



The Effects of Economic Crises on Consumer Behavior

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VIII Traditional scientific conference on the subject: **“Challenges at a Junction Between Recession and Sustainable Growth”**

ZOOM PLATFORM

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The Effects of Economic Crises on Consumer Behavior

- Motivation for presentation- recognizing that it had been 10 years since last big economic recession and our longest lasting recovery would end.
- In more developed economies more than 70% of GDP comes from consumer spending.
- Our world appears to be increasing volatile (VUCA) and what would be the impact be on consumers when the next inevitable crises hits?
- How will consumers adjust their consumption behavior and what will be the implications for business and government policy-makers?
- What strategies do consumers use to adjust to reduced resources?
- Will consumer adjustments turn into new habits and become the new normal?
- The Spring 2020 conference seemed to be perfect time to prepare research!

Then Came 2020-Covid-19 & a Confluence of Crises

- **Economic Crises**
- **Global Pandemic**
- **Social Unrest**
- **Political Turmoil**
- **Business model stress test**

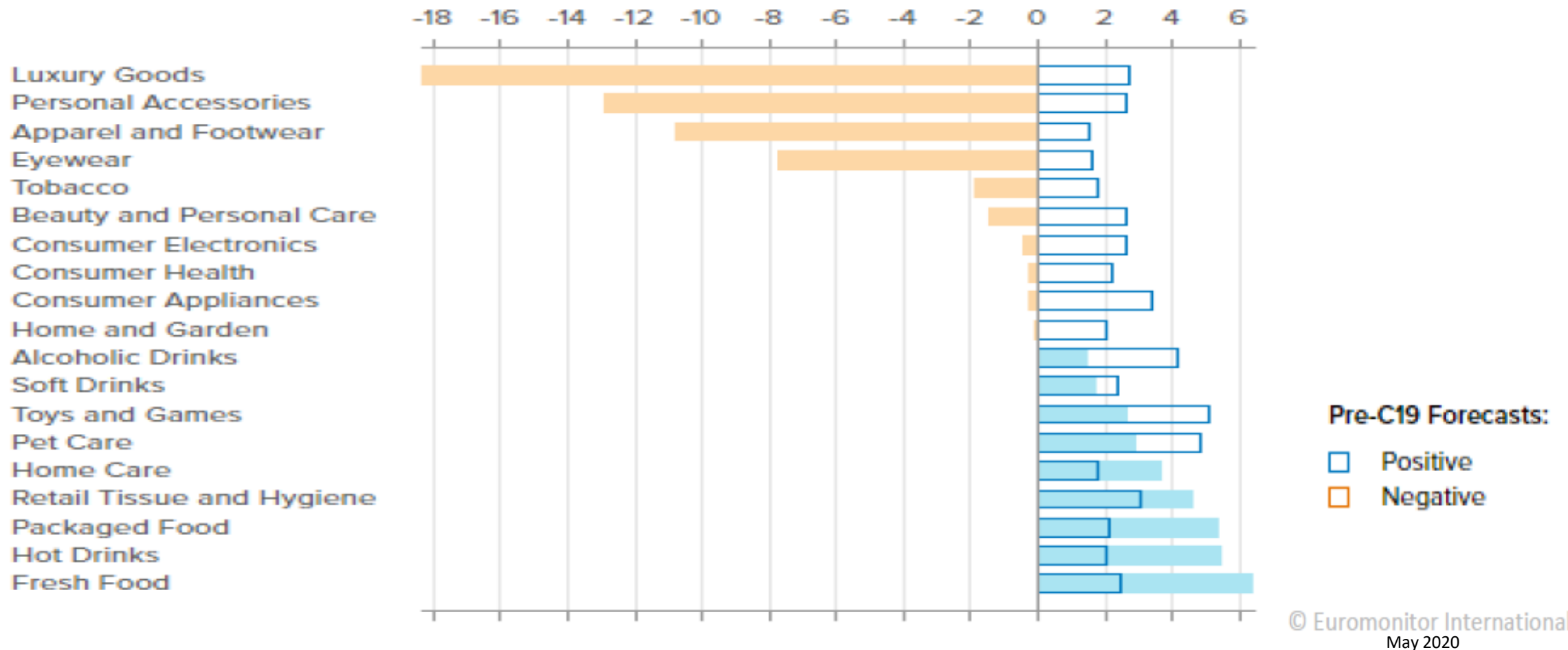
Overview

- Research on Impact of Economic crises on Consumer Behavior
 - Surprising little in marketing, more in economics.
