

THE IMPACT OF THE ECONOMIC CRISIS UPON ROMANIAN CONSUMER BEHAVIOUR

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Article examines changes in consumer behaviour occurred due to economic crisis. The article explores the changes that have occurred between late 2008 and early 2010 compared with the period from 2003 to 2008 and try to show new patterns developed by consumers arising from the crisis and developing in this context of ways of adapting for the Romanian retailers. The article also brings into attention strategies developed by shoppers for adapting to the crisis and opportunities for growing within the crisis context for the retail sector.

Keywords: Consumer behaviour, economic crises, retail, Consumers attitudes.

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Introduction

In 2008, Romanians state of mind could be characterized by effervescence, growth, more optimism, initiative, consumption. At present, we can speak of uncertainty, frustration, disorientation, vulnerability, stagnation, reserve, a wait-and-see attitude.

This psychological shock was largely generated by the “first-time” crisis, which took the Romanians by surprise, as they had no similar experience after 1990. The shock was even greater since the crisis followed a period of growth and enthusiasm, characterized by high consumption appetite. Moreover, the media “buzz” stimulated and maintained the “crisis psychosis”. Up until last year everything was going well: the economy was growing, laws had been passed that encouraged growth, and therefore, there was a basis, which, at present, is no longer available.

The experience of the crisis in Romania

The way Romanians experience and perceive the effects of the crisis is strongly influenced by the *line of business, the income level and age*.

On the one hand, regarding the *middle and upper income segments*, the effects of the crisis are felt much more on emotional level. The changes in the consumption and buying behaviour are not major yet and not strongly perceivable in concrete terms. Romanians are much more careful, aware, prepared to take measures. On the other hand, concerning the middle to low income segments, the crisis is quite strongly felt, including in the family budget, inducing major changes in the buying and consumption behavior. Their frame of mind could be described as including fear, insecurity, anxiety, stress, powerlessness

Employees in the *private sector* are more aware of and closer to the effects of the crisis, and sense greater psychological pressure and stronger adverse effects on their finances. *Government employees* are slightly more relaxed, on account of not being in close contact with clearly defined business

indicators, hence not perceiving so strongly the impact of failure to achieve them, they don't feel "directly" responsible for the effects of their work. Moreover, most of them don't perceive clearly as yet the danger of bankruptcies or of dramatic salary cuts, staff cuts etc.

The crisis has provided *stagnation or reduction of income* (primarily bonuses, commissions that added to the family budget), *delayed salary payments*, *devaluation of the national currency in relation to the EUR and increase of prices* of many basic products (e.g. utilities, FMCG) and *lock-down of the loans market* (banks have stopped granting loans, the new loans are expensive and with rigid conditions). People work more for poorer results than last year and face expense cuts policy (phone calls, company car, other consumables) and staff restructuring.

Especially concerning the low income segment, difficulties in paying their debts of any kind have significantly grown (loan repayments, utility bills). Also, there have been an increase in loan repayment values. Daily basket is more expensive than last year. The crisis has blocked investments, as people have given up projects for which they required financing by the bank (purchase of a home / land / home renovation / buying a car etc.). They avoid to make plans - typical for Romanians is short term vision, "here and now", which has become more apparent than in the previous years (they plan only from one month to the next). They envisage ADAPTING "ON THE FLY" to the new challenges, rather than planning and forecasting (on account of the uncertainty regarding the future). Moreover, there is increased pressure and stress at work *especially regarding the middle to upper income segment*.

Crisis perception

The presence of the crisis is a certainty for all, though the intensity with which its effects are felt differently between income categories, activity line and age. *Romanians with medium-high and high income* feel the crisis more on emotional level - "on the lookout", more mindful of what happens with their money - rather than in their consumption behavior, while *the medium to low income segment* was visibly affected by the crisis, which has reduced their financial stability and the comfort of everyday life.

