

## **PURCHASING DECISION ON CRISIS CONDITIONS**

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**Abstract:** Consumption suffered important mutations within the past years, due to profound changes of economic policies, as well as due to the crisis triggered in 2008. Consumption prices have suffered serious modifications every year after 1990, and since 2005 a phase shift of evolution can be noticed for various products, which makes the buying decision of consumers to be on a permanent move.

So, from 2005 until 2011, the price evolution in Romania for the entire consumption basket had an increase by almost 44%, while fuel growth in 2011 was of 8-9% (business day -2011). This growth was influenced by oil price. However, the Brent oil price has increased by aprox. 10%, almost as fuel price, an evolution which is hard to explain since the fuel price includes around 50% taxes. For food products (a food share of 33% in the consumption basket is the highest compared with other seven former communist countries) it is necessary to consider the inflation evolution for 2011, whose forecast has been changed from 3.6% to 5.1%, while for 2012 from 3.2% to 3.6%. All this will have an effect on purchasing power as well as on consumption.

The current crisis has produced major modifications in the consumption behaviour of the population, focusing mainly on food consumption. The purchasing decision of the population from urban areas is significantly different than on rural areas (consumption expenditures are with 20-30% higher in urban areas). According to data provided by INS (National Institute for Statistics), it results that only 40% of consumers have remained constant in their purchasing decision, while the rest have reduced consumption or turned to cheaper products.

By processing information like the above ones, major retailers' policies must be adjusted, based on market researches which should provide data regarding the composition of consumption basket, as well as total volume of goods to be purchased.

**JEL classification: E21, M29, M31**

**Key words: crisis; consumer; price; seller; product;**

### **1.INTRODUCTION**

One of the most important paths for exiting the crisis consists of consumption growth, which depends on the criteria that can be taken into consideration by the consumer, when he makes his purchase decision. The profound mutations of the last

decade, from all the world's markets, have led to serious disturbances regarding both the content of the 'daily basket' and the structure of the durables and luxury products. The repeated crisis, some of which prolonged or even without an horizon to overcome them, have led to increasing the caution and changing the consumers' priorities, whose immediate effects were shutting down some of the production capacities, as well as the appearance and development of other production capacities for products and services, that became the buyers' top priority.

The consumer has become an 'expert' on the purchased products and his behaviour can be an important element to be studied by sellers, an anthropological, economical, historical or geographical study, when the functions and strategies of their own companies are established.

Since it is no longer just about the sales on the domestic market, the suppliers are focusing on the knowledge of the consumers' behaviour in the context of their culture, but also in the whole world cultures context, emphasizing the cultural differences and the role of the traditional aspect when choosing one product over another.

The economy is no longer unknown to the consumers, who have gained, involuntarily or professionally, solid commercial knowledge (on the level of their needs) regarding the supply and the demand, the decision-making process, the importance of information, the evolution of their purchasing power when they want to use a loan, the short-term economic trends, etc.

A professional analysis of the consumer behaviour, when faced with the purchasing decision, must take into account the particularities of each individual regarding his personality, level of knowledge, tastes, perception, position in Maslow's hierarchy, desire of improvement, the influence on other consumers. The results of such a study are processed in the following directions:

- market segmentation based on consumers with similar needs;
- placing the influential consumers in well-delimited segments and creating special promotion programs, that would valorize these influences;
- using successful products to increase the consumers' trust regarding the companies that produce them, which would lead to product diversification and widening the marketplace;

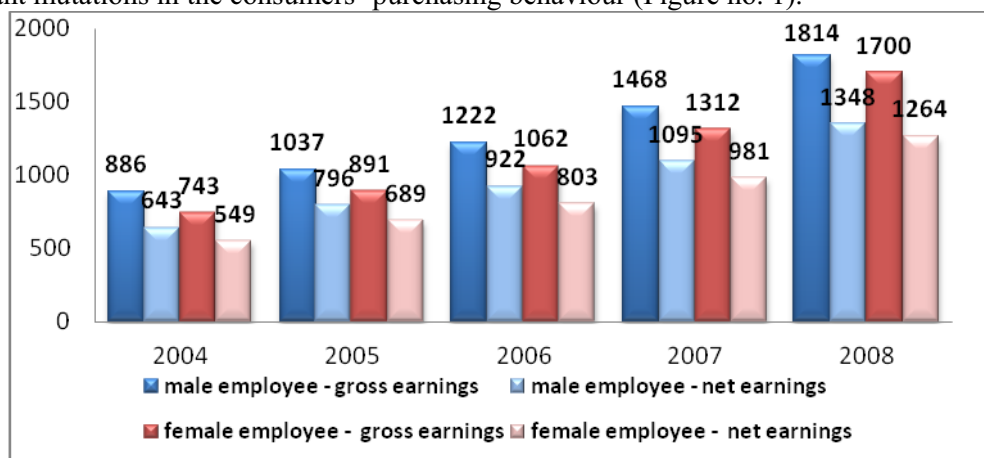
The mutations occurred in the consumers behaviour can also be found in the modifications of their attitudes, as they gain theatrical negotiation skills, with the purpose of persuading the sellers to accept their demands. „This theatrical behaviour is absolutely natural and uncsciously gained, as people do not just consciously change their accent, attitude or statements, when interacting with others. Nevertheless, the majority of people play a role which is acceptable for the others and, therefore, they achieve a certain status in their group. (J. Blythe, 1998, p.51)