 - Marketing research tends to focus on within category effects or brands.
 - In economics, a main issue has been the intertemporal trade-offs consumers make when choosing between current and future consumption. Du & Kamakura (2008).
 - A key assumption most standard economic models is that the utilities a household derives from various commodities at different levels of expenditure are independent of economic conditions. Kamakura & Du (2012).
 - Industry research is largely descriptive and cross-sectional.
 - Research question: How does consumer behavior (CB) change under crises?
 - How does consumption change?
 - Are consumer consumption utilities (value drivers) changing due to crises?
 - What are consumer strategies when dealing with economic crises?
 - If behavior changes does it go back to pre-crisis behavior after crisis ends?
 - What are potential new areas of research?

The Effects of Economic Crises on Consumer Behavior

Change in Consumer Behavior During crises

- Traditional Economic Theory would suggest in periods of financial stress (scarcity) that consumers with lower incomes will spend a larger percentage of their budgets on non-discretionary goods as less on discretionary goods. In America, 2009-2010, 62% of consumers reduced spending, Kamakura & Du (2012).



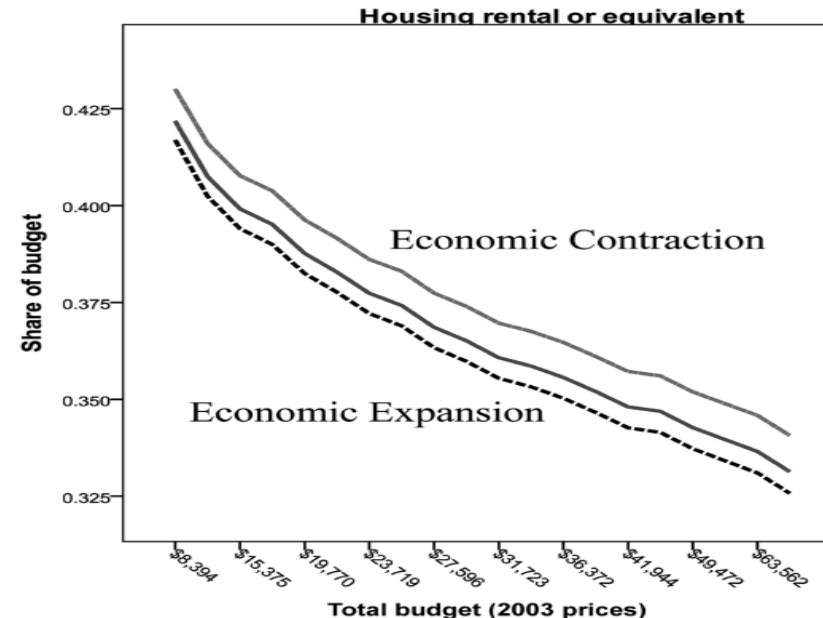
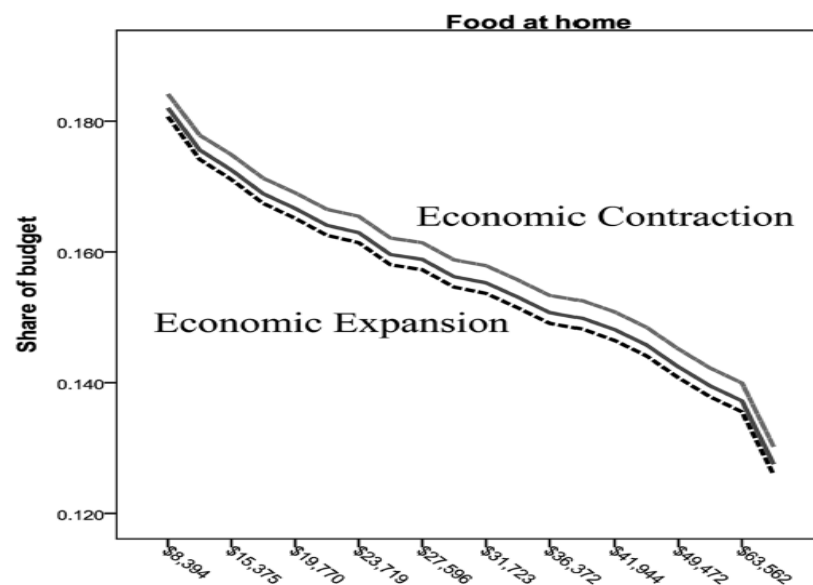
The Effects of Economic Crises on Consumer Behavior

