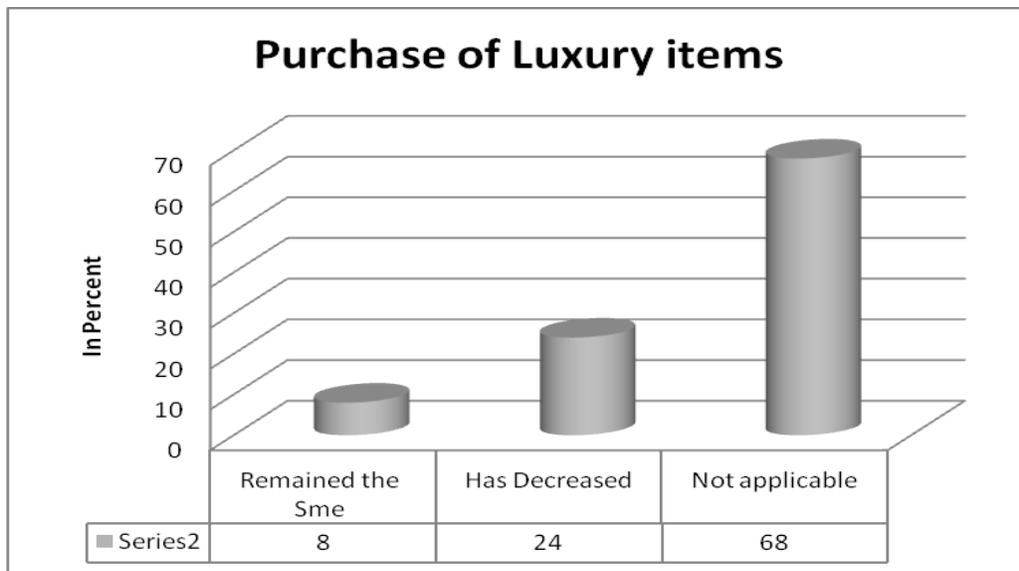


FIGURE 6

Purchase of luxury Items This is evident from FIGURE 6 that the sales of luxury items have decreased during the past few months. This shows that customers have cut their expenses on luxury items.

It has been found as shown in FIGURE 7 that 60% of the customers spend their money on household items. Customers spend their money on necessity items like grocery etc which means recession has not affected the sale of necessity items.