The determining factors of the consumers behaviour are not just the ones which have a direct influence (economic factors, time, the importance of shopping, the marketing mix), but also the ones having an indirect influence (perception, motivations, personality, family, etc.). (I. Cătoi, N. Teodorescu, 1997, p.25-45)

## **2. THE INFLUENTIAL FACTORS IN THE ROMANIAN CONSUMER BEHAVIOUR**

In order to reach a conclusion regarding the purchasing decision of the crise-consumer, it is mandatory to analyze the perturbing factors, especially the ones related to income increase, their structure, the evolution of inflation, etc.

The gross and net incomes, structured by sex, after the year 2000, produced important mutations in the consumers` purchasing behaviour (Figure no. 1).



**Figure no. 1 - The average gross and net nominal monthly earnings, by sex (Source: INS)**

As it is shown, starting with the year 2004, the wage gains continually increased until the year 2008. In 2009, a decrease of the earnings, as compared to 2008, was recorded, and in 2010 a slightly increase as compared to 2009 (INS Statistical Yearbook).

If a comparison with the analytical indices of the consumer prices (measure the overall evolution of the prices of purchased goods or used services by population, in the current year as compared to the previous year) is made, the conclusion is that the prices have decreased from one year to another, except for 2010, when the prices increased (Table no. 1).

**Table no. 1 – The anual consumer price index and the inflation rate between 2004-2010**

Year	Consumer price index	Previous year=100
		Inflation rate %
<b>2004</b>	111,9	<b>11,9</b>
<b>2005</b>	109,0	<b>9,0</b>
<b>2006</b>	106,56	<b>6,56</b>
<b>2007</b>	104,84	<b>4,84</b>
<b>2008</b>	107,85	<b>7,85</b>
<b>2009</b>	105,59	<b>5,59</b>
<b>2010</b>	<b>106,09</b>	<b>6,09</b>

Source: INS

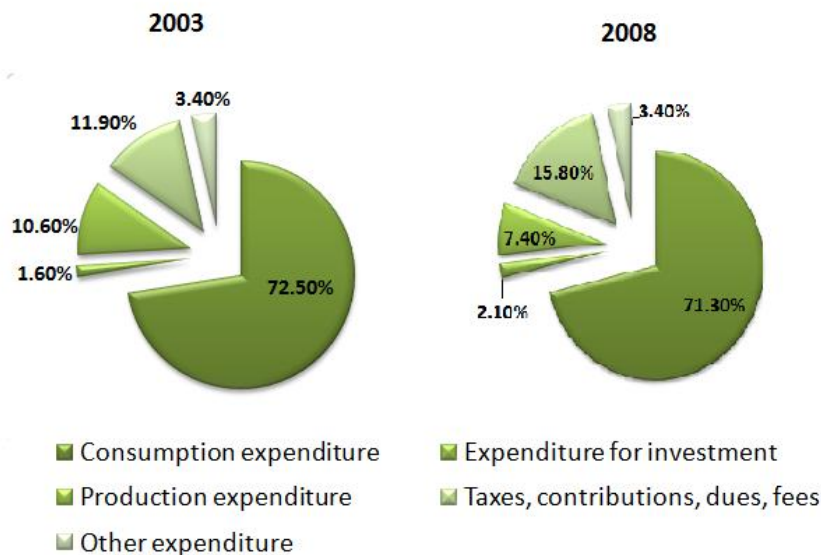
Despite the fact that, in the analyzed period, the inflation had a downward trend (in 2010 slightly more than in 2009), but in 2010 an inflation rate of 4,6% is expected, as a result of the influence of agriculture harvest, and for 2012 an inflation rate of 3,5%, it can

not be stated that the purchasing power has increased as a result of both the income's comparison base, situated at a low level, and the low number of active population, which leads to the fact that, from the total number of consumers, an important share is represented by the retired persons who spend a significant part of their income on medication and household maintenance.