Change in Consumer Behavior During crises

- Traditional Economic Theory suggests in periods of financial stress (scarcity) that consumers utility for goods will remain the same, albeit at a lower income level (consumption budget). Kamakura & Du (2012) however, found evidence of a change in household utility depending on its relative position via other households.

They hypothesized: That the utilities a household derives from certain commodities can vary systematically, depending on whether they live in times of economic decline or growth. Flatters and Willmott (2009) affluent consumers may economize because the recession makes discretionary thrift acceptable or even fashionable. So for “**positional goods**” relative consumption becomes important.

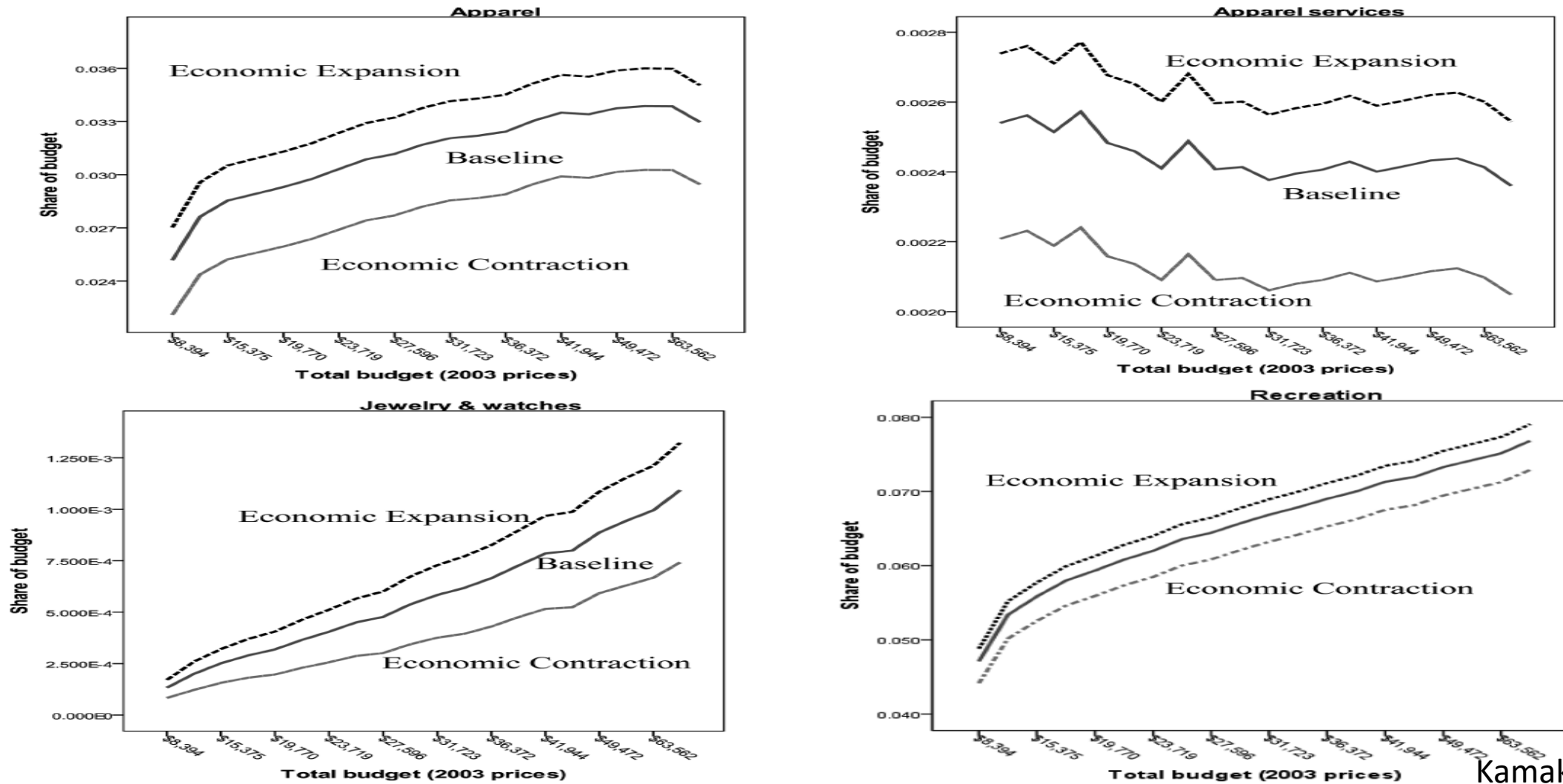
ENGEL CURVES (BASELINE, ECONOMIC CONTRACTION AND EXPANSION) FOR NONPOSITIONAL CATEGORIES



