Impact of current economic crisis on consumer spending marketing essay

INTRODUCTION

Cyprus, as many other countries around the globe is plagued by an economic crisis that affects many aspects of business and human life, such as investments, spending, savings, consumption, etc. Encouraged from the adverse economic conditions, the current study focused in identifying the impact of the current financial crisis on the spending and behaviour of Cypriot consumers. Specifically, the research was driven by the need to identify the impact of the current economic crisis on consumer spending in Cyprus; to compare spending and purchasing power of consumer before and during the crisis, for the purpose of identifying the magnitude of impact that the crisis has on consumer spending; to compare the behaviour and attitudes of consumers before and after the economic crisis; and to identify the views of consumers with regard to the future of the economy and whether they are pessimistic/ optimistic about it.

Given the current situation with the economic crisis around the world, it would be particularly interesting to research the impact of this state of the economy on the spending and behaviour of final consumers. It is said that an economic crisis creates chain reactions within an economy, reducing the supply of money and eventually, consumer spending.

Further, the fact that Cyprus has long time to experience such an economic crisis, it would be quite interesting to see how this crisis affects consumer spending in Cyprus, as well as the overall behaviour that consumers start to exhibit given the adverse economic conditions in the country.

Further, another interesting area of research would be the differences in consumer attitudes at two distinct periods, before the crisis and after the crisis. This and the aforementioned would be interesting in the sense that it would reveal the overall impact of the economic crisis on consumer behaviour and attitudes.

Research Problem

The world today is plagued by an economic crisis that affects many aspects of business and human life, such as investments, spending, savings, consumption, etc.

As in many countries around the globe, Cyprus is also in a sense affected by the crisis, with many consumers expressing their discomfort with regard to their diminishing spending power and inability to purchase things with the same comfort as before.

Objectives

In line with the purpose of the research project, the following objectives will be pursued:

To identify the impact of the current economic crisis on consumer spending in Cyprus

To compare spending and purchasing power of consumer before and during the crisis, for the purpose of identifying the magnitude of impact that the crisis has on consumer spending

To compare the behaviour and attitudes of consumers before and after the economic crisis.

To identify the views of consumers with regard to the future of the economy and whether they are pessimistic/ optimistic about it.

LITERATURE REVIEW

Consumer behaviour relates to the buying behaviour of final consumers – individuals and households that buy goods and services for personal use (Kotler and Armstrong, 1999).

According to Graham and Isaac (2009), the core assumption is that consumer behaviour is reasonably characterized as the maximization of expected lifetime utility subject to a budget constraint and conditional on the available information. In short, consumer behaviour can be characterized as the solution to a discounted dynamic programming problem. For economists, this approach has many attractions: it meshes well with traditional notions of economic rationality, it is theoretically tractable (at least in its standard formulations), and it generates predictions that are readily testable.

Researching consumer behaviour is very important for businesses since they become aware of how consumers make their final purchase decisions, what do they buy, where they buy, how and how much they buy, when they buy, and why they buy. The company that really understands how consumers respond to different product features, prices, and advertising appeals has a great advantage over its competitors (Kotler and Armstrong, 1999).

Factors Affecting Consumer Behaviour

To obtain a better understanding of consumer buying behaviour and why consumers buy as they do, many specialists have turned to the behavioural sciences for help (Perreault et al, 2000). Under this perspective, consumer purchases are said to be influenced strongly by cultural, social, social, personal, and psychological characteristics (Kotler and Armstrong, 1999).

Figure 1: Factors influencing consumer behaviour

Source: Kotler and Armstrong, 1999; p. 135

Social

Reference groups

Family

Roles & status

Personal

Age & life-cycle stage

Occupation

Economic situation

Lifestyle

Personality & self concept

Cultural

Culture

Subculture

Social class

Psychological

Motivation

Perception

Learning

Beliefs and attitudes

Buyer

Cultural factors often exert the broadest and deepest influence on consumer behaviour. A person that examines consumer behaviour has to understand the role played by the consumer's culture, subculture, and social class. Culture refers to the basic values, perceptions, wants, and behaviours learned from the family and other important institutions. Subculture refers to a group of people with shared value systems based on common life experiences and situations. Social classes are relatively permanent and ordered divisions in a society whose members share similar values, interests and behaviours. All these similarities shared among group members of similar cultures, sub-cultures, and social class groups influence by a great extent people's buying behaviour (Kotler and Armstrong, 1999).