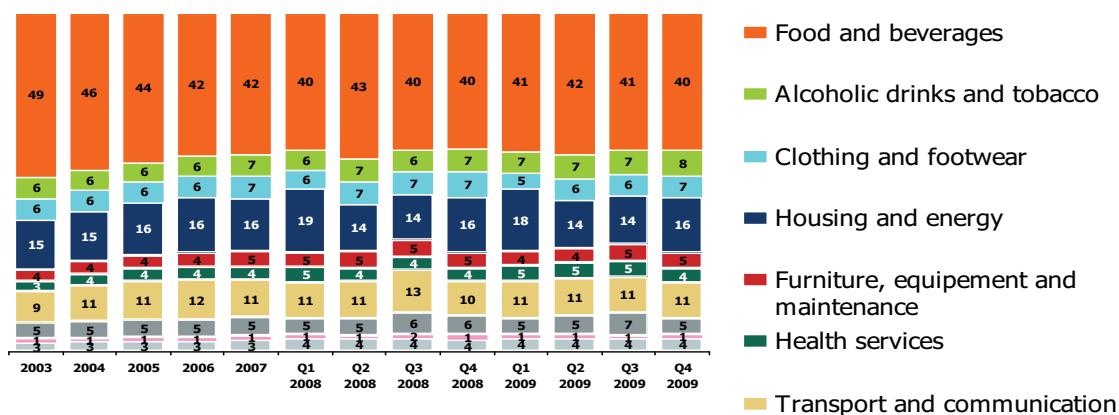
A significant part of the working people have had their financial situation affected by the crisis, primarily as a result of a drop in additional income (bonuses, commissions etc.) and secondarily due to delays in salary payments.

The consumers' attitude regarding the evolution of the crisis vacillates between *uncertainty and skepticism*. Most romanians believe that the crisis will last more than 2 years. Within the next 6 month they don't expect an improvement of their family's financial situation, and hope that it won't be worse than at present.

Whilst last year, without the crisis, *the main concerns* were to provide the required amounts of money for a decent living (meaning enhanced comfort) and to cover the inflation rate (which threatened their investments and earnings), this year the influence of the crisis on the quality of life is the main fear. The people's fears are much more basic, they are related to the family's stability and security: *impossibility to repay their debts and a drop in the quality of life, job loss, and price increase* (the reason for the first two fears).

In this context, *the need for security and control has become much stronger*. People are much more reluctant to take risks and the emotional connection with the family and the concern for their children have increased significantly.

Fig. 1. Distribution of households' expenditures Romania



Source: National Institute of Statistics, Household Budget Distribution

Changes In Shopping Behavior

People are not very confident in the manufacturers' ability to adapt to the crisis without impacting the consumers negatively. Many Romanians believe that, on account of the crisis, the manufacturers will increase the prices of FMCG products. This perception (strengthened by concrete examples of price increases) explains why Romanians now *pay increased attention to the price when choosing the products as well as the shops*.

Whilst on account of the crisis *the interest for additional services provided by shops has dropped dramatically, the diversity of products is still a key selection criterion* (convenience and time saving are as important as the price), which justifies the consumers' choice for modern retail.

On declarative level, Romanians *are tempted by products in big packs* because they are more economical or have a better price. On the other hand, the crisis represents a growth opportunity for small packs because – whilst being more expensive – they enable better control of the budget, especially for middle to low segment.

The crisis has brought about a *more rigorous control of spontaneous shopping and diminished interest for "indulgence"*. Consequently, most Romanians stick to buying only the necessary products.

As the price has become more important, implicitly *promotions have a greater influence on the buying decision regarding everyday products*. Attractive promotions would determine many consumers to choose another product than their regular (switching behavior).

Consumers would be tempted to try *newly launched products*. On the other hand, as people have become more price sensitive and more open to promotions, a new product at an attractive price may become a tempting option especially for the medium to low segment.

In the first quarter of 2009, the *FMCG market increased by 18% in value*, driven by the growth of average price and higher quantities per trip. *Essential Food* products were the most influenced by the price increase, but with no negative impact towards household consumption – constant volume over the last period. *Supermarkets and Small Traditional Stores* seems to be the most affected – due to the fact that price became more important for consumers. Households living in Moldavia are more sensitive to the price growth, while families with children up to 14 years old don't modify their consumption behavior and constantly buy more volumes. *Basic Hygienic categories* were purchased more frequently but in higher quantities per trip – also due to increase preference for bigger economic packages.

