

STRATEGIC ORIENTATIONS IN RETAIL INDUSTRY DURING ECONOMIC CRISES

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Abstract: The economic and financial crisis affected all the economic sectors, spreading all over the world. The retail sector had to adapt to their customers' preferences and needs, which according to Ang, Leong & Kotler (2000) change in times of financial crisis. The purpose of this paper was to examine how Romanian retailers adapt their marketing strategies to the changing consumer buying behavior during the financial crisis. A qualitative method was chosen for this research, and the empirical data was gathered from two companies in the Romanian retail sector: Real Hypermarket and Carrefour. Both companies observed some changes in the behavior and preferences of their customers, so they implemented some marketing strategies during the crisis. The research may be useful for companies being in a similar situation, in order to see how the crisis can be managed.

JEL Classification: M3

Keywords: retail, strategy, crisis

1. Introduction

As it is known, the financial crisis was triggered in the first quarter of 2006 when the house prices began to decline. The real outbreak of the financial crisis came in the USA when many subprime lenders went bankrupt in March 2007 (Woertz, 2008). No business sector stayed untouched, all companies being seriously affected and having to cope with the crisis. Because of higher unemployment and lower incomes, the consumers have to belt-tightening. With the deteriorating economic situation and the rising unemployment rate, the rate of consumer credit in bad debts has a rapid increase (World Economic Outlook, January 2009).

According to Ang, Leong, & Kotler (2000); Shama (1978) people change their buying patterns during financial crisis and under stress. They start to worry about their jobs and do not anymore enjoy spending their money. If the buyers change their buying behavior, as an effect of the financial crisis, the companies have to change their strategies in order to meet the customers' new preferences.

Ferrell & Hartline say that: "If companies want to reach their goals, they need to develop a plan or "road map" how to get there" (2002). Marketing strategy begins with changing environment. It is important that companies find the right combination of marketing mix when developing their strategies. As it is known that the marketing combination of marketing is 4ps that stands product, price, place and promotion. (Wang, 2006). When it comes to creating a strategy in a changing environment, Nilson (1995) differs between companies that are market leaders and those which are challenging the established brands. Leading organizations have to go with the flow and slowly adapt to the new situation, whereas challenging companies should use their ability to change fast and so strengthen their position on the market.

To keep or gain the market share, in a changing environment, like in crisis conditions, companies must adapt their strategies and also their marketing mix. That doesn't mean they have to cut marketing expenses, on the contrary. According to a study presented by Kieth Roberts (2003), organizations that keep or even increase their marketing spending during an economic downturn do not make any significant loss during the crisis, on the contrary they make profit and gain market share much faster after the downturn than the companies that cut their costs.

Ang, Leong and Kotler (2000) consider that the changes that must be done in a financial crisis have to focus on necessary products of cheaper brands, decreasing of prices and usage of an informative marketing rather than an image-based advertisement. The marketing mix, or 4P's, is the tool through which companies can operate their strategies and where the changes can be seen, therefore the focus of this research will lay on the marketing mix of the stores and how this is changed during financial crisis.

The purpose of this study is to examine how food retailers in Romania are changing their marketing strategies, in order to meet the customers changing buying behavior in these times of financial crises.

Every company that has competitors must have a strategy. The purpose of the strategy is to create competitive advantage. A marketing strategy is a plan for how the organization will use its strengths and capabilities to match the needs and wants of the market (Ferrell & Hartline, 2002).

According to Porter (1985), to reach a successful strategy all focus should lie on the industry dynamics and characteristics. He meant that some industries were more attractive than others and that the factors driving the industry competition were crucial for profitability. According to Wernerfelt (1984) and Prahalad and Hamel (1990), performance was mainly driven by the resource profile of the firm. Today's researchers like Hooley, Piercy & Nicoulaud (2008), consider that both requirements of the market and the company's ability to serve it are taken into consideration, and the primer goal is a long-term fit between these two.

In order to know what the market wants and what the company can offer them, they first of all have to analyze the current situation that they are in. The issues to look at are: the internal environment- including the organizational structure, resources and the company's performance, further the customer environment- including current- and potential customers, purchase of products etc., and finally the external environment- the competition, economic growth and stability, political trends etc.

The marketing strategy is supposed to develop effective responses to changing market environments by defining market segments and developing and positioning product offerings for those target markets. (Hooley et al., 2008). To be successful on a market, especially a changing one, companies have to use proactive strategies and shouldn't react on others events, but creating them. (Nilson, 1995).

It's a very complex and difficult task for companies to understand buying behavior of the consumers. Only so, firms will have a perspective that will help them to develop products and marketing programs that will satisfy customers needs and wants in a better way. The companies should never forget that the recipients of their actions, and the final decision makers, are human beings (Nilson, 1995).