Kamakura & Du (2012)
Figure 2, p. 242

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ENGEL CURVES (BASELINE, ECONOMIC CONTRACTION AND EXPANSION) FOR POSITIONAL CATEGORIES



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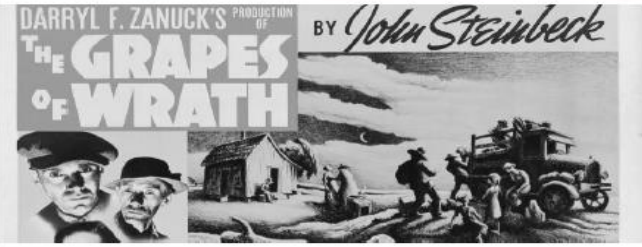


Changing Consumer Values Represent Changing Utilities

Continuing Evolution of the New Value Paradigm

Where engagement with value tended to focus on money and managing resources, value in the time of COVID-19 is about both resources *and* responsibilities — interrogating individual consumption practices within the larger socioeconomic context. In many ways, this is a raising of the stakes, a continued scrutiny of consumption that began during the Great Recession, during which consumers critiqued notions of greed and consumption for consumption's sake. If the New Value Paradigm is about a more purposeful consideration of worth, consumers are embracing this notion more fully.

Old Value Paradigm

New Value Paradigm

| | Post-Great Depression | Great Recession | COVID-19 |
|--|--|---|--|
| |  |  |  |
| | MAXIMIZE AND ACCRUE goods and assets | CORRECT EXCESSES of unchecked capitalism and consumption | REASSESS ACT OF CONSUMPTION and shopping |
| | GET THE MOST (THINGS) for my money | Live and purchase more PURPOSEFULLY | Live and purchase more MINDFULLY |
| | MINIMIZE THE TRADE-OFFS between convenience, quality and price | GET THE 'RIGHT' DEAL and most MEANINGFUL EXPERIENCE for my needs | Consume in ALIGNMENT WITH MY NEEDS AND VALUES |
| | Be personally responsible for my HOUSEHOLD | Be personally responsible for my HOUSEHOLD | Be collectively accountable for self and COMMUNITY |
| | Utilize THRIFTY STRATEGIES in response to economic hardship | Engage in performance of austerity and financial CONSCIENTIOUSNESS | Engage in performative act of CARING FOR OTHERS |

value aspirations

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Change in Consumer Behavior During crises

- What strategies to consumers adopt in times of crises?