The structure of the total household expenses (Figure no. 2) changed since 2003 and until 2008 as following: the consumption expenditures have decreased from 72,5% to 71%, the investment expenditures have increased from 1,6% to 7,1% and the taxes have increased from 11,9% to 15,8%.

In 2009, in the structure of the total household expenses (4th quarter), the consumption expenditures kept decreasing (70,7%), same as the investments expenditures (from 2,1% in 2008 to 1,2%), while the taxes represented 15,1%.

It is remarkable the fact that, in the total household expenditures, the biggest share was represented by the food products and non-alcoholic beverages (40,3%), while the education had a share of 0,9% and the entertainment and culture of just 3,8% (INS – Press Release 65/2010).



**Figure no. 2 – The Structure of Total Households Expenditure**

*Source: INS*

In 2010, the consumption expenditures represented 72,4%, the investment expenditures 2,4% and the taxes, contributions and fees 15,2%. In the consumption expenditure structure, the biggest share was held by the food products (41%), while the education and culture had a share of 0,5% and 5% in the expenses (INS – Press Release 3/5.01.2011).

In the second quarter of 2011, the main destinations of the household expenses were the consumption of food products, services, taxes, while the investment expenditures had a smaller share.

In the whole analyzed period, an important share in the expenses is related to the dwelling (for example, in the second quarter of 2011, these expenses represented 19,3% of the total consumption expenditures, in contrast with education, whose percent was 0,7%).

Immediately after 1990, the consumers behaviour was an atypical one, as they bought just for the pleasure of shopping, without a certain analysis and without a minimum preparation in advance, which led, by the year 2000 and after, to accumulation of credits that did not always have enough resources to be returned. As a result, huge bank debts were accumulated, right after the crisis started.

The current consumer's state of mind is one of fear, uncertainty and vulnerability, which generated an almost total change of the purchasing policy.

1. The purchases are being made with full awareness, as a result of the increase in the level of knowledge and of establishing, with great certainty, each person's needs, looking for the products that will satisfy these needs.
2. As it was shown in the structure of each family's expenses, the biggest share belongs to the food products, as raw material, as three aspects are being taken into account, from this point of view:
  - a) decreasing the food expenditures by home-cooking;
  - b) trying out balanced eating, based on a healthy diet;
  - c) saving money for parties, which are being held at home and with the supplies provided by more than one household.
3. The sales promotions offered by various companies have become a constant concern of the buyers. Consequently, both the chain stores and the small boutiques have a constant promotion policy, with large amounts of money being invested in.
4. The stores have adapted, based on the purchase-decision criteria and they invest massively in promoting the stores and their products, as well as in enlightening the buyers in the selection, funding opportunities, use and maintenance of products. Some specialised stores even organise free trainings, in order to teach their customers how to craft complex products with the materials available on the market.
5. The purchase decision is no longer a quick process, as the buyer focuses on various aspects in the same time:
  - a) the knowledge and trust in the bought product;
  - b) the confidence in the store;
  - c) the funding opportunities;
  - d) the trust in the sales personnel.
6. Considering the fact that the Romanians' purchasing power is half of the European average, one of the buyers' immediate needs is the funding. The consumer credits were reduced or even canceled and, therefore, one of the solutions would be the supplier credits that involve both the store and the producer that delivers the goods in the stores. Through this policy, the purchase decision could be strongly influenced by immediate advantages for both the buyer and the seller.

In this case, the speed of the purchase decision would significantly grow.

### 3. CONCLUSIONS

The buyer can no longer be treated as an occasional client, but as a professional who knows his status very well.

The stores establish as a policy the loyalty of the existing customer, being aware that, during a crisis period, the most important resource for new customers is represented by the existing ones.

The funding policy must be rethought.

The existing clients must be analysed based on their previous purchases, their level of training (in the purchase domain) and their buying potential.

The client segmentation needs to be based on the ones that can make purchase decisions, the ones that have secured funding, on the time when certain products are needed, etc., and the launch of promotional and selling policies suitable to the segmentation criteria.

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