Financial crisis affects the customers not only economically but also psychologically. People start to worry about their future, and do not enjoy shopping anymore (Ang et al., 2000). They do not want to spend money on premium products anymore, even if they still could afford to do so, becoming more money minded. (Ferrell & Hartline, 2002). They only buy necessities, switch to cheaper brands and have a more rational view on promotion.

According to Roberts (2003) and Hiller (1999), marketing is the solution in a crisis period, because cost and price reductions affect the long-term relationships that companies have, and in many cases, even the quality process is seriously affected. The authors realize a study in which they show that companies that increased their marketing expenses in crisis, didn't lose money, and even gained profits. Furthermore, companies that increased their marketing spending gained market share three times as quickly after the downturn.

The marketing mix, also called 4P's, and how it is changed during financial crisis is the focus of this study. The principles of the mix are controllable variables, which have to be managed in the correct way, to meet the needs of the defined target group (Kotler, 1996).

2. New orientations in marketing mix of Real hypermarket and Carrefour

Real - Hypermarket Romania SRL entered the Romanian retail market in March 2006, when it was open the first store in Timisoara. Another 20 hypermarkets followed, opened in important commercial centers, so, at this moment, *Real* Romania network counts 21 hypermarkets.

Their goal is to have a chain of hypermarkets till the end of 2009, and to offer a wide range of quality national and international products, good prices and excellent services recognized at international level.

The food based turnover counts for around 75 percent of total sales. Particular focus in the food assortment is the freshness on the ultra fresh products like meat, fruit and vegetable, fish and bakery which *Real* offers to its customers sourced from all over the world and from the region, depending on the season.

Every day, hundreds of products are freshly processed and prepared within the stores. Bread and other bakery products are baked fresh during the day in the *real*- hypermarket, too. To ensure high quality of the fresh production, many of the Romanian staff has taking part in training in Poland, Russia and Germany.

The nonfood segment convinces customers with innovative assortment concepts. Customers will find everything required to cover their daily needs at one single place. *Real* is offering its customers a family-friendly assortment of great breadth and depth at very competitive price: quality you can afford. In a *Real* hypermarket you will also find a wide selection of electronic appliances, books and sound storage, media, household supplies, articles for sports, games and leisure time as well as very fashionable textile and shoes.

Real hypermarket is closely connected to its region. *Real* is comprehensive user of local supplies and create between 300-350 jobs per store. The gallery located in front of the *Real* hypermarket offers customers a number of additional shopping possibilities adding on to the assortment of *Real* increasing the attractiveness of each location.

According to the information gathered, *Real* has understood that the buying behavior is changing and that, in order to stay competitive, it will mean changes for them as well. Except from the accumulated consumer buying behavior, with customers asking for premium products that are healthy and possibly also organic, at the same time as they are not too expensive, now the customers are also starting to ask more for discount products. This, nevertheless, the group tries to see as something positive, since it could lead to a raise in sales of their private label products.

Private label products are something that has a quite large focus by *Real*, and they consist mainly of TIP, *Real* Quality, *Real* Bio, *Real* Selection. TIP comes to meet everyday needs, bringing the best prices in *Real* stores. Articles TIP are already a constant presence in the wide range of products provided to clients. TIP is always the best decision if you do not want to spend too much, but you need good products that respond to your needs.

Real products - Quality offers many benefits and what is more important an alternative to branded products. There is already a wide range of *real*, - Quality, which constantly enriches you and your family. These products sold under *Real* Quality brand are of a great quality and at a medium price. *Real*-Quality

offers the chance to enjoy top quality, saving money at the same time as the price of products is very favorable. All products Real - Quality offers quality comparable to famous brands.

If you are aware of how important it is to eat naturally means that you care about your health. Real-BIO offers organic products at the best prices. Real-BIO are products obtained without the use of chemically synthesized compounds which certainly gives clients a healthy diet. Through the quality assured by a biological production process 100% organic, these products meet the most stringent EU environmental directives. No preservatives or flavor modifiers, Real - BIO positively contributes to both health and ecosystem protection.

Real-Selection is a perfect choice, because goods distinguish by taste, remarkable quality, carefully chosen ingredients, product design and the package. Specialties refined in a top quality, Real-Selection products have a high quality and special features and the price is much less than other premium brands of high quality.

Private label products combined with well structured strategies based on lower prices and aggressive promotion policy help Real Hypermarket to pass the crisis being less affected than other companies in the field. During the last year of crisis, Real had a lot of promotions based on lower prices, bonuses and prizes.

Referring to another hypermarket, Carrefour Romania, its strategy is built on five major values, all of them appreciated by the Romanians: a very aggressive price discount policy (the lowest prices every day), its goal being to increase the purchasing power of the consumers; a wide range of products - over 50,000 articles, representing a unique offer on the Romanian market in terms of quality and variety; a very good quality of all fresh products; top level client services, established from the very beginning; modernity and innovation.