Fernbach et al. (2015, p.1217) Found when faced with constrained resources consumer adopt coping strategies to deal with fewer resources. They identified two common strategies: First if the shortfall is not too great they adopt **efficiency strategies** where they reduce expenditures across categories and second, if the shortfall is perceived as large they adopt **prioritization strategies**- where they choose which categories to fund and which to cut. They ran a series of experiments and found that too often consumers fall in an “efficiency trap.”

PSYCHOLOGICAL PROPERTIES OF EFFICIENCY PLANNING AND PRIORITY PLANNING

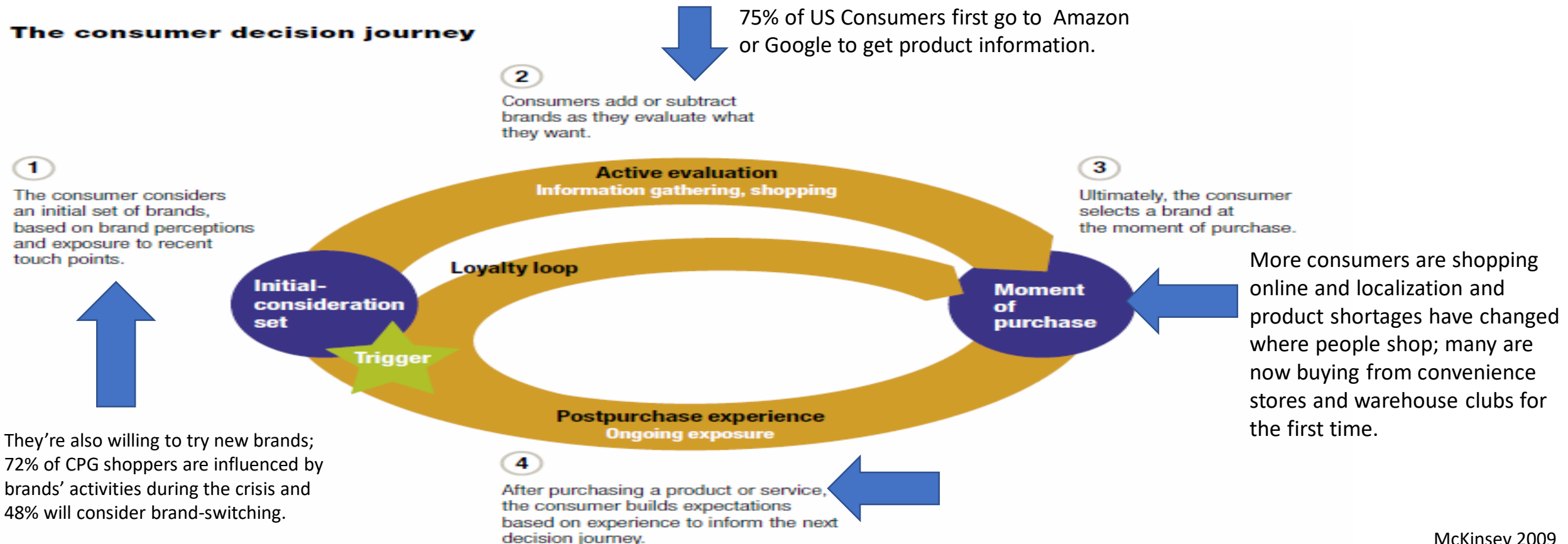
| Efficiency planning | Priority planning |
|---|--|
| <ul style="list-style-type: none">• Avoids explicitly considering opportunity costs• Feels like accomplishing something• Involves trade-offs across resources (e.g., time to find coupons)• Local focus• Solution more similar to original plan• Perceived lower savings | <ul style="list-style-type: none">• Involves explicit opportunity cost consideration• Feels like giving something up• Involves trade-offs within a resource (e.g., this gift for that gift)• Global focus• Solution less similar to original plan• Perceived higher savings |

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Change in Consumer Behavior During crises

- What strategies to consumers adopt in times of crises?

