
Analyzing Consumer Behavior Shifts and Strategic Responses During Economic Crises

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Abstract:

During periods of economic recession, consumers often shift their purchasing priorities, favoring essential goods over discretionary items due to diminished income. Even affluent families tend to cut back on spending, influenced by a bleak perception of the economic environment. On an individual level, various factors including self-confidence, personal relationships, societal norms, and the availability of information significantly influence these altered consumer behaviors. Corporations, in response, need to reallocate their resources, placing greater emphasis on marketing budgets and strategic decision-making to navigate the challenging economic landscape. Enhancing investment in promotional activities is a key strategy for companies aiming to mitigate the adverse effects of global economic downturns. Furthermore, companies that adopt socially responsible practices, prioritize delivering concrete value, and emphasize cost-efficiency are better positioned to weather financial crises. By integrating these approaches, businesses can not only survive but also thrive in the face of economic adversities.

Keywords:

Customer Behaviour; Global Crisis; Marketing Strategy; Company Level Analysis; Internal Value.

1. Introduction

In early December 2019, Coronavirus 2019 broke out and suddenly became a global crisis that led to significant unprecedented operational crisis of enterprises worldwide including capital chain breaks and other potential liquidity challenges. Based on similarities between Covid-19 and the previous crisis, comparing the parallel level and drawing implications will be a useful responding method. Many study has been made to figure out how is the customer bahabioir changes and what to react. In the work, we apply a thorough literature review of the potential behavioural changes of customers during an economic downturn from psychological causation perspectives, the importance of marketing in strategizing corresponding adaptations and tactics that a company urgently needs to employ.

2. Customer Behavior Analysis

For marketers, it is crucial to make decisions based on the shifts of customer behaviours during an economic recession. However, to better understand customer behaviour during economic adversity, one may start with understanding the psychological causes.

2.1. Social-demographically analysis

During a depression, on a social-demographic level, customer behaviours are affected differently. For starter, an economic adversity significantly affects low-income families [1]. Aresearch from The Food Bank revealed that during the Great Depression of 2008 in New York city, 3.3 million people were having trouble affording foods, which was a 60% increase compared to that of 2003 [2]. As income dropping, people who experience poverty can only crave for the essentials and “will deeply reduce oreliminate treats or seek lower-cost substitutes”[3]. Also, low-income families more often have to relocate for jobs that are far away from their home. Such phenomena can destroy a family’s support network, where sociologists note that it could lead to more parental conflict, drug abuse, and increase in the level of anxiety, and this affected attitudes also carry on into the next

generation [1].

On the contrast, people who are in the middle class or higher budget more expenses for “treats”, “postponables”, and “expendables” compare to what the lower income families could [3]. As they are better off from financial tensions, they do not have to experience the same level of financial insecurity, fear of the future, and anxiety as the lower class does, although they still slightly cut their expenses to sustain their cash flows for potential emergencies.

2.2. Shift of customer’s internal values

Due to these societal changes, consumer’s internal values shift in various aspects as well. When we look back to the previous history lessons, it is not hard to find that people by nature are cautious and risk averse. While during Mississippi bubble, the Florida real estate bubble and stock market crashes of 1929 and 1987, people seemed to abandon their inwardness. The most cause of such speculative schemes is the specific tendency which most people will take credit for the belief that good times are here indefinitely [4]. According to Brata, five main features of personal level contributed to the new customer behaviour most, which are pragmatism, confidence, relationship, information and uncertainty. After unemployment explosively increase, jobs or companies become crucial and income turn into “satisfying needs” or “safeguarding the future” for employees [5]. Such pragmatic mentality then leads to more consideration of income sources and growing interests of expanding the circle of acquaintances in order to gain larger interpersonal relationships. What’s more, as the uncertainty of the future as well as more stressful information rise, it is also found that buyers will tend to have a relatively low level of self-confidence and high-risk aversion, which further causes their avoidance towards commercial messages lastly.

What’s more, Simon also suggested that new customer features during economic downturn may include “fear of the future, demand for hard value and cost benefits, a compressed time preference, financing bottlenecks and safety” [6]. When the adversity hit, consumer with serious insecurity became rather unwilling to buy more products which made corporations hard to deal with unless they can sacrifice the profits. Moreover, once companies decide to change their prices, only a significant price reduction can reach the price elasticity which in the last will bring serious financial dilemma to both buyers and sellers.

Subsequently, consumers value more economy effectiveness than non-economy achievement and pay huge attention to the cost because they are more likely to consume practical goods. As for the effects, buyers are more fond of making short-term profits rather than investing in long-term projects. When it comes to financial areas, many clients are dealing with limited cash flow which means the security and stability of the products become the priority.

In general, the global crisis has nonnegligible impacts on consumer behaviours while there is no doubt that it also paves the way for company’s corresponding marketing strategy.

