

Mapping & Qualifying Consumption Changes In Product Categories During Recessionary Times

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INTRODUCTION

There is no official definition of *Recession*, but there is a general recognition that the term refers to a period of decline in economic activity. Very short periods of decline are not considered recessions. Most commentators and analysts use, as a practical definition of recession, two consecutive quarters of decline in a country's real (inflation adjusted) gross domestic product (GDP) - the value of all goods and services a country produces. Although this definition is a useful rule of thumb, it has drawbacks. A focus on GDP alone is narrow, and it is often better to consider a wider set of measures of economic activity to determine whether a country is indeed suffering from a recession. Using other indicators can also provide a timelier gauge of the state of the economy.

Though recessionary times are characterized by substantial declines in output, investment, imports and industrial production, the drop in consumption is comparably lesser (Claessens, Kose and Terrones 2008). The worldwide impact of recession has been drastic. It has dampened the movement of economic migrants to the major immigrant-receiving regions of the world (Fix, Papademetriou et al 2009). So far, as gender-based employment is concerned, there are signs that women's jobs will continue to be hit: so far, this recession is hitting sectors across the economy, and much growth over the last decade has been in the service sector, where women's jobs predominate (Trade Union Congress 2009). Note, the recession hasn't been any kinder to men or the young. For young people, the lowest qualified and those living in deprived areas, the fall in the employment rate over the past year has been higher than the fall in the overall rate. It also shows that both men and women have been adversely affected in the current recession, with bigger changes in labour market outcomes for men (Equalities & Human Rights Commission 2009). This may be the reason why in the wake of the global economic downturn, more than a quarter of employees surveyed worldwide say that the recession has made them more loyal to their employer (Kelly Services, 2010). Recession has also impacted the way people live their lives. Some 69% of the Americans have used the internet to cope with the recession as they hunt for bargains, jobs, ways to upgrade their skills, better investment strategies, housing options, and government benefits (Pew Internet 2009).

If one were to be region specific, developing East Asia is battling the forces of global recession. The impact of the crisis in the advanced countries was transmitted to the economies of the region with unusual speed (World Bank, 2009). In India, the impact of the crisis has been deeper than what was estimated by our policy makers, although it is less severe than in other emerging-market economies (Chaudhuri 2009). It also must be said that the recessionary impact in India hasn't been a catastrophe (Acharya 2009). Consumption-wise too, recession has changed the way people shop. In fact, in a recession, consumers become value oriented, distributors are concerned about cash, and employees worry about their jobs (Quelch 2008). Many other prescriptive recommendations have been considered. If public services are considered, Recession creates an innovation challenge for public services that will require more devolved, networked approaches to deliver services more effectively at a lower cost. Many of the most effective social responses to recession will come from networks of social and civic entrepreneurs (Leadbeater and Meadway 2008).

The marketer reaction to consumption during recessionary times has to be crafted primarily based on mapping two consumer responses. One, in terms, whether the consumer has reduced on the quantum in purchase, and two, on whether the consumer has switched brands.

Take the case of cell phone plans in the United States. The first annual ORC survey for NMRC on cell phones and economic trends (March 2009) found that as fears about the recession become more widespread, millions of Americans were on the verge of disconnecting expensive cell phone plans. Two out of five Americans with contract-based cell phones, 39 percent or 60.3 million consumers were likely to cut back on their cell phones to save money. To

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the question of recession prompting Brand switching, it is first pertinent to understand the phenomenon of brand switching. Brand switching can be defined as a consumer decision to purchase a product brand different from that previously or usually purchased. If on a general note, household purchases are studied, it's seen that in successive purchases of specific products, very few households are completely brand loyal (Ehrenberg (1972), Bass (1974), Blattberg & Sen, 1976)), and it is also seen that brand switching is typical for low involvement category goods. Its been seen that there's been a farewell to conspicuous consumption during recessionary times coupled with a persistence in more frugal behaviors - such as trading down to private labels and buying packaged foods rather than eating out (Booz & Co. 2009). Furthermore, shoppers indicated they would like to see more discounters such as Target, Wal-Mart, Kmart, TJMaxx at their local mall (Shopping Habits Report 2009).