Strategies for adapting to the crisis

Consumers' strategies for adapting to the crisis should be analyzed separately for low, middle and upper income categories.

- *Concerning middle to low and low income segments: the crisis has reduced their comfort and quality of life.* They try to cope with the crisis by adopting various strategies:

- Reduce the purchased quantities of products;
- The shopping list has become much more important, for better control of purchased products (they buy what they need and only as much as they need);
- They choose cheaper products within each category (milk);
- They change their consumption habits in order to save money (energy, laundry washing, cosmetics);
- They reduce the buying frequency or even eliminate completely some non-essential products;
- They pay more attention to the special offers presented in the hypermarkets' leaflets;
- Visits to shops are strictly functional (no leisure trips);
- Greater investments and durables - delayed projects.

- *Concerning middle to upper & upper income segments:*

- The consumption behavior has not changed significantly;
- The most affected areas are: savings (they cannot save as much money as they did last year) and holidays (they choose cheaper destinations);
- They try not to buy excessive quantities or to adjust the purchases to what they actually need but: they have not eliminated product categories and have not chosen cheaper products within each category, and the brand is still important.

Opportunities for growing within the crisis context

In the crisis context, *price has certainly become more important.* We may thus assume that modern retail, which offers good prices, will be the consumers' first choice. An *increased tendency to minimize risk* and *increased need for control* can be noticed, on the one hand, by choosing *small packs*, which enable a better budget management, and on the other, by *unconventional communication*, respectively, the increased importance of word of mouth or, in general, of messages that induce confidence and reduce uncertainty (e.g. testimonials).

Family, especially children, have become more important; children are priority no.1 and for them the parents are willing to invest even in times of crisis. Therefore, the *products for children* will be the last ones affected. Whilst the price of essential products has increased the most, the consumption of this category has been the least affected, and therefore, the *promotions for essential products* are the most attractive.

People from the medium to low and low segment are the most price sensitive. The strategies in this respect imply *undermining of brand loyalty* in the low segment, and, at the same time, *a new product with a good price* has good chances to win consumers. People with high income are still inertial in their consumption habits and then, their loyalty towards brands and products is less affected.

For the categories of products that are the first to be eliminated by the consumers in their efforts to reduce expenditures, it is necessary for the manufacturers to design strategies to prove to their consumers that they stand by them in these tough times. *The offers in the tourism sector* are an example of adaptation to crisis conditions. Their success is to be proven over the next months. Also, there is increased potential for *products that enable saving*, reduction of expenses related to utilities – e.g. detergent with increased washing power, hence requires less electricity.

Pastimes that require small investments, or in home entertainment, will grow. There is growth potential for *product categories for home entertaining* (snacks, beer), big packs for parties or picnics, etc. *In on trade* the budget allocated per visit will be reduced, resulting in the growth of budget products or brands. At the same time, the interest for *open air events* may increase, as an alternative to going to

bars, pubs or restaurants, which involve greater spending – e.g. beer festival, it is important for the producers to be there to have their products tried.

We can also mention that, on account of the crisis interest for social topics has been reduced significantly and therefore *CSR campaigns* will probably be less impacting and will attract attention to a lesser extent.

Conclusions

Romanians experience and perceive the effects of the crisis according to variables among which the income level is highly important. Romanian consumer behaviour has been analyzed accordingly. The crisis has reduced the comfort and quality of life of middle to low and low income segments, and thus they adapt using strategies like reduce the purchased quantities of products, they buy what they need and only as much as they need, they choose cheaper products within each category, etc. The consumption behavior has not changed significantly concerning middle to upper & upper income segments, the most affected areas being savings and holidays. Opportunities for growing within the crisis context should be based on the fact that In the crisis context, price has certainly become more important.

As main expectations regarding consumption over the next 6 months, we may assert that durables and car purchases have been the most affected in the first quarter of this year on account of reduced allocated budgets, while holidays, investments in leisure and clothing are the categories of purchases that will continue to be the most affected by the crisis. Utilities and food are the categories that are expected to grow the most.

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