



## A STUDY ON CONSUMER BEHAVIOR IN A WORLD OF ECONOMIC INSTABILITY

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### **Abstract**

*In the face of economic instability, the majority of consumers have to reconsider their consumption habits and reallocate budgets. Consumers exhibit different emotional responses towards new economic conditions and modify consumption of goods and services. Consumer behavior is influenced by both internal characteristics and external factors that represent the environment in which the individual behavior takes place. The recent Global Economic Instability is one such environmental influence that has had a strong impact on the behavior of consumers. This paper discusses the behavior of consumer in the global economic instability for the products & Services, how consumption habits changes according to budget & economic instability.*

**Keywords:** *Consumer Behavior, Consumer, Economic Conditions, Global Economic Instability.*

### **INTRODUCTION**

The Global Economic Instability, began in 2007 in USA mortgage and financial sector, then affected all sectors, such as: the oil industry, automotive industry, food industry and others sectors. As result to this instability, consumer faces daily challenges related to his financial and material safety, increase of unemployment rate, fluctuations in consumer prices, restrictions in loan accessing, fluctuations in currency exchange rate, etc, all these affect the consumer attitude in the consumption and purchasing process. The recent Global Economic Instability (GEC) felt throughout the world has had an impact on the spending patterns of consumers as well as businesses. The model of consumer behavior includes stimuli or major forces and events within the buyer's environment that affect the consumer's decision. The GEC is a major economic force that influences both the emotional and mental behavior of consumers. Businesses should identify and understand how consumers will react to the difficult economic conditions within different cultures and economies. Economic literatures mentioned that the rational consumer use disposable income to maximize the benefit of goods and services consumption and the consumer behavior is affected by two factors: the prices of goods and services, and disposable income. If there is any change in these factors, the consumer change his behavior and try to re-allocate of income and expenditure to reach a balance and maximize the benefits. Consumers are the focus of all marketing researchers' preoccupations, especially in the current period, when the consumer faces daily challenges related to his financial and material safety, increase of unemployment rate, fluctuations in consumer prices, restrictions in loan accessing, fluctuations in currency exchange rate, etc. All these affect the consumer attitude in the consumption and purchasing process.

### **What is Global Economic Instability?**

A Global Economic Instability is a period of global economic slowdown. The International Monetary Fund (IMF) takes many factors into account when defining a global recession, but it states that global economic growth of 3 percent or less is "equivalent to a global recession" By this measure, three periods since 1985 qualify: 1990-1993, 1998 and 2001-2002. The Economic instability of 2007-2010 was triggered by a liquidity shortfall in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It is considered by many economists to be the worst economic instability since the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Many causes have been suggested, with varying weight assigned by experts. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy over the 2010–2011 periods. Global economic meltdown has affected almost all countries in the world. Strongest of American, European and Japanese economies are facing severe crises of liquidity and credit. India is not insulated, either. However, India's cautious approach towards reforms has saved it from possibly disastrous implication. The truth is India's economic policies and reforms.

### **What is Consumer Behavior?**

Consumer behavior is the study of when, why, how, and where people do or do not buy a product. It blends elements from psychology, sociology, social anthropology and economics. It attempts to understand the buyer decision making process, both individually and in groups. It studies characteristics of individual consumers such as demographics and behavioral variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general. Consumer behavior is the sum of people's behavior that consumer



based on income and access to goods and conduct operations in order to meet their own material and cultural needs during everyday life. Particularly, personal income begun to be proportional to the human capital with the deepening of reform, people has been a stable understanding about the level of the income of his life in the society, consumers can arrange their consumer in a rational manner in the various stages of his life, and show "economic man" feature. However ,due to the overall economic and business behavior ,personal income and it's growth were of uncertainty during the financial instability, people would choose to reduce spending to maintain the total amount of nominal income and future expectations. Consumer behavior includes two interrelated aspects from an economics point: First is at the micro level, consumers' pursuit utility maximization in the context of consumer preferences given and budget constraints. Under this optimal choice of budget constraint given, the marginal utility of currency unit should be equal no matter what kind of goods the currency unit was used to purchase. Second is at the macro level, consumers faced with the choice that is how to split income between consumption and savings, and this option is subject to income factors and non-income factors and other aspects.

### **How Consumer Behavior Changed in Economic Instability**

In recent years, under the influence of Western culture, "consumerism" trend has spread in India? Some people blindly follow the extravagant consumption patterns of United States, such as, long-distance driving to work as live in rural areas, leading to urban road congestion, oil consuming rising, and air pollution increased; some high-income people interested in conspicuous and extravagant consumption, driving luxury cars and houses, overseas travel routinely; using public funds to enjoy, and so on. If we let them continue, the potential threats are very dangerous. Fortunately, most consumer advocates saving as our virtues, oppose extravagance and waste, so some scholars think that over-consumption has little influence as a direct trigger of the financial instability on India's consumption. Indeed, from the surface, the impact of financial instability on India's consumers is lower than the euro zone countries and Japan and South Korea, but if in-depth study of consumer psychology and behavior, we can easily find India's consumers psychology and behavior has changed greatly in the financial instability.