Social factors, such as the relations with other people and the role and status that one has in the society can affect his/ her purchasing behaviour. Family members share similar attitudes and values and tend to affect many aspects

of consumer behaviour. At the same time, reference groups, which include people that an individual wants to become like or imitate, tend to affect purchasing decisions. Individuals tend to take values from reference groups and make buying decisions based on what the group considers acceptable (Perreault et al, 2000). Finally, a person's position and role in each of the groups he/she participates in, such as family, clubs, and organisations determine this/her buying behaviour (Kotler and Armstrong, 1999).

Personal factors that may affect a buyer's decisions may include the buyer's age and life-cycle stage, occupation, economic situation, lifestyle, and personality and self-concept (Kotler and Armstrong, 1999). The impact of each of these factors is explained below (Rai University, 2008):

Age and Life cycle Stage: The life cycle is an orderly series of stages in which consumer attitude and behavioural tendencies evolve and occur because of developing maturity, experience, income, and status. Marketers often define their target market in terms of the consumers present lifecycle stage.

Occupation And Income: Today people are very concerned about their image and the status in the society which is a direct outcome of their material prosperity. The profession or the occupation a person is in again has an impact on the products they consume. The status of a person is projected through various symbols like the dress, accessories and possessions.

Life Style: Our life styles are reflected in our personalities and self-concepts, same is the case with any consumer. We need to know what a life-style is made of. It is a person's mode of living as identified by his or her activities, interest and opinions. There is a method of measuring a consumer's lifestyle.

This method is called as the psychographics-which is the analysis technique used to measure consumer lifestyles- peoples activities, interests and opinions. Then based upon the combinations of these dimensions, consumers are classified.

Personality: personality is the sum total of an individual's enduring internal psychological traits that make him or her unique. Self-confidence, dominance, autonomy, sociability, defensiveness, adaptability, and emotional stability are selected personality traits.

The Psychological Dimension: Consumer Perceptions & Attitudes

Consumer buying behaviour is greatly affected by their perceptions and attitudes. Perceptions refer to the way consumers gather and interpret information from their surroundings. Consumers may be constantly bombarded by stimuli- advertising, products, shops – yet they may not hear of see anything. This is because they apply the following selective processes (Perreault et al, 2000):

Selective exposure: Consumers seek out and notice only information that is of interest to them

Selective perception: Consumers screen out or modify ideas, messages, and information that conflict with previously learned attitudes and beliefs

Selective retention: Consumers remember only what they want to remember

Attitudes, at the same time have a great impact on a consumer's purchasing behaviour. An attitude is a person's point of view towards something, such

as a product, an advertisement, a firm, a salesperson etc. Attitudes tend to affect the selective processes, learning and eventually the buying decisions that people make (Perreault et al, 2000).

The Global Crisis: Overview

The world economy is mired in the worst financial crisis since the Great Depression. What first appeared as a sub-prime mortgage crack in the United States housing market during the summer of 2007 began widening during 2008 into deeper fissures across the global financial landscape and ended with the collapse of major banking institutions, precipitous falls on stock markets across the world and a credit freeze. These financial shockwaves have now triggered a full-fledged economic crisis, with most advanced countries already in recession and the outlook for emerging and other developing economies deteriorating rapidly, including those with a recent history of strong economic performance (UN, 2009).

The genesis of the current global financial crisis started between 2002 and 2006 when lending to the household sector in the United States of America (USA) was growing at a rate far beyond the overall economic growth. The global economic crisis first emerged as a financial crisis. Subsequently, the financial crisis created a recessionary economic environment in which commodity prices, particularly copper, deteriorated significantly. The impact of the global financial and economic crises on economies around the world has been on investment, imports and exports to individual economies.

The crisis unfolded in a systematic manner with the initial impact being through financial flows. As losses materialized in financial institutions in the

US, the capital base of these institutions declined, increasing the concerns about their ability to sustain losses. This led to a drying up of credit in the interbank and short term money markets – precisely at a time of increasing demand for liquidity by financial institutions, popularly known as the credit crunch. As a consequence, domestic demand plummeted in the US and most industrial countries resulting into high inventory levels for finished products both locally produced and imports. Visible effects of the crisis were seen in the US domestic car and housing industry. The net effect of these developments was a withdrawal of funds from risky assets such as equity and private investment vehicles such as hedge funds, towards safe and liquid assets such as Government securities (Bank of Zambia, 2009).

