

## The Effect of Recession on the Buying Behavior of Consumers in New Delhi during the Economic Slowdown of 2013

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**Abstract:** The research scouts out on the influence of recession on the purchasing department of consumers. The study was conducted in the West Delhi region. The purpose of this study was to examine the effect of recession on buying attitude of consumers, taking into consideration differences in spending in their goods consumption on different food, convenience and luxury items. With further expounding into the enquiry of change in shopping patterns of customers due to increase in prices or decrease in income and to analyze whether decrease in purchasing capacity of the customers have adulterated their preference for branded products. The results were checked in accordance with whether recession affects the buying behavior or not. Therefore, an attempt was put to find out the outcomes of the research that, which factors get affected in recession by a consumer.

**Keywords:** Consumer Behavior, Recession, Purchasing Power, Buying Behavior.

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### I. Introduction

"The paradigm of a smoothly adjusting system of largely competitive markets that produces what consumers want, provides rewards appropriate to effort, and is assured of stable economic growth though Keynesian macroeconomic policies lost its credibility".

Rise in prices of food items and basic necessities of life due to inflation, unemployment, and low GDP creates a pre-recessionary situation which slowly and gradually affects the buying behavior of consumer of every market. Any nation going through the period of recession faces not only an internal resistance from its business sector and but also an external pressure from foreign bodies too. It becomes almost impossible for low income family to fulfill their basic requirements of daily life. Families with an average monthly income becomes hand to mouth and savings are almost none. Whereas families having earnings of more than one family member, tries to limit their budget and go for more savings for future, as it becomes very un-predictable<sup>[1]</sup>. In 2009, global real GDP fell by 0.7%, marking the first decline since the early 1930s and prompting some to compare the current crisis with the Wall Street Crash of 1929 and the Great Depression. Although global GDP rose by 5.1% the following year, fueled largely by strong growth in developing markets, the world's advanced economies continued to suffer from significant job losses, drastic cuts in consumer spending and private investment, as well as an alarming dip in global demand for consumer goods and services of all types. Growth is thought to have slowed to 4% in 2013, as consumer confidence remained low in the face of economic uncertainty Lekachman rejects the view of the economy as "an engine powered by uncovered inner motivated decisions of legions of ardently competing businessmen and hordes of their customers" and the contention that "success is ultimately related to individual merit and application". Consumer behavior is the study of when, why, how, what and where consumers do or do not buy the products. It has elements of sociology, social, anthropology, psychology and economics, marketing wherein understanding how and why people behave in different situations with same or different circumstances<sup>[2]</sup>.

The decision making procedure is subjected to various attitudes, and social influence on the purchaser. Buyer be likely to behave in certain manner including loyalty, habits, brand, and post purchase behavior.

All categories of products are not equally affected by recession. The demand for luxury goods are strongly affected while necessity goods do not experience any such large deviation in demand. However, it is many times experienced that gold, though being a luxury item, achieves a rise in its demand because of high probability of greater returns. In times of recession every rupee matters and hence the consumers use greater discretion before making the purchase decisions<sup>[3]</sup>. They refrain themselves from trying new brands and they continue to use the brands that they trust. As a result, businesses often find it difficult to position their brands in a market during a recession.

A recession is considered less harmful than depression and once it gets continued for a longer term it is than classified under depression. Many professionals and experts around the globe believe that a genuine economic recession can only be confirmed upon the negative growth of GDP for more then two following quarters. Whereas the "two quarter" definition is accepted worldwide, many economists have problem in

supporting this entire concept totally as it does not reflect on other key economic variables which might be bringing changes in economic system of a country<sup>[4]</sup>.