How do consumers adopt their consumption patterns during crises (how they consume as well as what they buy)?



Summary:

Future areas for research

- More work is needed on the impact of crises on consumer behavior.
- Crises and change are more frequent in a globally connected world (VUCA).
- Existing research is too narrowly focused on brands and within category.
- Crises and consumer behavior are moderated by other environmental and individual factors.
 - Crises bring cultural other changes which impact economic behavior.
 - Individual characteristics and decision biases (such as budgeting biases) impact economic behavior.
- Crises affects not only purchases but all parts of the consumption journey.
- More research needed to link household consumer spending and macro-economic conditions.

Thank You

What you think,
you become.

What you feel,
you attract.

What you imagine,
you create.

-BUDDHA

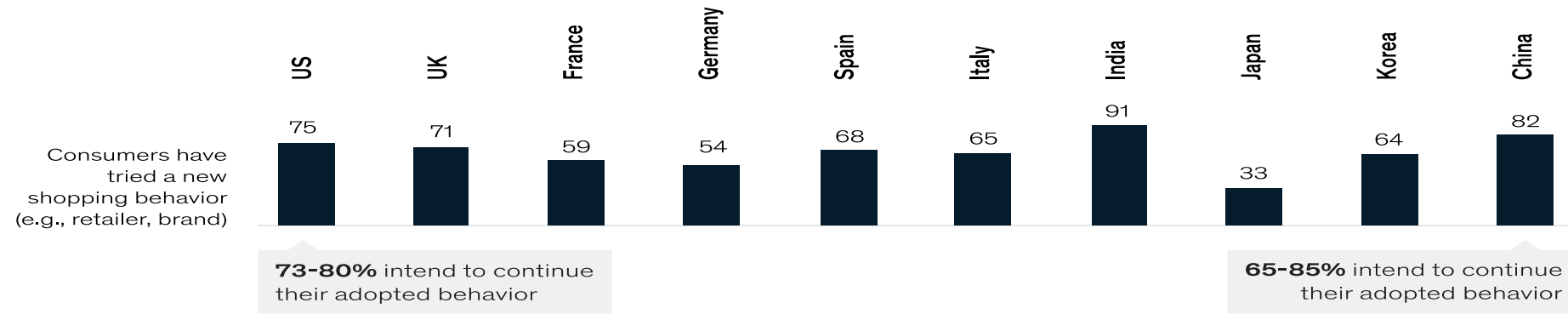
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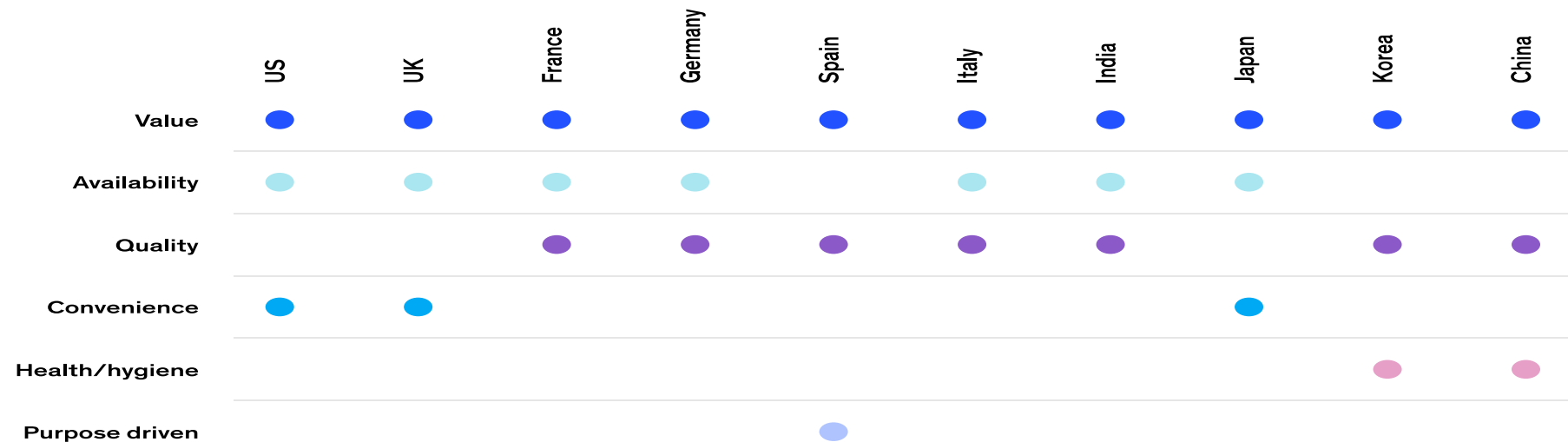
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Over 60 percent of global consumers have changed shopping behavior, many of them for convenience and value.