RECESSION - AN INDIAN OVERVIEW

The scenario in India was no different. The pink slips were fast replacing the pay slips, thanks to the recession blues. Thousands had already been given the marching orders and more heads were apprehended to roll in the times ahead. The MNCs in the IT sector, BPOs and other organizational fields were already feeling the heat of the western disturbance. Global economic meltdown of 2008 affected almost all the countries. The strongest of American, European and Japanese companies faced severe liquidity and credit crisis. India was not insulated either. The prime reason being that the world trade does not function in isolation. All the economies are interlinked to each other, and any major fluctuation in trade balance and economic conditions cause numerous problems for all other economies. According to official data, industrial growth in August 2009 plummeted to mere 1.3% compared to the same month in 2008. That definitely caused concern for policy makers and industries. This data raised fear of low GOP growth of India. It was suspected that India as a country will face huge problems in achieving even 7.5% growth rate in the fiscal 2009-10. 1.3 percent industrial growth was the lowest IIP (index Of Industrial Production) data ever registered since the last ten years. April-August 2008 industrial growth rate was 4.9%, which was also the lowest for the first five months of a financial year in a 14-year period except 1998 and 2001. The real estate sector was one of the worst hit. The demand for houses reduced significantly, and property prices across India registered a 15-20% fall. The woes of real estate spread to the construction industry as well. Financial services segment was also a major victim of economic slowdown because of less demand for credit and reduced liquidity in the markets. Industrial slowdown also affects the transport services. Transport companies witnessed a drastic fall in their businesses and profits. Global recession also leads to lesser tourists visiting India. That negatively affects the tours and travels industry. The Indian financial system has very little exposure to foreign assets and their derivative products, and that's the prime reason India wasn't as adversely affected as other major countries.

RECESSION AND ITS EFFECT ON THE APPAREL INDUSTRY

The apparel and accessories sector, which falls in the discretionary category, witnessed a 30-35 per cent lower sales on the back of the slowdown, which triggered salary cuts and retrenchment across sectors. Industry leaders agreed that being a non-essential category, apparel and accessories felt the recession pinch. While sales in the metropolis weakened severely, companies relied on the C and D category towns as they were doing well. As the consumers in C and D category towns are not exposed to stocks and other investments, they are not affected to the extent metropolis consumers are.

RECESSION AND ITS EFFECT ON THE ENTERTAINMENT INDUSTRY

✿ **Eating Out :** Food, man's basic source of sustenance, was hit by the sagging economy too. As per Rediffmoney.com, the F & B industry lost sales to the tune of 10 to 15%. Patrons believe they cannot possibly bite more than they can chew and ,therefore, have to cut their costs as per the resources available. And with this relentless recession , the capacity to burn a deep hole in one's pocket partially goes to the backseat. With the given limitations, the revelers were open to eating out, but would only dabble in, if incentivised for sampling innovative dishes and rare combos, which are a real departure from the usual run-off-the-mill recipes. In hard times, revelers think twice before heading for a slick lounge, pub or a hookah bar. Businesswise, the moolah-metre lodged a fall by 15 to 20 per cent.

✿ **Movies :** There is a belief that the food and film industry are recession-proof. People indulge in stress eating, and stress (film) watching too. But ironically, Bollywood was stressed too. Bollywood went through one of its worst

phases in the last 3 years. Its collections for the period of March 2009 stood at ₹ 60 Cr, lowest in a single month. Its generation under normal circumstances averages about ₹ 110 Cr. There are certain production houses - the big brands - that openly claimed to being victimized by the recession, owing to a steep fall in the sale of tickets. According to bookmyshow.com, online bookings had gone down by 40%.

✿ **Leisure Travel** : Incredible India too felt the heat. No, it's not the summer. It's the slow drying up of order books for leisure travel and hotels. Travel agents reported a 20-25% dip in leisure bookings for the holiday season, although the epicenter of the trouble, was about 16,000 miles away. Travel agents reported a dip of around 25% in leisure travel bookings within India for the coming summer season. Travel plans are usually finalized at least six months in advance and in the wake of the US slowdown, not many queries and bookings came in. MICE (meetings, incentive, exhibitions and conferences) travel and corporate traffic was also impacted by the US recession. Occupancies in hotels in metro cities, which cater to leisure tourists, dipped by 18-20% in May and June. The flow of domestic tourists was down to a trickle. The downturn in the IT sector also took a heavy toll. A major chunk of clients of the Resorts and Hotels were the IT crowd. Fear of job loss forced young professionals to stop spending on leisure and travel.