METHODOLOGY

In the case of the present research, the tool of survey was employed, which involved the use of a structured questionnaire that had to be filled by a number of individuals within the targeted population (see sections below for details).

The target population, of the research was final consumers, between 20 and 60. Ages apart from these were not considered, for the reason that these groups are often at a disadvantage compared to the rest in terms of conducting purchases. For example, a large percentage of individuals less than 20 years old or more than 60 are not employed, thus they do not have similar disposable incomes that the rest of the groups.

Originally, the researcher aimed in the collection of data from a number of 150 individuals. Eventually, the research yielded 105 completed

questionnaires, from a number of individuals across Cyprus. Stratified sampling was utilised for yielding a representative sample across the country. Respondents were categorised into five major groups according to the district of tenancy. i. e. target population was segmented into the following districts: Nicosia, Limassol, Larnaca, Paphos, Famagusta (the area controlled by the Republic of Cyprus)

Table 1 presents the structure of the sample that has been drawn for the purpose of the study. It provides details regarding the actual population distribution of the country, and the sample drawn from each district so that this would resemble the distribution of population. The distribution of the sample across the five districts of Cyprus was based on the Cyprus Demographic Report 2007, issued by the Statistics Department of the Government of Cyprus.

This sample stratification, aimed in the collection of data that would be more balanced, and could be better generalized so as to express the pattern of population distribution across the country.

Table 1 Stratified Sample and Final Distribution of Completed Questionnaires

District

Actual Population

Percentage Distribution

Initial Sample

Final Completed Questionnaires

Distribution of Completed Questionnaires

Famagusta

43, 700

5. 6%

9

6

5. 7%

Larnaca

131, 900

16. 7%

25

18

17. 1%

Limassol

226, 700

28. 7%

43

31

29. 5%

Nicosia

310, 900

39. 4%

59

43

41. 0%

Paphos

76, 100

9. 6%

14

7

6. 7%

Total

789, 300

100%

150

105

100. 0

Source: Cyprus Statistical Service, 2008

In order to find these individuals, the sampling procedure that was used was the one of systematic random sampling, that includes selection of research subjects (i. e. in our case the final consumers) on the basis of a systematic way. Using this technique, the participants in the study were chosen on a purely random basis. In order to make this possible, the researcher chose key-locations in each district, where a large number of people would be found. Since the research was targeting final consumers, key-shopping centers would offer a good location for reaching these individuals. The researcher approached potential participants in the following locations in each city: Nicosia: The Mall of Cyprus, Limassol: My Mall, Paphos: The Paphos (Orphanides) Mall, Larnaca: Orphanides Supermarket (Timayia Avenue)

The researcher was positioned at the main entrance of each establishment mentioned above and was approaching potential respondents using a systematic random procedure. This involved reaching every 10th individual

exceeding the building. An initial question screened-out all these individuals that were not between 20 and 60 years old.

The data were collected through the use of a structured questionnaire. This questionnaire involved closed questions (not open-ended), which mainly included:

Dichotomous questions (e. g. Yes/ No, Male/Female)

Multiple choice questions (e. g. age groups)

Likert scale questions (e. g. assessing the attitudes of consumers or the importance assigned to factors influencing purchases)

This questionnaire included three major parts that are described below. Prior of asking any questions, the researcher attempt to build familiarity among respondents about the nature and purpose of the study. For this purpose, an introductory paragraph was included that provided relevant details to respondents.

The first part of the questionnaire included the screening question that screened out all these individuals that were not between 20 and 60 years old. The second part included a number of demographic questions such as the district of tenancy, gender, and education. The first and second part mainly included questions that were dichotomous and multiple choice in nature. The third and last part assessed the attitudes and perceptions of consumers users against a number of factors, at two time periods, before and after the financial crisis. All these perceptions and attitudes were measured using likert scale questions, which asked from the responses to

rate a number of variables/ statements using a scale from 1 to 5 (1= low, 5 = high).

The questionnaire was pilot tested with approx 5% of the sample (e. g. 7-8 individuals) in order to assess whether it is understandable and can be useful in the collection of all needed information. The pilot stage did not reveal any problems with the questions included in the questionnaire.