Customers who have tried new shopping behaviors since COVID-19¹
% of respondents



Top 3 reasons for shopping a new brand²

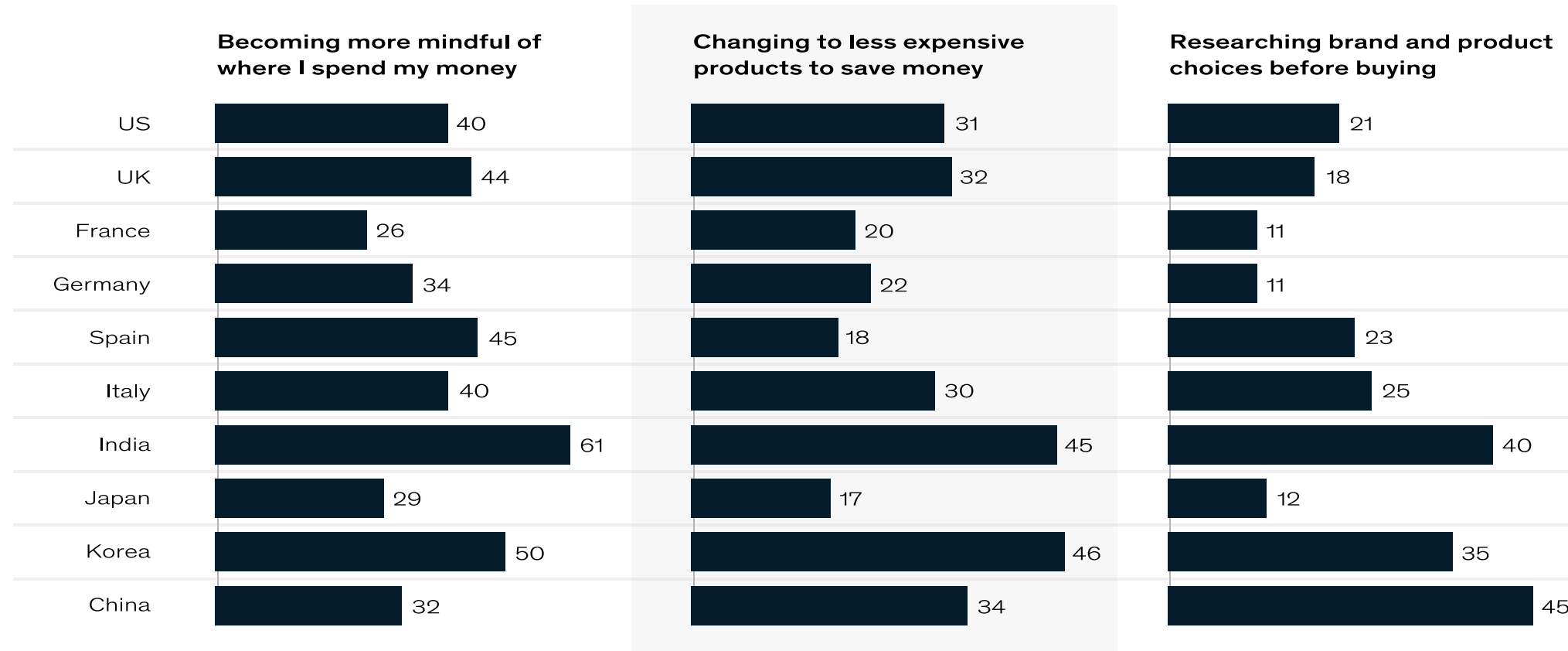


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There has been a shift to mindful shopping including some trading down for value.

Change in shopping mindset since COVID-19¹

% of respondents who are doing more²



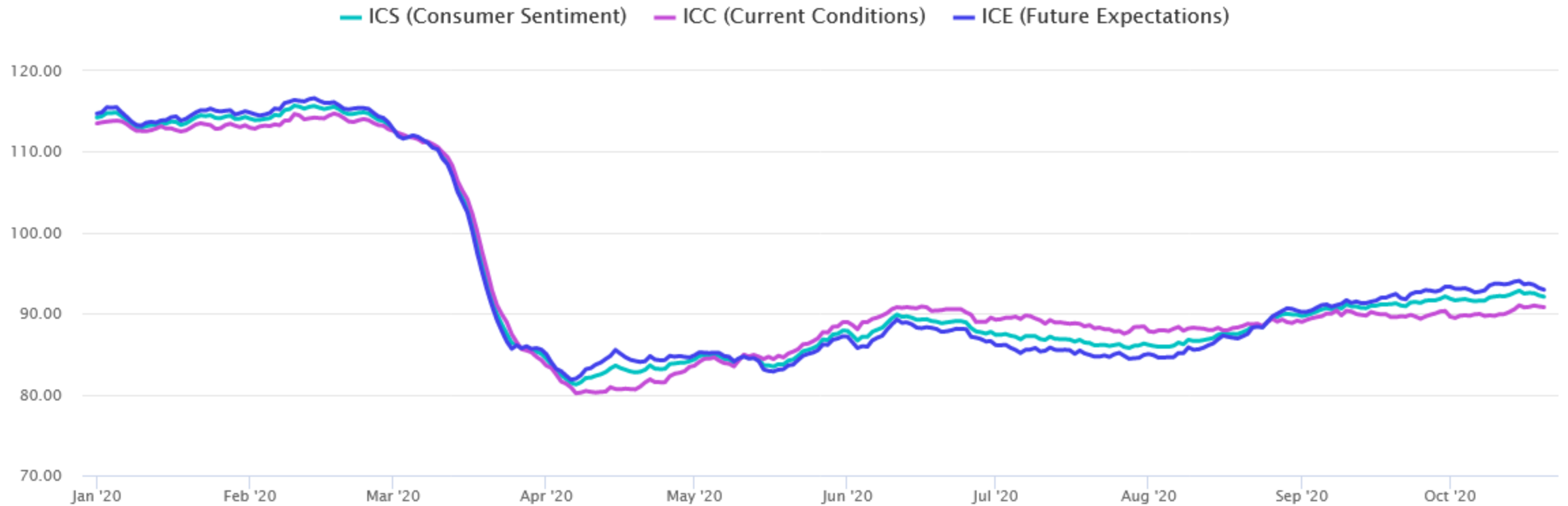
¹Q: "Which best describes how often you are doing each of the following items?" Possible answers: "Doing less since coronavirus started"; "Doing about the same since coronavirus started"; "Doing more since coronavirus started."

²Percent of respondents who answered that they are doing more since COVID-19 started.

Source: McKinsey & Company COVID-19 Consumer Pulse surveys, conducted globally between June 15 and June 21, 2020

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Daily U.S. Consumer Confidence Indices



<https://morningconsult.com/form/consumer-confidence-dashboard/>

- How does rising income inequality impact consumption (pain is not equally shared)?