OBJECTIVE OF THE STUDY

The objective of this research is to study recession driven alteration in consumption patterns across two categories: Apparel and Entertainment, specifically eat outs, movies and leisure travel. It also qualifies precisely, which set of consumers have made the alteration and learns what the new drivers of value are to them.

METHODOLOGY

✿ **Research Type:** Since the primary purpose of the study is to generate insights about a situation, it is exploratory in nature. The nature of the study has helped in understanding the situation better.

✿ **Data Sources:** The data sources are a mixture of both:

✿ **Primary Sources:** Part data has been collected exclusively for the study in question and primary sources fitting the sample design were used.

✿ **Secondary Sources:** These were a combination of data on the internet, research reports on websites of research agencies, periodicals and other journals.

✿ **Data Collection Methods:** Questionnaire Survey and Informal Interviews. The questionnaire survey helped get the answers in a direct manner. And the informal interviews helped get a well-rounded understanding of the nuances of a shopping act.

SAMPLE DESIGN

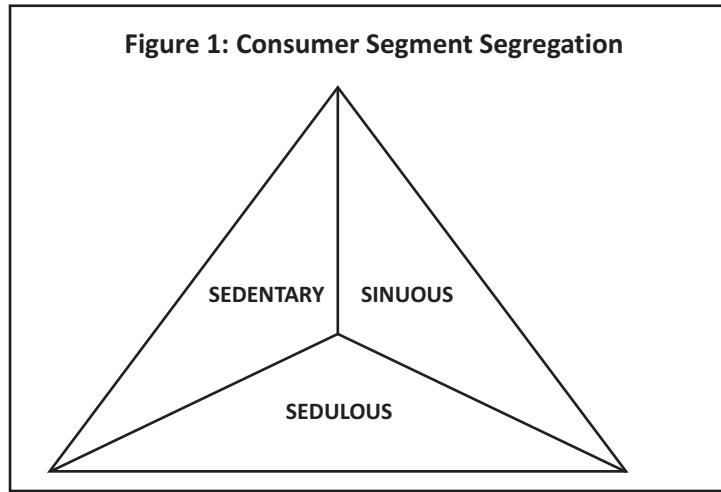
✿ **Sampling Method:** The sampling method followed was Probability sampling, as the choice of the sample units was more objective than random in nature. Within this, a combination of Simple Random and Stratified Sampling was used, thereby, making an equal and known probability for every sample unit to be chosen as the study sample. The sample was 2 pronged in order to get a wholesome view of the state of affairs.

✿ **Sample Size:** 150 respondents comprising students, professionals, businessmen and others, in the age group of 25-35 years acted as the respondents. A primary consideration was to rake in those with a job loss or a salary cut. And, on the other end, were the store managers and restaurateurs of the following outlets, who served as sample sources too. Store managers of the following apparel stores: Bangalore Central, Pantaloons, Lifestyle, Shoppers Stop. Managers of the following restaurants were enrolled in too: Herbs and Spice, Empire, and Ballals.

FINDINGS

Depending on the variables considered in the sampling, the following segments have been derived:

1. Sedulous
2. Sinuous
3. Sedentary



The Sedulous, Sinuous and the Sedentary segments have common behavioural traits. And the behavioural segmentation carried out is dependent on attributes like the benefit sought, product usage rate, brand loyalty, product end use, buyer-readiness stage, decision making unit, profitability and the income status.

SEDULOUS

103 of the 150 studied, the Sedulous category comprises of those who have put a salary cut or a job loss behind them. The ones hardest hit by the slowdown, dedicated and careful, they seem to have psychologically absorbed the jolt and show the following characteristics:

- ✿ A conscious decrease in expenditure across categories.
- ✿ A 'we' approach to any purchase, replacing the 'me'.
- ✿ Attempting to find the difficult convergence of Quality and Affordable Price in any given product.

Looking at the Sedulous behaviour, specifically towards the categories in question:

✿ Apparel:

- ✿ The strangest discovery brought out in the study is that the Sedulous stay loyal to their choice of brands and do not switch to low cost options.
- ✿ In terms of Brand Evaluation, their long preferred brand holds the same meaning it did, and they believe they are in their best attire with them on.
- ✿ They, however, reduce the frequency of purchase and the quantum per purchase.
- ✿ The Sedulous now 'save' longer and end up buying their favourite brand.

