

RETAILERS' METHODS TO ADJUST TO CHANGES IN CONSUMERS' BEHAVIOUR IN THE CURRENT PERIOD

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Abstract

Given this economic crisis that has affected the entire planet, managers and/or company owners are subjected, under recession conditions, to a double pressure:

- Increased attention to the management of the own budget and the prioritization of certain cost types to the detriment of others, from the perspective of the consumer;*
- They are afraid of the collapse of the business they run, considering what is happening around them: companies that seemed indestructible now declare to be bankrupt.*

The situation of a person in such a position becomes thus very delicate, all the more so since the failure "picture" is so vivid and colourful. A company that all of a sudden can no longer afford to exist is a burden and becomes the source of many white nights for the other players.

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We witness another chain reaction, generated by fear as well. If a manager notices that another company started to cut costs which are not an absolute priority, they will do the same because it looks like a commonsensical solution for survival. And to a certain extent it really is, but fear of the unknown brought about by the future combined with the lack of attention and analysis of alternatives may easily lead to decision making that could affect the future of the company on the long run. That is why such an endeavour is highly sensitive and has to be handled with much consideration and attention.

From among the typical reactions of companies during recession times, one of the most obvious and with the deepest implications is given by the reduction to complete removal of marketing-advertising budgets. In what follows, I will list some of the effects of such a change of behaviour and the manner in which it can affect the company balance and future.

Regardless of how desirable a product or services is, if there are no customers to purchase it, it is completely useless. Giving up advertising during crisis definitely means a decline, if not even disappearance from the market at a given moment, this is the extreme situation¹.

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¹ <http://marketing.about.com/>

There are many examples from the past which prove that, on the contrary, recession may even be the right moment for revival and overcoming of weaker competitors who do nothing but wait for better times.

Research conducted on what happened during past recessions shows that giving up advertising triggers an income drop by 20-30% for the next 2-3 years. Companies that do not completely renounce advertising and continue to promote their products resort now to what we are already accustomed to, namely the discount policy.

Although normal during recession, the discount policy is a double edge strategy². The attempt to draw clients through lower prices can generate disturbance in terms of consumer trust. It is obvious that one product or another has to match in a way the customers' budget. However, price reduction under a certain "psychological" level gives birth to cautious reactions: the first and most important of them is the conviction that the said product is normally overrated.

There are many situations of the type "Do you realize what markups they had if they can afford now to drop the prices so much?" In such situations, consumer's trust, which was already quite fragile, rises further, being accompanied by a feeling of outrage and suspicion. Moreover, when faced with this cascade of price reduction, the consumer keeps postponing his buying decision and waits for further price drops. Large discounts, when they turn into a general phenomenon in the consumption society, gradually lead to the creation of unrealistic expectations (of price levels) from consumers, which can continue for long periods of time. Consumers are more cautious when buying products during crisis times, mainly those in the financial field. This can be an opportunity to create efficient products and brands. During recession, companies have the opportunity to gain more of their market share than in normal times. Companies that cut costs will have a rough time going back to the pre-recession period. An economic analysis involves 3 cost-related scenarios:

- a) to maintain costs at the same level,
- b) to cut costs by 50% for one year, then to go back to the normal level of costs,
- c) to cut/reduce costs by 100% for one year and then go back to normal costs.

In marketing, the large majority of companies opt for:

1. Promotional campaigns focused on the price
2. Redirecting budget onto direct marketing strategies
3. Specializing on a given market sector
4. The increase of the marketing budget is a measure adopted by only one third of the companies. Enterprises that froze or decreased the marketing budget explain this either through uselessness, or through lack of direction.

² Barbara Hruzova – Marketing Strategies during Financial Crisis, Masters Dissertation, Halmstad University, 2009, pag. 8-9

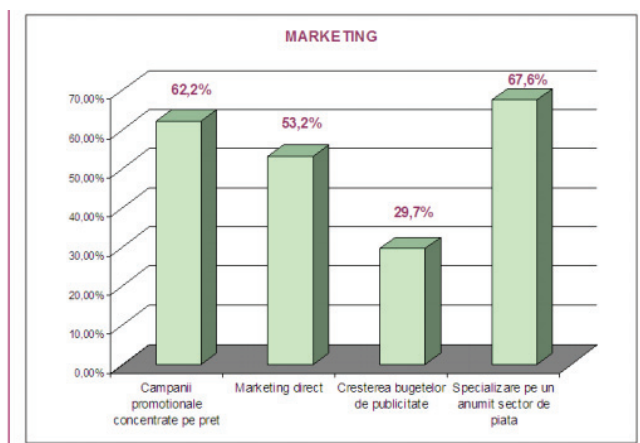


Figure 1: Investment in marketing in 2010

Source: www.businessday.ro

Company survival is a priority and reductions can be unavoidable. The safest reductions for the company can be:

- to cut the budget for small brands rather than for large brands
- many times, small brands have a disproportion of marketing costs because they try to grow, but large brands have a higher probability to generate incomes
- to exploit seasonality in order to make reductions outside periods with large sales.
- to support stagnating brands.