Finally, the data that were collected, were subsequently transferred into the statistical software SPSS, where they were analyzed using appropriate data analysis techniques, including:

Frequencies (e. g. for observing the percentage distribution of participants in terms of age, gender, educational level etc)

Descriptives (e. g. for observing the mean responses of participants in scale questions)

Age groups and gender

Table 2 and figure 2 in the appendices provide details regarding the age-groups of participating individuals. A percentage of 28. 6% of the total sample (N= 105) had an age between 20 and 29, 29. 5% were between 30 and 39 years old, 24. 8% fell into the 40 to 49 years old group, and 17. 1% within the 50 to 59 years old group.

As far as gender is under concern, the survey led in the collection of data from 59 males and 46 females, representing 56. 2% and 43. 8% of the total sample (N= 105), respectively (see table 3 in the appendices)

Impact of financial crisis on consumer spending and overall consumption

In a question, the respondents were asked to indicate the impact that the crisis had on their overall spending and consumption. Table 4 in the appendices show relevant details from the responses given. The majority of the participants (3/4 or 77. 1%) indicated that the crisis had a negative impact on their spending and consumption patterns. Further, 19% of the participants indicated that the crisis did not affect their overall spending. It was only 3. 8% that mentioned that the financial instability affected them positively leading in an increase in their overall spending.

Attitudes of Consumers against Spending before and after the Crisis

The participating individuals were asked in the course of the survey to indicate their attitudes towards spending at two different time periods, before and after the financial crisis.

Table 5 in the appendices presents consumer attitudes relevant to spending, before the financial crisis. The results show that prior to the crisis:

The consumers were not conservative in the purchases of products or services that they were making (m = 2. 76, SD = 0. 925).

The consumers were not exerting strict control over their expenses (m = 2. 81, SD = 1. 186).

The consumers were not, at all, using any planning tools such as budgets in their course of their overall spending (m= 1. 90, SD = 0. 815).

The consumers were feeling confident when buying products and services (m = 2. 14, SD = 0. 777).

The consumers were not feeling stressed when making purchases of products and services (m = 2. 19, SD = 0. 856).

The consumers were not feeling, at all, the need that they had to live their life as economic as possible (m = 1. 90, SD = 0. 613).

From the other hand, the participants were asked to indicate their overall stance towards spending during the post-crisis period. Relevant results are presented in table 6 in the appendices. The findings show that after the crisis:

-The consumers become conservative in terms of their purchases of products or services (m = 3. 71, SD = 1. 081).

The consumers start exercising control over their expenses (m = 3. 76, SD = 1. 197).

The consumers start using planning tools such as budgets in their course of planning their overall spending (m= 3. 29, SD = . 988).

The consumers feel less confident when buying products and services (m = 3. 76, SD = 1. 070).

The consumers feel stressed when making purchases of products and services (m = 3. 62, SD = 0. 955).

The consumers feel the need that they had to live their life as economic as possible (m = 3. 62, SD = 0. 955).

Habits/ Frequency of Purchase of Product Categories before and after the Crisis

Another question was asking respondents to indicate their buying habits and frequency of purchase of certain product categories at two different time periods, before and after the financial crisis. The results from the analysis of the responses are presented in table 7

Table 7 shows details regarding consumers' buying habits and frequency of purchase of products by category, during the period that preceded the financial crisis. The results show that prior to the crisis:

The consumers were purchasing essential goods, such as food, beverages and important consumables very often (m = 4. 14, SD = . 893).

The consumers were buying products such as clothes, regularly (m = 3. 81, SD = 1. 010).

The consumers were buying products and services for their house, such as appliances or decoration, again regularly (m= 3. 14, SD = 1. 087).

The consumers used to buy often luxurious goods, such as jewelry and branded sunglasses (m = 3. 33, SD = 0. 997).

The consumers were buying regularly electronic products such as PCs and mobile phones (m = 3. 90, SD = 1. 024).

The consumers were eating out very regularly (m = 3. 90, SD = 1. 024).

The consumers were spending time on a very regular basis for entertainment purposes (e. g. visiting cinemas, clubs, cafes, pubs) (m = 4. 00, SD = 0. 877)

The consumers were cooking at home on an average basis (i. e. neither regularly nor occasionally) (m = 3. 00, SD = 1. 118)

Table 8, in turn, provides information related to consumers' buying habits and frequency of purchase of products by category, after the crisis. The results show that after the crisis:

-The consumers purchase essential goods, such as food, beverages and important consumables, still very often (m = 3. 95, SD = . 848).