The Table 1 brings out the transition.

✿ Entertainment:

- ✿ They have been quick at altering on the entertainment front, and show the following trend:

✿ Eating Out: The Sedulous cut down on dining out, replace it with either takeaways or cooking at home. They however admit to rewarding themselves by using premium ingredients and cooking their desired cuisine at home.

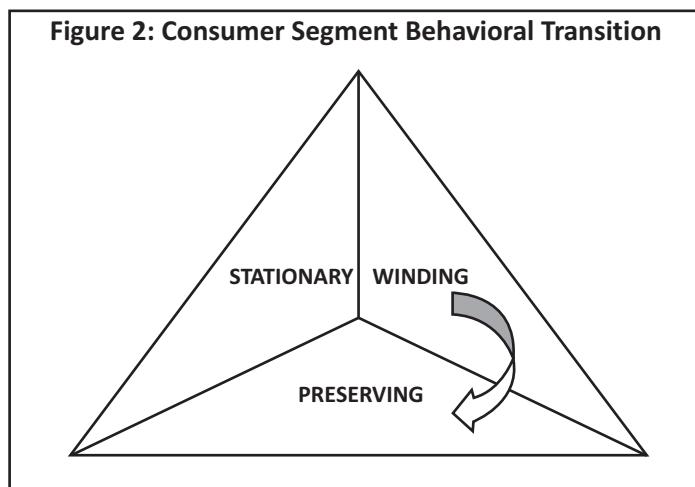
Table 1: Consumer Transition Behaviour Regarding Apparel	
FROM	TO
✿ Different style, every occasion.	✿ A one for all piece.
✿ Different colours depending on the time of the day.	✿ One colour goes all day.
✿ Any number of pick-ups.	✿ Make a conscious purchase of not more than 2.
✿ Value style in every purchase.	✿ Value function over style.

✿ **Leisure Travel:** The Sedulous, a young lot, who had a travel plan almost every alternate weekend, brought down the same by preferring local spots or eliminating travel altogether. They also prefer public transport over private, in an attempt to save fuel costs, albeit with some amount of inconvenience.

✿ **Movies:** Sedulous now prefer watching movies at home hiring DVDs, and have cut down on expenses to the extent of watching the same at home rather than a multiplex.

SINUOUS

They comprise a sect speculating a job loss or a decline in salary. Hitherto untouched by the shudder, the 2's are in a worrisome state, and will soon be seen in the Sedulous mode, altering their ways and means to the situation. At the core of the 2's intention is to '*Save more*', in order to smooth sail the tide when they encounter it.



The following elucidates the 2's, behaviour in the categories in question:

✿ **Apparel:** Purchases stable so far, however, they intend to cut it down, both in terms of frequency and quantum. The 2's, wish to bring about this change right away, before the situation gets compelling. And in most cases, the switch has already taken place. They would not forgo their favourite luxury brands totally, but will be more discerning before they zero in on one.

✿ **Entertainment:**

✿ **Eating Out:** Have brought down the frequency and switched to low cost options. Although not as drastically as the Adaptors.

✿ **Movies:** Pursuing the same practices as the Sedulous.

✿ **Leisure Travel:** Switched to more economical means, and have cut down on travel.

SEDENTARY

The unaffected. A segment along the same age group, they comprise a populace totally confident about the present and the future. They show no alteration in their approach and continue to make both big and small ticket purchases in the same manner as they did. These consumers continue to buy happiness and status by sticking to their most coveted designers or places of dining. Their consumption behaviour is stable across the categories in question. In fact, they continue aspiring for better brands and upgrades in all their purchases.

BUYING DECISION PROCESS: ALTERATIONS TO THE DECISION PROCESS

✿ **Stage 1: Problem Recognition :** At this level, a consumer has altered himself to the extent that what used to seem a problem earlier or a deprivation earlier, no longer seems so. He has changed his spending priorities and qualifies only his needs as his problems and not his wants. Especially, the luxury needs. He '*makes do*' with most needs/desires, and in

most cases, considers purchase of only the bare minimum. Ex: An individual who previously engaged in series of purchases, i.e, oil, shampoo and conditioner, for her end goal of having beautiful hair has now plummeted her 'need', to just wanting a shampoo, to cleanse her hair. Thereby, the priority switches to only *needs*, which are functional in nature.

