

Consumer behaviour in times of recession

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How does the consumer behave in times of recession? We can identify a trend towards the optimization of the “must payments” of a household in favour of the voluntary outgoings, the “want-to” payments. Marketing activities must be realigned to this situation.

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Nothing is as it was in this economic crisis. Over the last few years, consumers have enjoyed a steady increase in real income, which has led to higher disposable purchasing power, spent on a continually widening range of goods.

The current recession is creating a new marketing environment

During the last twelve months, however, Switzerland has increasingly been sliding into a recessive economic situation. Uncertainty is widespread, which, for many – and above all for younger Swiss people - is a completely new and unfamiliar situation. Consumers must once again learn to deploy their limited resources economically, to continually set new priorities and to increasingly balance long and short-term commitments.

This re-orientation is also currently being carried out by consumers, in a hesitant manner, making mistakes and sometimes with painful outcomes. But the longer the current stagnation continues, the more will new patterns of behaviour develop and take root.

Rapid change of marketing perspectives required

These patterns of behaviour will have no small influence on current marketing strategies, product positioning and new developments. Tried and tested “marketing laws” will suddenly be overturned, if they have not already been so. Further declines in sales can be expected in many sectors if there is no timely reaction to these developing tendencies.

Seen as a whole, this represents an ever more bitter battle for disposable consumer purchasing power.

The consumer will optimize “must outgoings”

If we look at the total outgoings of consumers or families, we can immediately see that these are of different types, but that they can nevertheless be divided into certain categories. The distribution of the family budget can generally be carried out as follows:

1. Outgoings for daily necessities
2. Outgoings for fixed costs with limited flexibility, such as , insurances / health insurance, rent, taxes, car
3. Savings, i.e. resources not available for consumption at the moment
4. Freely disposable income and /or potential freely-disposable expenditure.

It can be seen from this categorization that we are dealing with two sorts of outgoings if we consider them qualitatively: Categories 1 – 3 could be described as “must” consumption, while Category 4 could be described as “want-to” consumption.

The problem that consumers are confronted by today as a result of the recession and the uncertain economic outlook, and to which they are striving to find the answer, is: “How can the “must outgoings” be optimized so that as much money as possible remains for the “want-to spending.”

Let us leave savings and the less flexible fixed costs to one side in our further considerations. The possibilities for savings are limited here. Because of the costs associated with it, moving to a cheaper apartment is not a genuine saving, especially not in the short-term. Changing to a smaller car is still too closely linked to a loss of pleasure and a loss of prestige, unless a high scrap premium is available.

Large impact on everyday outlay

It is very probable that the trends that are foreseeable today will have an effect on consumer behaviour: the continually rising costs of households will eat up an ever-increasing proportion of the available freely disposable income. The consumers will try to adapt and optimize their spending behaviour further. For the consumer, this optimization means: “How do I satisfy my daily needs in an appropriate manner while achieving the greatest possible savings, with the objective of being able to use the savings for “want-to outgoings”? The newly opened Lidl stores thereby provide a great opportunity!

What impact does this question have on the market for “daily consumable goods” that are used regularly in most households? These are known as “low interest” products or “commodity products”, or in other words, everyday products. We want to spend as little time as possible on their selection and purchase, have little interest in innovations and want to stick to the tried and tested. And, above all, we are satisfied with a good medium level of quality, and are not prepared to spend more to obtain a slightly better quality. This market is characterized by high price sensitivity. From these characteristics

and from the behaviour patterns of the consumers, it is foreseeable that many products will experience difficulties in the future. And, above all, those who try to achieve a higher price through pure “marketing plus” factors or with a “psychological additional benefit”. The scope for new introductions will therefore become increasingly narrow in the market for “commodity products”. Many marketing managers will be forced to “re-evaluate” their strategy here.

Generating more purchasing power for “want-to spending”

The new behaviour patterns can already be determined in the various markets. The following consumer tendencies can be seen:

- A positive development in turnover in the low-price segments, for cheap, low-interest products
- A stagnating or recessive development in the medium-price segments
- As before, a positive development (at the moment) in the high-price market segments

This brings us again to the category of “freely disposable purchasing power” in the truest sense of the words. Here, marketing managers will no longer be able to limit themselves to the study of their traditional markets or market segments, but will have to achieve a “more global” view of all his products that are vying for freely disposable purchasing power.

The laptop will compete against the Far East vacation,

Because all the products that compete for this purchasing power will become direct competitors in today’s recessive environment. The laptop is a competitor of the Far East vacation, or the new sports equipment, or the planned renovation of the apartment, and so on. Consumers will also learn to apply more refined selection procedures here, and to set their priorities more clearly. This will then have an effect on the estimation of market potential, the chances of success for a provider. A “boom” in one market could completely ruin business in another.

More short-term commitments

Market saturation will also be achieved more rapidly in many sectors. A person who already has three expensive cashmere pullovers in the wardrobe will perhaps do without a fourth! Purchasing decisions will be considered in greater depth, and available products will be examined more closely. The optimum cost-benefit ratio will be decisive, and advice and service will decide the purchase. High priced luxury goods will no longer be able to live on their names, and prestige without product performance will be more difficult to sell. Longer product life will be in greater demand, because people do not want to spend their hard earned money on the same thing again in a hurry. “Extremely fashionable“, for example, will increasingly have to also be “extremely cost-effective”.

Long-term commitments will be reduced in favour of short-term

A new trend can also be seen in this connection. Ever fewer long-term commitments will be entered into because of anxiety about the future. Today's consumers will progressively reduce their long-term commitments in favour of more short-term commitments and increased flexibility (for example, "Last Minute" offers in the tourism sector). We will prefer to make short-term dispositions from our own budgets. The resources that can be saved by more careful management of the "commodity product" sector will be spent on those products that bring an immediate gain in enjoyment or prestige.

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