

CONSUMERS' REACTION AND ORGANIZATIONAL RESPONSE IN CRISIS CONTEXT

Pandelica Amalia

University of Pitesti, Str. Pictor Nicolae Grigorescu, Nr. 31, Pitesti, Jud. Arges pandelica.amalia@yahoo.com
+(40)745 119 108

Pandelica Ionut

University of Pitesti, Str. Pictor Nicolae Grigorescu, Nr. 31, Pitesti, Jud. Arges ionut.pandelica@upit.ro +(40)745 119 111

This paper is grounded on the premise that “the species which survived are neither the smartest nor the stronger; are those with great capacity of adaptation to change”.

In the economic crisis context, companies are forced to learn the survival lesson and to find their own path through downturn. Even if two crises are not the same, the experience of previous economic crisis show that each crisis has its winners – that companies which grow in stressed times. Also the experience shows that these winners understand and adapt better to the behavior's change of their customers in downturn context. In our paper we will emphasis the reaction of the consumers in the economic crisis context and how their behavior changed taking into account two factors – risk aversion and risk perception.

Key words: economic crisis, consumer's behavior, organizational response

JEL:M31

1. Introduction

The present economic crisis generates volatility, increase uncertainty and panic among consumers. In this context, the markets are contracting, and major changes appear in their structure. The consumers change their behavior: they change their purchasing habits, they move down the demand curve, postpone major purchasing, switch brands or product categories, they focus on inform process. Even if the consumption will not disappear, the average consumption was decreased in the markets.

This evolution in the markets represents major problems for some companies while for others companies represent opportunities. Thus, the downturn is seen by some managers as a risk and by other managers as growth opportunity. Beginning from two different modalities of perception there are two different organizational responses in economic crisis context.

The first response is developed on the premise that the downturn is a major threat and is adopted by the companies which are in an immediately stressful situation. In this situation are those companies which are in the lack of financial balance, have a high rate of dept or deal with the incapacity of the major customers. The management of these companies is focusing on the cost reduction and tries to reduce losses or to conserve their profits and their market position. So many of these companies cut marketing budgets and chose to “be silent on the market”.

The second response is an offensive one and is developed on the premise that the economic crisis is a growth opportunity and is adopted by those companies which are not in an immediately stressful situation. The executive level of these companies is focusing on growth opportunities and on the costs management effectiveness. For instance, Procter&Gamble has the philosophy that “in the stressful time is easier to build the market share. When your major competitors spend less is time to increase your visibility, your notoriety and your market share. So, it is easier to be heard in the market when the others are silent and it is easier and cheaper to grow your market share”.

In January 2009, Ernst&Young interviewed over 300 senior executives from major companies from around the world to see how they are being impacted by economic crisis and what they are doing about it. The study was focused on understanding how companies are reacting in the downturn and to see if there are opportunities to learn from their experience and best practice. The results of the study emphasized that:

- 74% companies reported that they focused on “securing the present”;
- 40% expected to see a significant increase in protecting their current assets;
- 39% were seeking significant performance improvement;
- 37% expected to see reshaping of the business to meet new conditions;
- 19% expected to see a significant increase in the pursuit of new market opportunities.

These results emphasize the fact that only a small number of companies are seeing opportunities in the downturn and will adopt an offensive response. That is why any crisis has its winners.

On the other hand, the results show that a major part of the companies are focusing on “securing the present” and on the protecting their current assets. This means that these companies try to reduce losses or to conserve their profits and market position. Also the results show that some companies pass through a change process (reshaping of business) to meet new conditions.

From our point of view, the response of the company in the crisis context have to be seen as an adaptation process through change and has to be from an “outside – inside” perspective. What we suggest is the fact that, taking into account the major changes from the markets, companies have to understand how their customers react in crisis context and how their behavior was changed and to develop an response to meet these changes. This doesn't mean that companies have to put the needs and desires of their customers under microscope because this will generate an

increase marketing effort and an increase pressure on the marketing budget. We consider that companies have to focus on understanding what happened in the mind of their customers; how they react in the new context and how their behavior was changed. This will allow to the company to develop a proper response in crisis context.

2. In the mind of consumer

Growing unemployment, increasing inflation, “freezing” event the decreasing of the wages, the decreasing of the purchasing power, bad economic situation are facts that affect the consumers in almost all national markets. As long as people are reading more about economic crisis and as long as the press is focusing in reflecting the crisis effects, there is a psychological effect with negative impact on consumers.