In case of the categories being studied, the approach towards apparels is more - '*one shirt fits all occasions*', thereby cutting out categories that serve exclusive needs such as party wear, wedding wear or club wear. Similarly, Entertainment too, is to some extent banished at the '*need recognition*' stage, since majority respondents are determined to cut back on extravagance. Alternatively, if its at its maximum, they set out once in a while to avoid deprivation.

❖ **Stage 2: Information Search** : At this stage, the alteration is seen in additional information sources surfacing, those being:

❖ **Digital sources:** This comprises the side to side comparison of prices on the internet (Will be carried out more often).

❖ **Aisle:** The respondents, instead of staying rigid to any one design (Apparels) or ticket purchases in case of movies, carried out the necessary mental work at the point of purchase to analyze offerings and pick the better benefactor.

❖ **Stage 3: Alternative Evaluation** : Out here, the difference lies in the subjective aspects mattering lesser to the consumer than they ever did. His evaluation is more objective and his primary concern, is making ends meet.

❖ **Stage 4/5: Purchase Decision / Post Decision Behaviour** : What's heartening is no large scale '*switching*' has taken place. However, what's worrisome is the decrease in consumption quantum and the replacement of a commercial buy to '*do it at home*'. There is comparatively lesser or no possibility of dissatisfaction or Cognitive dissonance occurring, since the consumer now is at his careful or cautious best. He would act more restrained and less impulsive to most purchases.

INVOLVEMENT & PROBLEM SOLVING VARIATIONS

It is to be noted that, Consumers may skip or minimize one or more steps in the purchase decision process depending on:

- ❖ The level of involvement,
- ❖ The personal, social, and economic significance of the purchase.

Three characteristics of high-involvement purchase:

- ❖ Is expensive,
- ❖ Can have serious personal consequences, or
- ❖ Could reflect on one's social image.

At its most basic level, a routine problem solving behaviour has altered and escalated to a Limited problem solving behaviour. The first distinct downturn change identified was consumers - often in previously low interest categories - simply think more about the brands they choose. Some consumers go further and attempt to rationalize their original purchase choices. Consumers also read packaging labels or scan the restaurant menu more to identify where they can get most value, especially in food. Recession consumers talk more to retail and sales personnel on the phone and shop floor. And, naturally, there is a lot more scouting for volume or price deals.

IMPLICATIONS & RECOMMENDATIONS

1) Price Cuts, Not Discount Sales: As it turned out, the respondents did show a consistency in their choice of brands despite the constraints. In order to fuel up sales, the clothing company should lower the price and not put the products on a discount. This would retain the integrity of the brand, and the brand meaning, both of utmost importance to the consumer.

2) Addition of 'Modifier Level Brands': Since each brand is targeted at a certain segment and since there exists the Sedentary and Sinuous, a company could look at sub-brands, a slightly lower cost version of the original, in order to protect and ensure value for money purchases for the Sedulous.

3) Simplicity And Transparency: Since the customer has become more cautious and careful, outsmarting him is passe'. He would be impatient to complicated calculations and would rather appreciate being honest and to the point.

4) Tangible Savings: The need of the hour, is to rise over a back end strategy, and make the differential amount look louder and evident. The consumer should walk back with a feeling of having saved money.

5) Stay Strong: Like stated earlier, it is in the best interest of the brand to stick to a proposition it has long identified itself with, irrespective of how much it tempts to make a shift or let the positioning loose.

6) New Opportunities Exist: The study revealed that families are now eating out less and cooking more meals at home. Thereby, an innovation or more variety in packaged foods could payback dearly.

7) Kill The Twelve-Month Business Plan: It has been brought out that it's difficult for clothing outlets to make a reversal in pricing, owing to the rigidity in strategy and disconnect between the store and the boardroom. This recession seems to be changed way too much in the last quarter to rely on old assumptions and realities.

8) A Crisis Is A Terrible Thing To Waste - Anonymous: Some of the brands born in a recession today have enough stronghold not to lose their customers to others. Ex: McDonalds, MTV, Pizza Hut.

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