In sales, the most popular measures are:

1. The fidelity of existing customers
2. Developing the professional skills of the sales team
3. Flexibility as regards price negotiations
4. Attacking the competition portfolio

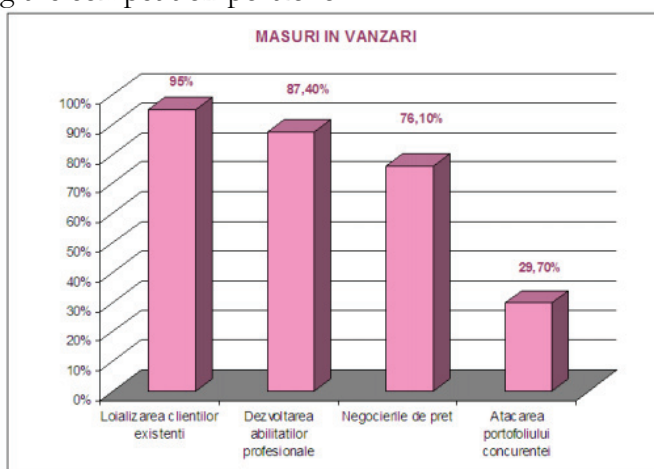


Figure 2: Sales strategy in 2010

Source: www.businessday.ro

A collateral effect of the discount phenomenon is team shopping, in which several persons interested in the same type of product get together and place additional pressure on the seller, aiming to obtain additional volume discounts. The consumer becomes thus stronger and stronger and more aware of his power, gradually developing a set of mechanisms whereby he can exert his newly-acquired quality. The second reaction to large price reductions refers to the evaluation of the said product as being morally worn or close to the limit of the guarantee period, which, again, is an image minus and affects the consumer's trust. The third reaction to massive discounts, which normally appears when the consumer notices the persistence to it in certain products or category of products, consists in questioning the quality of the product. Whether it is related to reality or not, this conclusion is finally commonsensical and should make us think when we make the decision to drop prices under a certain level. On the other hand, when a price does not modify or, at any rate, not significantly, the normal assumption can be again divided into two main components: the product is very popular and has a high demand on the market and the product already has a fair price. The fear not to lose the sales volume may be so strong, that a company may lose sight of long-term effects. Obviously, the temptation is enormous and the consumers will not hesitate to buy, but they will also expect in the future to see the same commercial behaviour from the said company. If the product is deemed capable to self-support itself as far as value is concerned (either emotional or utilitarian etc), customers who momentarily focus on cheaper variants will come back in the future, when the situation improves. But, once the territory of premium products is lost, it can hardly be won again.

Most companies apply approximately the same strategies to fight the crisis, but the effect of such measures is different depending on how these measures are put into practice.

Seven elements of good practice in the implementation of survival measures in crisis times were identified, which make the difference between successful companies and failing ones³.

Companies that manage to survive the crisis undergo the following stages:

1. They admitted that they will undergo a long period of crisis and that the idea to "hold on" for a few months until the crisis is over is nothing but an illusion.
2. They accepted the new market conditions and the new psychology of the buyer to persist even after economic recovery.
3. They have a long- and medium-term plan and strategy (3-6 years).
4. They adopt anticrisis measures through the lens of the long- and medium-term strategy, avoiding falling prey to temporary savings.
5. They train and involve their staff in making decisions to cut costs.
6. They train and adjust the staff professionally to the new market conditions.

³ Barbara Hruzova – Marketing Strategies during Financial Crisis, Masters Dissertation, Halmstad University, 2009, pag. 10-12.

7. They use specialized companies in the fields that implement such measures: renegotiations, sales development, staff efficiency and even lay offs where, unfortunately, they are necessary.