**Decline in Consumers Expected Income, Resulting in Lack of Consuming Confidence:** The influence of the financial instability has conducted from virtual economy to real economy, resulting in unemployment rising and consumer income reducing, thereby affecting consumption. In particular, it affects the expectations of consumer for future, such as consumers expect that revenue will continue to decline, job opportunities will decrease, which led to lack of confidence in consumer. Rational Consumer Behavior .

**Replaced in the Impulse Buying Behavior:** The financial instability has made a lot of uncertainty factors to economic development, so consumers become more and more calm and rational, and purchasing decisions are prudent every time. Consumers will be strictly in accordance with: Cognitive Needs Looking for Information Compare and Balance Decision-making Buying Evaluation, this is the process to make decision. Irrational and random consumption has declined. Blindness and impulse consumption behavior that drove by victory purchasing motivation with psychological and mental vanity become less and less, which replaced by rational consumer behavior. Although the instability led to commodity price fluctuate, on which consumer has had a strong holding capability. Consumers will analyze, compare and balance goods and services to make rational purchasing choices by their own consumption experience and a variety of consumer information.

### **The Price Sensitivity of Consumers Increased, Emphasis on Cost Performance**

Financial instability led to the price of goods and services fluctuated frequently, and with impactation of consumer expectations and rational consumption, the consumer is extremely sensitive to the price of goods and services. In the process of decision-making, in addition to search and compare the consumption information, the consumer will also make efforts in price decision making. They will inquiry and bargain patiently, and strive to get the most suitable price of commodity and to accept the services at the most appropriate price. Meanwhile, they will highlight the effectiveness and durability of products as equally important with price. Therefore, the multi-functional products are more popular than that with a single function, durability and easy maintenance products are also welcomed by consumers.

During the financial instability, s economic growth has slow down; production is in relative surplus, unemployment problem is serious, unemployment rate is increasing. In such a grim situation, everyone has a sense of instability, and they do not want to become a member of the unemployed. Thus, in order to have better performances to keep stability and development in career, the developing consumption that help to raise self-improvement value for consumer become the new hot spot. To improve their professional standards, knowledge and training, People seek opportunities to learning and studies actively. In bookstores, professional courses and research training in counseling, examination room, it is able to see more and more working-class figures, which aims to enhance their quality and competitiveness in the workplace and reduce the risk of being replaced. At the same time, this sense of instability has affected investment in children's education. For a child's future,



parents are increasing their child's education expenses. On every Saturdays, Sundays and winter and summer vacations, children are lantern-like shuttling between the various types of remedial classes.

Some other precautions taken by customers in purchase decisions during global economic instability conditions

- People do tighten the belt and ponder every purchase with extra care.
- People do worry more and tread more cautiously, even if they are actually quite well off.
- People do put off buying that new car and may think twice before dining out.
- Most often do not want it to show that they are struggling - this is important to their self image.
- Peoples make purchase decisions as per budget. They take certain measures for keeping up appearances.
- People are more cautious about the future. So, they adopt the saving strategies in all circumstances to make better future.
- People are decrease per-capita consumption in GEC period. They are seeking out affordable pleasures that aspire to premium perceptions.

As you understand the examples above apply best to the middle class, as the rich will continue to consume more or less regardless of price and the poor to living on whatever they can afford. But phenomena such as these are still worth looking into in order to make your business survive the hard times ahead.

### **Enterprises Counter measures in Global Economic Instability**

Financial instability has changed the concept and behavior of consumer. Enterprises must provide the products and services that are able to meet with consumer demand to improve their competitiveness, and win more market opportunities. The following are the counter measures which help organization to face global economic instability

- Segment customers based on their values and ever-changing needs.
- Use this knowledge to migrate customers to higher-value products over time. Build consumer confidence in purchase decisions
- Expand marketing channels and provide Value added services Deliver superior customer service—in traditional and new ways.
- The recession presents significant opportunities to attract new customers and retain your current ones—and it presents an imminent threat.
- The journey to high performance begins with keeping the customer at the center of your business.
- Communication with consumer is one of ultimate strategies to win the market. Do market research before launching new product in the market in instability period.
- Think twice before change in the price the product & take feedback from the customer about the price change.
- Use the different promotion schemes to attract & retain your customers. i.e. Advertisements, personnel selling, sales promotions etc.
- Attract more young and middle-age audience with more emotional communication.

### **CONCLUSION**

The economic instability is thought-provoking, and it hit an alarm for the world economy. The more obvious is the fear and uncertainty of the future, the more consumers are seeking to better manage their expenses. They are becoming more rational in terms of purchasing decisions and they are more attentive to the product, to its intrinsic qualities, giving more importance to the emotional aspect of the brand. Also, they are spending more time searching for specific information and are focusing on buying cheaper products in smaller quantities. The possibility to postpone product purchasing is also more and more taken into account. Buyers are spending more time searching for durable goods and are more tempted to postpone purchasing products or to buy fewer products. So, companies adopt the suggested measures to attract & retain the customers in the global economic instability.

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