Carrefour, the biggest network of hypermarkets in Romania, adapts their strategy to the economic context marked by reduced purchasing power and introduces in its range of products 1200 private-label items under the Carrefour name, having an average price. This marks a new stage in the strategy for strengthening competition. According to several studies, "customers want competitive prices and a wide range of products from which to choose" said Patrice Lespagnol, Executive Director of Carrefour Romania.

Carrefour's own brand product's prices will be 20% lower than those purchased from suppliers, keeping the same quality, according to company representatives. For the Carrefour brand products, the company has signed partnerships with 40 suppliers, mostly from Romania (Farmec, VASCAR, European Drinks, Orkla Foods and Danone). Carrefour brand products are divided into 400 non-food products, made in China and 800 food products made in Romania, France and Poland.

The company seeks the local producers interested in producing under the Carrefour brand, the plan being that within two years the range of products under its brand increases to 3.500-4.000 items. "We have a project to export our own brand in all Carrefour stores in Bulgaria, Russia and Turkey. It is an opportunity for us and for local producers, given the potential of these markets," said Andreea Mihai, marketing director of Carrefour Romania. Share of sales of its own brand Carrefour is presently 6%, for the next two years being targeted a level of 20%. The potential of this segment is still high, given that the European retailers' own brands have a share between 20 and 50% of total sales. Carrefour has on the shelves another private brand called No1, and textile Tex brand.

Besides the product policy based on private brands followed by the retailers, Carrefour has also an aggressive promotion policy that is effective in crisis. The most successful promotions offered are: *Buy-Back* - significant reduction in the purchase of new electrical appliances, electronics and appliances, if it is given to recycling a similar used device; *Cross - promotions* - because trading down phenomenon, manifested during crisis, clients prefer economic segment and, moreover, give off the products that are not strictly necessary; *Exhibitions* with special themes, caravans or product launches inside the store organized in the parking places of the supermarkets (Promotion "Gold Generation" Gillette); *Raffle* with great prizes - cars, apartments, tours, scooters - and awards media - electronics and appliances; *Mono-islands products* with very low price - attract customers by setting out clear price

(removing their suspicion that could be fooled); *Tasting and sampling* - customers test and are satisfied with product quality.

Promotions reach their objective if they are offered through supermarkets, because there are "rewarded" the best innovative ideas that meet the needs of clients in crisis: preservation of lifestyle and consumption that they were used to and at the same time the possibility to save money.

3. Conclusion

When a financial crisis occurs, no matter if the people can feel it physically, in form of less money, or psychically in form of worries about the future, they generally become more money-minded. When shopping, customers switch to cheaper brands and only buy necessities. Real Hypermarket and Carrefour have all either through data, or by sales numbers understood this change by their customers and begun to emphasize their *private label products*. They all have a wide range of products, including healthy, organic and environmental products and can thereby offer different customers cheaper alternatives to other brands in all segments.

Pricing is the marketing variable that is the easiest to change, it can be done fast and does not cost much (Ferrell & Hartline, 2002). This is recognizable by the studied companies since they all, in one way or another, made some changes in the pricing. Further, Ang et al. (2000) explain in their literature, two different pricing strategies to use in recession. One is about maintaining quality through charging normal prices for products of higher quality. The second strategy should help the company to keep or increase their market share, through low prices on normal products.

It cannot be said that any of these companies are following any of these strategies fully, but they have used some parts of them. So TIP for Real and No1 and Carrefour brand for Carrefour Romania are items sold at a lower price. Consequently, their aim is to be the cheapest and not the most qualitative. When it comes to other brands like Real Bio their main focus is to always offer their customers fresh organic and healthy products of good quality.

The location of a store is very important for food retailers and many hire specialists to find them the ideal place (Kotler & Armstrong, 1996). To have the right spot is according to the studied store chains always important and does not change in any way in times of financial crisis. What instead becomes more important during economic downturns is what kind of shop it is. Real as well as Carrefour have recognized an increased interest of discounters and supermarkets, which in all three cases will result in advantages for some of their shops, and disadvantages for other.

The most important to remember when it comes to *promotion* in financial crisis is to not cut the promotion costs (Köksal and Özgül's, 2007). Real as well as Carrefour want to use more in-store commercial for better communication with the customers. In-store commercial, as well as loyalty programs are very good ways to keep and maybe even improve the contact with current customers.

In economical downturns, a constant communication with the customers is very important. It is also important to communicate in the right way, in order to be able to convince the customers. In financial crisis, people generally prefer information about the products instead of imaginary commercial; they want to be able to trust the company and product before buying (Shrager, 1991).

The results of this study show that the companies have recognized and understood the changes in their customers buying behavior, and all made changes in the four variables of their marketing mixes.

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