During crisis periods, the only solutions for survival are price reductions and discounts⁴. In fact, buyers are increasingly sensitive to price and the battle is for offers as tempting as possible for the market. The problem is that the moment customers get used to discounts, they will always apply the same buying strategy – the lowest price. Today they buy from a hypermarket, tomorrow from another, hunting for the best deal. Buyers even go to 5-6 stores until they purchase a product. It is obvious that no store or company can always have the best deal, and on the long term, the strategy of low prices is not useful. Customers are used to looking for the best offers from those who sell them the products, but nobody thinks that price is not always the best solution. Obviously, a good price will be tempting for the client, but even more so would be that people buy from you because you are different from the others due to your attitude towards your customers. The customer is not only an individual with some money in his pocket, but he also wants to be served politely, to be smiled at, to find products easily in the store, to be thanked for shopping there. Discounts and promotions are also important, but they do not ensure long-term survival. Moreover, a loyal customer is also willing to pay. We have to mention that buying habits do not change that easily. A customer does not give up a store he has been going to for years only because he found a better deal somewhere else. But he will leave if he finds somewhere else better deals and if he is treated better than at the store where he usually shops.

Consumers have become more careful about promotions and deals, they no longer make “experiments” (do not try new products they do not know and about which they heard nothing) and no longer put in their basket products they do not need thinking “Maybe we will need them”.

But promotions increasingly make consumers take decisions on the spur of the moment (in front of the shelf) and try different brands, wishing to validate their choices by comparing them to other brands.

Consumers pay more attention to the product expiry date, have reduced their visits to shopping centers, have bought from modern retail centers less fresh products, completing their necessary supplies from proximity shops or the market. Except for the segment that reduced both the quantity, and the quality of purchased products (16%) and which is very attentive to the product price and for whom offers, promotions and hard discount are a solution, for the others, the best value for money will remain the focus of attention. One of the effects of the modification of consumption behaviour is the significant migration of consumers from traditional stores to online ones, the most efficient in meeting consumers' needs.

⁴ <http://www.slideshare.net/oukearts/how-to-restrategize-your-company-in-an-economic-crisis-updated-and-expanded>

Retailers who do not have a well-organized business model will continue last year's series of bankruptcies⁵. But those who pay attention to the market trends, do not only have the chance to survive, but even to grow.

The change of consumers' behaviour in crisis periods is the main factor that influences the retail market. Romanians spend less, more seldom, calculate more the value for money and are more careful about promotions. This behaviour also leads to the change of retailers' strategy.

Besides the reduction of consumption costs and the behaviour change, retailers are affected because real estate developers reduces or renounced their investments, and competition became tougher, since in almost all cities, there is least one modern retailer (supermarket, hypermarket, discounter, mall etc).

Thus, in order to fight the financial crisis, some retailers slowed down or stopped their development, while others expended and will keep expanding in order to gain more market share.

On the short term, retailers in the former category will win, whereas on the long term, the latter category will win. On the whole, both in 2009 and in 2010 and 2011, those retailers who knew to adjust to consumers' need were and will be successful, because they did not limit their range of products, but provided customers with the products they need.

According to studies conducted by research companies in the field, in Romania, retailers gain customers by varying products and providing ranges of products for all tastes and budgets⁶. Together with the price, this is one of the main criteria that determine Romanians to select the store where they shop and has been part of the success strategy of large stores.

Knowing and adjusting to consumer's needs becomes the success key for retailers, since a simple analysis of sales and stocks is not enough to sketch a managerial strategy.

In 2011, retailers who communicate clearly and efficiently with their customers will gain. And they can do so through online social networks. Winners will also be the retailers who provide to their consumers products with the best value for money and who invest in their own brands.

Marketing programs should focus on impeccable services and customer loyalty, not on price reductions, that should be the promotion strategy used only occasionally. Providing advantages to loyal customers, fidelity cards, top services, these are the reasons for which customers keep coming back. They are willing to pay more for the product if they receive something extra.

In the United States, 61% of the companies use reductions, coupons and discounts as a strategy to attract customers in this period, and 57% of the customers admit that these methods are effective, motivating them to buy.

⁵ <http://www.freeworldacademy.com>

⁶ <http://www.freeworldacademy.com>

To conclude, we can say that removing marketing-advertising budgets is not a solution for survival during recession times. The effort to promote products and services has to focus on variants adjusted to the current moment, following the best impact with a minimum financial effort. Obviously, the attempt to obtain more from less requires energy, and the result is not always as expected. But in the end, the difference between success and failure is given by the best idea correctly implemented.

The idea is that contact with reality has to be kept during crisis times as well and managers should pay attention to the following issues:

- cost control;
- the nature and dimension of costs with the hired staff, stocks;
- profit margin;
- marketing-advertising budgets.

Therefore, care should be exercised in deciding price reductions. There are many variants to keep customers' interest alive, even during recession, besides the simplest solution of selling prices, especially that consumers adjust quickly and forget with difficulty.