3. Company level analysis

During a crisis, hard value and cost-effectiveness become more important. Customers tend to consider purchasing goods needed in daily life during hard time. In this case, companies that can provide hard value or cost benefits may be able to survive and improve their situation. So the measures they take are, for example, promoting products that are less innovative and environmentally friendly, but cost less than others. The advantage of this product is its low use frequency per season, which has greatly reducing the cost of labor for farmers, so companies cost less and have opportunity to win the revenue.

Take Airbnb for example, for the sake of cost savings, all marketing campaigns have been stopped at the end of March and expects to save about \$800 million by 2020. It is not alone. Marketing budgets are often the first to be cut when a crisis strikes. Behind this is pure economics: there is no point in investing in marketing if consumers are not spending money on products and services. However, this kind of thinking is wrong. The coronavirus has hurt the interests of companies. Airbnb's internal valuation dropped 16 percent to \$26 billion. Bookings were also declined by 40 percent in mid-March. Recently, to cut its marketing budget, Airbnb also waived cancellation fees for its tenants, angering many landlords. Airbnb needs more marketing now than ever. How much a

brand can invest to maintain its relationships with its customers during a crisis determines its long-term success. Airbnb, for example, has to build relationships with both sides of the market, landlords and tenants. If landlords lose income and lack corporate support, they will leave (many have already) and may never return. If companies try to focus less on creating demand for their products and services, and maintain better relations with both customer groups, they can avoid provoking public anger. All brands should learn from this. Their marketing focus should now shift from stimulating demand to maintaining customer relationships and be reflected in the proportion of marketing budgets allocated (and how much to cut). Otherwise marketers run the risk of losing customers.

The brand represents a consistent commitment. For customers, brand not only means where the products they consume and the services they enjoy come from, but also is always connected with a certain quality level and brand reputation. A brand represents a certain quality of products and services, embodies the image of the enterprise and the evaluation of customers, the public and the society, and attracts a relatively stable and loyal customer base. For most enterprises, brand means customer loyalty, stable customer base, and lasting and constant benefits under the coverage of the same brand. So, it's really of great significant to continue investing in brand building, which can help them to recover after crisis.

4. Responses and Solution

Customers see brands as some form of a friend, so it is important to be useful and informative for customers when brand building, while the crisis offers companies an excellent opportunity to show their values and reputation. For example, during the COVID-19, when the hospitals were suffering from a huge shortage of supplies, "the Li Ka Shing Foundation donated 250,000 face masks and protective gowns to hospital staff" [7]; and LVMH converted three of its factories into hand sanitizer production facilities which will be donated to French hospitals [8].

Budgets are tight during the pandemic hence businesses must distinguish between the necessary and the wasteful. Different companies have different circumstances, so there is not an universal rule that which part of spending should be cut, each company should make well- defended, case-by-case recommendations about where to cut spending [9], where to hold it steady, and even where to increase it. Companies need to predict the value and potential of each product to make trade-offs to reduce costs [9]. Moreover, companies should find out a more sustainable way in which they cannot only maintain their sales during the pandemic but also recover quickly after the crisis. For example, "Amazon sales grew by 28% in 2009 during the 'great recession'" [10]. The company remained to spend money on innovating new products during the economic downturn, its product the new Kindle helped to grow market share [10].

Although the budget would be cut during the pandemic, businesses should consider maintaining or even increasing their advertisement, rather than decreasing the budget in the advertisement part. The cost of advertising is low [11], and businesses that maintain or grow their ad spending may lead to an increase in sales and market share during the recession and afterwards [10]. However, during this special pandemic, businesses need to consider very carefully what kind of advertisement is appropriate. The ad cannot be too funny [11], and business may need to take some positive and indicative information about the COVID-19 into consideration. "Uber 'Thank You For Not Riding.'" and "Domino's 'StayHome. We Deliver.'" are good examples that not only comfort customers but also maintain their advertisement during this pandemic [12,13,14].

5. Conclusion

In summary, during an economic recession, on a social demographic level, low-income families could only spend on the essentials, and the negative attitudes caused by the adversity such as a high level of anxiety or the increased in parental conflicts usually carry onto the next generation. While the middle- or high-class families does not have to experience the same level of financial tension, they still cut some of the budgets on postponable and expandable goods. Under new social changes, customers tend to ignore their nature instincts and yield to behavioral awareness in line with current interests. Behaviors including practicability, self-trust, relation, security and message from Brata as

well as future uncertainty, hard value, cost benefits, time preference, financial adversity and safety from Simon are discussed in this essay to have a better understanding of new customer activities. At the company level, businesses should consider marketing budgets very carefully and make appropriate marketing decisions. The amount of advertisement should be maintained or increased during the crisis, as a good advertisement could help the business recover quickly after the pandemic. Here, businesses should take advantage of the pandemic through public welfare activities. Also, as hard value and cost benefits become more important to customers, companies that can provide these two values seem to be able to survive and improve their situation.

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