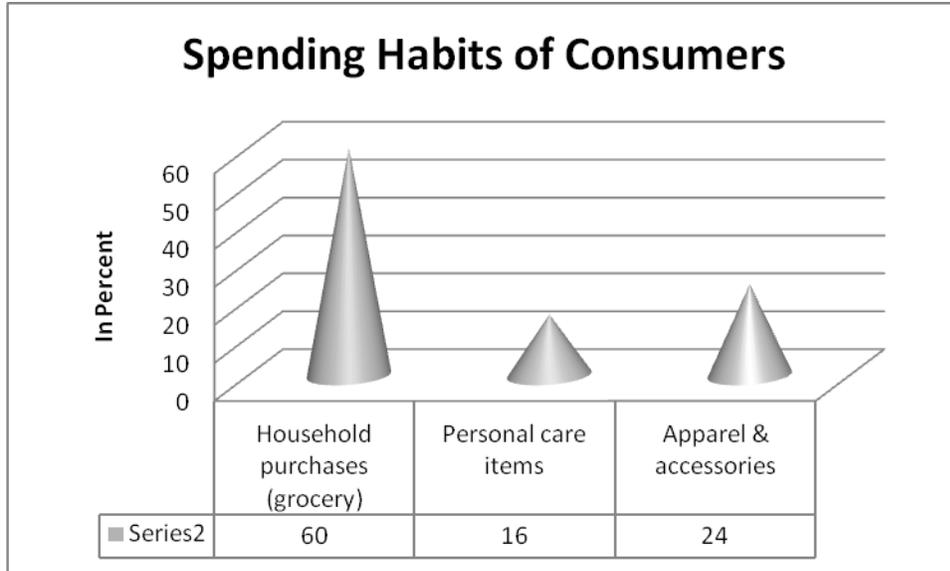


FIGURE 7

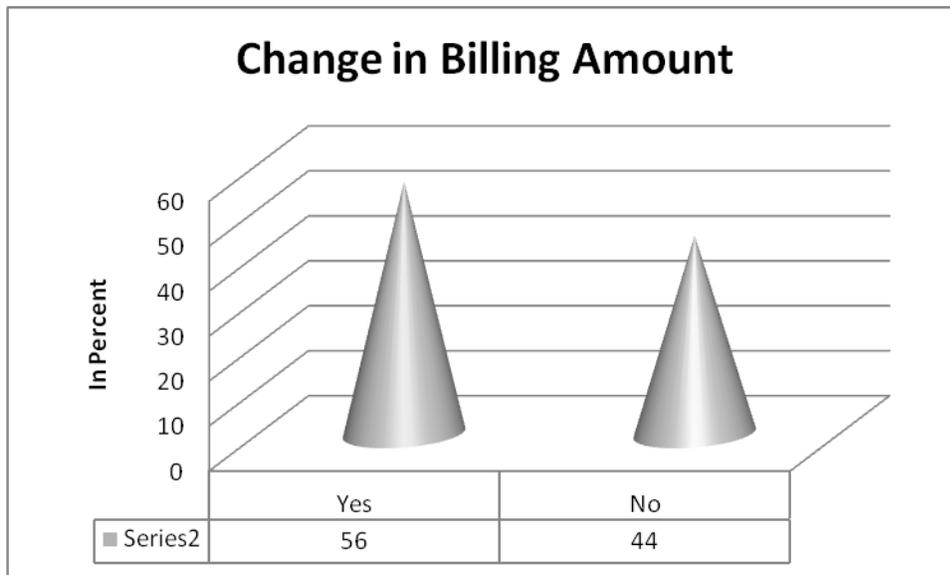


FIGURE 8

It may be observed from Table 1 that a very high positive correlation of 0.721 significant at 0.01 levels exists among the Type of retail format and the change in frequency of shopping. This suggests that Hypermarkets, supermarkets witness a greater change in shopping behavior than the kirana stores. Hence, Hypothesis 1 stands proven. Also the type of retail format has a very high negative correlation with footfall in consumers which has been estimated at -0.524 (significant at 0.01 levels). Hence, Hypothesis 2 is proved.

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Correlation Analysis: TABLE 1

| | Type | Business performance | Footfall | Frequency | Change in frequency | Response to discounts | Change in luxury items | Most spending | Change in billing amt |
|------------------------|------------------|----------------------|------------------|------------------|---------------------|-----------------------|------------------------|------------------|-----------------------|
| Type | 1 | -0.236 | -.524(**) | -0.206 | .721(**) | 0 | 0.26 | -0.093 | 0.158 |
| Business performance | -0.236 | 1 | .649(**) | 0.179 | -0.36 | -0.327 | 0.238 | -0.125 | -0.277 |
| Footfall | -.524(**) | .649(**) | 1 | 0.168 | -.764(**) | -0.23 | -0.161 | 0.051 | -.524(**) |
| Frequency | -0.206 | 0.179 | 0.168 | 1 | -0.2 | .509(**) | -.623(**) | .578(**) | -0.26 |
| Change in frequency | .721(**) | -0.36 | -.764(**) | -0.2 | 1 | 0.041 | 0.303 | -0.232 | .428(*) |
| Response to discounts | 0 | -0.327 | -0.23 | .509(**) | 0.041 | 1 | -.612(**) | .534(**) | -0.116 |
| Change in luxury items | 0.26 | 0.238 | -0.161 | -.623(**) | 0.303 | -.612(**) | 1 | -.649(**) | 0.137 |
| Most spending | -0.093 | -0.125 | 0.051 | .578(**) | -0.232 | .534(**) | -.649(**) | 1 | -0.291 |
| Change in billing amt | 0.158 | -0.277 | -.524(**) | -0.26 | .428(*) | -0.116 | 0.137 | -0.291 | 1 |

In case of Hypothesis 3 i.e. Customers who shop frequently are more likely to respond to discounts vis-à-vis others is proved since the correlation coefficient 0.509 found is highly significant at 0.01 levels. It may further be observed from the same Table 1 that Customers who shop frequently are more likely to spend a higher amount for shopping which is found to be as 0.578, is highly significant at 0.01 levels. Hence the hypothesis 4 is proved. The above Table 1 also suggests that Customers who shop more frequently are likely to witness higher fluctuations for luxury items than for regular items as a very high negative correlation coefficient of -0.623 has been found. It indicates that shopping for luxury items faces more fluctuations than regular shopping items, which indicates that customers shopping for luxury items may be postponed in times of recession but they continue to shop for regular items.

5. Conclusion

The research showed that recession has affected the sale of luxury items while there has been no effect on the sale of necessary items. The major reason is that the

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numbers of people visiting the malls have decreased and there is a change in the shopping pattern of the customers. People have not cut down their expenses on grocery items and personal care products. The luxury brands are the ones that have been the most affected. Also retailers are reducing their inventories considering the drop in sales. In order to increase the footfall, various promotional events are carried out by the retailers. Retailers are cutting down prices to boost up the sales. Customers are switching from their regular brands to others brands that cost them less.

Recommendations for the retailers

The retailers should spend on Online Marketing during Recession. They should also indulge in cost cutting, reach their customers, target markets, build long term relationships, available at all hours, low cost for inventory, and increase sales promotion schemes. Lastly, creating value along with delivering delight to the customer is what is most important.

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