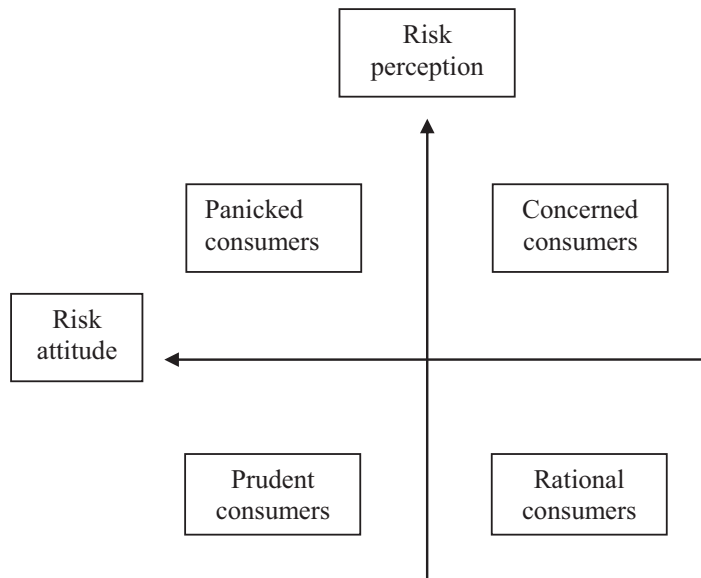
Any way the people are not the same and not all the people have the same perception about a situation with negative effects like economic crisis. We analyzed different types of crisis (economic crisis, food crisis, terrorist crisis) and we identify that the most important factors which model the consumer’s behavior in such a situation are: risk attitude, risk perception and the way in each these two are interacting.

Risk attitude reflects consumer’s interpretation concerning to the risk content and how much he or she dislikes the content of that risk. For instance, in a global research was shown that the anxiety of loosing the job is higher than the anxiety of unemployment situation. Also, it was proofed that people are loss averse. The unhappiness filling is higher if the wage is diminishing with \$10 than the happiness filling in case of wage increasing with \$10.

Risk perception reflects the interpretation of the consumer of the chance of being exposed to the risk content. For instance, the perception of loosing the job is higher in case of an employee from a company that made jobs reduction than an employee which is working in a company that didn’t make jobs reduction in crisis context.

Decomposing the consumer behavior in the two components and analyzing the way in which the two components are interacting will allow obtaining a better image of the consumer reaction in crisis context and how its behavior was change in this context. What we suggest is the fact that in crisis context using the demographic or psychographic segmentation criteria is not the smartest choice because this type of criteria are loosing the relevance in such context. What is important for companies is to understand how their customers react in crisis context and how their behavior is change in other words we can say that companies have to understand what is happening in the mind of their customers.

Using the risk attitude and risk perception we identified for segments:



The panicked consumers are those who have a high risk attitude and a high risk perception. This kind of consumers is in an immediately stressful situation. They are high risk averse and will try to avoid the risk. These consumers tend to over react in crisis context. Any way it is expected that panicked consumers to drastically cut their spending, to reduce consumption and to move down to the demand curve switching brands even product categories. They will eliminate major purchasing and will be focused on looking for best price. Thus, they are not loyal to any brand; they are loyal only to the best price.

The prudent consumers are those who have high risk attitude and low risk perception. Even if these consumers are risk averse they consider that are not in an immediately stressful situation because they are not high risk exposed. Thus, these consumers are very prudent and plan carefully their spending, postpone major purchasing, in some cases move down on demand curve switching brands, are very well informed in the purchasing process.

The concerned consumers are those who have low risk attitude and high risk perception. Even if these consumers consider that they are high exposed to the risk content they are not risk averse and usually they assume risks. So their behavior is determined first by the risk perception. Anyway, this type of consumers will plan their spending but it is not necessary to move down on the curve demand. This could happen only in case of risk perception increasing. Also, this category will continue to do major purchasing but only if they make a “good deal”. If risk perception is increasing they will tend to postpone major purchasing. They tend to remain loyal to the brands but in some cases they move down to the demand curve so, in these cases companies could introduce a lower version of the premium or middle brand in their portfolio to retain them. Also is interesting that this type of consumers is ready to try new products and innovative products and is those that will try first the innovative product in spite of the hard times.

The rational consumers are those that have low risk attitude and low risk perception. So they are not risk adverse and consider that are not exposed to the risk content. They avoid the information concerning to the crisis effects and generally they maintain their “usual behavior”. It is expected that this consumers not to reduce their spending, to continue to buy their favorite brands, to try the innovative products.

Taking into account the four segments, we consider that the majority of the consumers are concentrated in panicked and prudent segments.

Such segmentation provides a better image about consumers and a better start up for planning the organizational response in crisis context. This means the adoption of the marketing strategies and tactics for responding to the new context.

As we mention, in some cases developing the brands portfolio introducing a lower version of the premium brand is a proper strategy to retain the customers.

The prices are an important toll but have to be correlated with others marketing mix policies. Price reduction has to be planed carefully because can generate a prices war in the market and on the other hand could affect brand perception and the price increase in the recovery period.

The communication is also an important tool in such hard times. The message has to create empathy with the customers. Messages like: “together we will pass through these times” will create the idea of the partnership with the customers.

The philosophy of partnership with value chain system is very important in these stressful times. The Ernst&Young study emphasized two opposed strategies applied by companies:

- 46% narrowed their suppliers’ base to obtain more favorable terms;
- 42% had acted to broaden their supplier base to “reduce the impact of the failure of an individual supplier.