The consumers buy clothes, neither regularly, nor sporadically (m = 2. 95, SD = 1. 259).

The consumers are buying products and services for their house, such as appliances or decoration, sporadically (m= 2. 57, SD = 1. 099).

The consumers buy luxurious goods, such as jewelry and branded sunglasses, again on an irregular basis (m = 2. 67, SD = 1. 214).

The consumers are buying electronic products such as PCs and mobile phones neither regularly, nor sporadically (m = 2. 86, SD = 0. 945).

The consumers are eating out irregularly (m = 2. 62, SD = 1. 180).

The consumers spending time on a regular basis for entertainment purposes (e. g. visiting cinemas, clubs, cafes, pubs) (m = 3. 57, SD = 0. 908)

The consumers are cooking at home on a regular basis (m = 3. 76, SD = 1. 070)

Consumer Perceptions regarding the Future of the Crisis

The final question was asking respondents to indicate their opinions regarding the future of the crisis and the extent to which they were optimistic or pessimistic regarding the economy and their overall spending. The responses to this question are summarised in table 9 Analytically, the study revealed the following:

The respondents believe that economy will take long time until it will fully recover (m = 3. 62, SD = 1. 004).

The respondents believe that consumers will regain their confidence, only as soon as the crisis stops (m = 3. 71, SD = 1. 035).

The participants believe that the purchases of goods will remain conservative as long as the crisis lasts (m = 3. 62, SD = 1. 095).

The respondents are not generally optimistic for the future of the economy (m = 3. 48, SD = 1. 010).

CONCLUSION

Cyprus, as many other countries around the globe is plagued by an economic crisis that affects many aspects of business and human life, such as investments, spending, savings, consumption, etc. Encouraged from the adverse economic conditions, the current study focused in identifying the impact of the current financial crisis on the spending and behavior of Cypriot

consumers. Specifically, the research was driven by the need to identify the impact of the current economic crisis on consumer spending in Cyprus; to compare spending and purchasing power of consumer before and during the crisis, for the purpose of identifying the magnitude of impact that the crisis has on consumer spending; to compare the behavior and attitudes of consumers before and after the economic crisis; and to identify the views of consumers with regard to the future of the economy and whether they are pessimistic/ optimistic about it.

The study identified negative changes in the attitudes, behavior and perceptions of consumers. It was revealed to affect negatively, attitudes towards spending, lead in less frequent purchases and changes in the importance assigned to certain purchase drivers. Analytically, the study revealed that the crisis makes consumers more conservative regarding spending, exercise higher control over their spending, feel less confident towards spending, and creates more among consumers when spending for products and services. It also revealed that the crisis pushes consumers towards the use of planning tools such as budgeting for better control over spending, and increases the need among consumers that they have to live their life as economic as possible. Further, rregarding buying habits and frequency of purchase, the study revealed that the crisis has no impact on purchases of essential goods, while it leads in diminished spending for goods such as clothes, luxurious goods, electronics. At the same time it revealed that it makes consumers eat out less and cook at home more, while they spend less for entertainment purposes. The researched also revealed that the crisis makes consumers more price sensitive, while it does not make

them forsake quality when making purchases. It also revealed that the crisis diminishes the importance that consumers assign to fashion trends, product popularity, and brand name when making purchases.

Overall, the study identified a general pessimism, among consumers regarding the future of the economy. Consumers believe that economy will take long time until it will fully recover. At the same time they believe that they will regain their (purchasing) confidence, only as soon as the crisis stops.

Finally, the study was conducted in the presence of a number of limitations. Research-related limitations included the limited data validity, which stemmed from the fact that the study was conducted in the absence of previous evidence in Cyprus regarding the impact of economic conditions on consumer behaviour and spending. Other drawbacks included the difficulties in collecting the necessary evidence, mainly due to the high percentage of people's denial to participate, and the limited experience of the researcher in the use of survey instruments as well as in conducting a face-to-face (field) survey. Further, since the research was conducted in Cyprus, using a relatively small sample (105 individuals), there is a potential problem of generalizing too widely on the basis of a narrow evidential base.