We consider that companies have to focus on strong relationship with their suppliers and distributors. They have to establish risk evaluation standards for their suppliers and distributors and on these bases to apply financing from and towards value chain members for sustaining the entire chain. After all the competitiveness of a member of a value chain depend on the competitiveness of the entire chain. And the entire chain creates, communicates and delivers superior value for the customers.

Conclusions:

The current economic crisis is an unprecedented one and generates high panic among consumers and put many companies in an immediately stressful situation.

In this context the consumer behavior was change in same ways radically and in some cases permanently. Thus, consumers tend to save more and spend less. So the consumption decreased and important changes appeared in the markets. The structure of the markets was change because of the mutation of the consumers down on demand curve. An increase trend is switching the brand even the product category and the elimination or the postponing of the major purchasing. Another trend is the focusing of the consumer on information in purchasing process.

These changes don’t have the same intensity in all national markets and for all consumers. That is why for companies is very import to understand the behavior change of their customers as a first step in planning the response to pass the crisis.

Focusing on gathering the information about the needs and desired of the customers will represent an important marketing effort and a pressure on marketing budget. What is important for companies in these times is to focus on understanding what happened in the mind of their customers; how they react in crisis context and how their consumers changes their behavior.

Analyzing different types of crisis (economic crisis, food crisis, terrorist crisis) we come up with the conclusion that in such situations the most important factors that model the consumer behavior are: risk attitude and risk perception. Thus, using the two factors we identify for segments of consumers, each segments having different attitude and perception about crisis and having different behaviors

We consider that this segmentation provides a better image about consumer behavior in crisis context and a start up for planning the organizational response in the downturn period.

Also, we suggest that an effective response have to be planed having in mind the outside – inside perspective. The lack of understanding of the markets in this period is, in our point of view, a mistake that could put in danger the survival of the company.

Even if the company is in an imminently stressful situation and is focusing on cost reduction we consider that the consumer perspective is important in planning the response.

On the other hand focusing on market implies monitoring the response of major competitors in crisis context that could provide some opportunities of growth. As we mention, many companies adopted costs cut tactics and reduced marketing budget choosing to be “silent” in this period. This is an effective growth opportunity for that companies which could and choose to invest in downturn period.

References:

1. Baker, L. T., Simpson, M. P., Siguaw, A. J. (1999), The impact of suppliers' perceptions of reseller market orientation on key relationship constructs. *Journal of Academy of Marketing Science*, Volume 27, 50-57.
2. Baker, W., Sinkula, J. (1999), Learning Organization, Market Orientation, and Innovation: Integrating and Extending Models of Organizational Performance, *Journal of Market-Focused Management*, No. 4, 295-308.
3. Miller, D. (1993), Food “Scares” in the media, Research report, Glasgow University Media Group.
4. Greval, R.; Tansuhaj, P. (2001); Building Organizational Capabilities for Managing Economic Crisis: The Role of Market Orientation and Strategic Flexibility; *Journal of Marketing*, Vol.65, 67-80.
5. Harris, L. C. (2002), Measuring Market Orientation: Exploring a Market Oriented Approach., *Journal of Market-Focus Management*, Volume: 5, 239-270.
6. Heiens, R. A. (2000), Market Orientation: Toward an Integrated Framework, *Academy of Marketing Science Review*. www.amsreview.org/heiens01-2000.pdf.
7. Kohli, A.K., Jaworski, B.J. (1990). Market Orientation: The Construct, Research proposition, and Managerial Implications. *Journal of Marketing*, Volume: 54, 19-25.
8. Mohr J. J., Sarin, S. (2008). Drucker's insights on market orientation and innovation: implications for emerging areas in high-technology marketing, *Journal of the Academy of Marketing Science*, www.springerlink.com
9. Morgan, R. E., Strong, C. (1998). Market orientation and dimensions of strategic orientation. *European Journal of Marketing*, Volume: 32, 1051-1073.
10. Ngunansuk, S., L., (2009), Big brands adopt new strategies to cope with crisis, *Bangkok Post*, www.bangkokpost.com.
11. Pandelica, A.; Pandelica, I.; Dumitru, I., (2009), The Development of a Methodological Framework of Market Orientation Implementation: A Value Chain Perspective, *Journal of American Academy of Busines*, Cambridge, No.14.
12. Vazquez, R., Santos, M. L., Alvarez, L. I. (2001), Market orientation, innovation and competitive strategies in industrial firms, *Journal of Strategic Marketing*, <http://www.tandf.co.uk/journals>.
13. Wansink, B. (2004), Consumer Reaction to Food Safety Crises, *Advanced in Food and Nutrition Research*, Vol.48, 103-150.
14. Woller, G. (2002), From Market Failure to Marketing Failure: Market Orientation As The Deep Outreach. *Journal of International Development*, Volume: 14 Issues, 305-324.
15. *** Tactics For Though Times, Insight Report, No.1, November, 2008, www.thembgroup.com.
16. *** Ernst&Young, Opportunities in adversity, Study Report, January-February, 2009, www.ery.com.
17. www.financialdirector.ro.