#### Causes of Recession

As per Sunkel and Osvaldo, 1958, One thing that every economist firmly believes in is that recessions are somewhat that cannot be avoided. The reason for this is that in a strong economy you have stages of high growth, slow growth and no growth. In fact even fifty years after the great Depression, a really bad recession, and the answers to what causes an economic downturn or a recession is still a huge mystery. Despite of which theory you believe there is no specific answer to what causes a recession<sup>[5]</sup>. The following negative items that could cause an economic recession-

- Value of local currency going down
- Rise in Oil prices
- Inflation
- Unemployment
- Housing Bubble
- Global Economy

### **II. Purpose Of Study**

This study aims to investigate the effect of recession on customer buying behavior during the economic slowdown of 2013 in India. The study is focused on reviewing related articles and getting the desired results through surveys of individual respondents. By doing so, the study aims at acquiring the perceptions of knowledgeable individuals about the topic. Moreover, the study aims at focusing on the following:

- To study the effect of decrease in income due to recession on different food, convenience and luxury items.
- To study the change of shopping patterns of customers due to increase in prices or decrease in income.
- To know whether decrease in purchasing capacity of the customers have adulterated their preference for branded products.

### **III. Research Methodology**

A survey was conducted in a region of west Delhi, with the total number of respondents being 100. The sample space is divided on the basis of age and family income. All the respondents are not related to each other in any manner. The three divisions of sample space on the basis of family income(in rupees) are: (i)below 1 lakh (ii) 1 lakh to 4 lakhs (iii) above 4 lakhs. It is assumed that the opinions of one respondent cannot affect the opinions of any other respondent. The results are expressed in the form of percentages.

### **IV. Hypotheses**

1. The taste of customer remains constant.
2. Higher amount of money is spent on shopping by those customers who shop more frequently.
3. Higher fluctuations for luxury items are experienced by those who shop more frequently than regular customers.
4. The level of knowledge about branded products among the customers is same.
5. Income has a significant effect on the consumer buying behavior.
6. Recession has significant effect on consumer buying behavior for shopping goods, convenience goods, and luxury items.

### **V. Objectives**

1. To study the effect of change in income on consumer behavior.
2. To study the effect of change in price of luxury goods on consumer behavior.
3. To study the effect of change in income of consumer and price of commodity on brand preference.
4. To study the effect of change in income on the shopping patterns of the consumers.

### **VI. Problem Statement**

Due to the economic slowdown during a large duration of year 2013, the consumers suffered with a decrease in their purchasing capacity. Due to this, there was a change in consumption patterns of consumers. The study aims at finding these patterns distinctively and pointing out exceptions, if any.

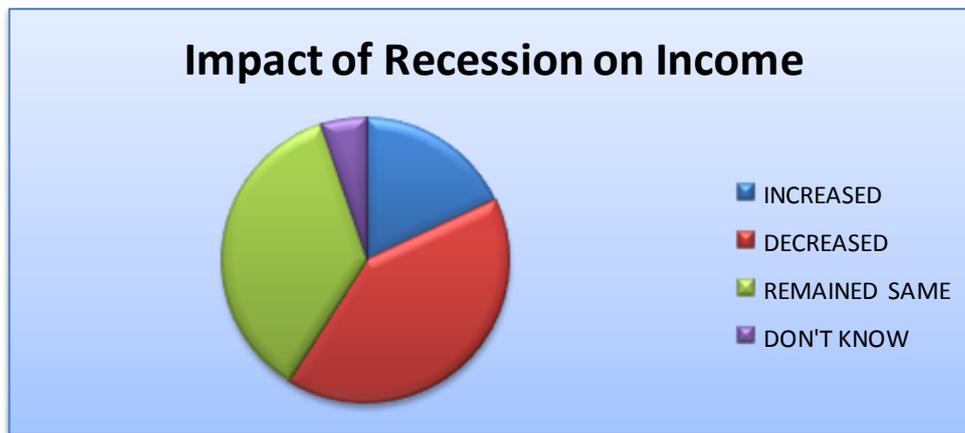
**VII. Division Of Sample Space**

Variable	Characteristic	Number Of Respondents	Total
AGE (years)	Below 22	11	100
	22-30	37	
	Above 30	52	
FAMILY INCOME (Rupees/Annum)	Below 100000	34	100
	100000-400000	17	
	Above 400000	49	

**VIII. Observations and Results**

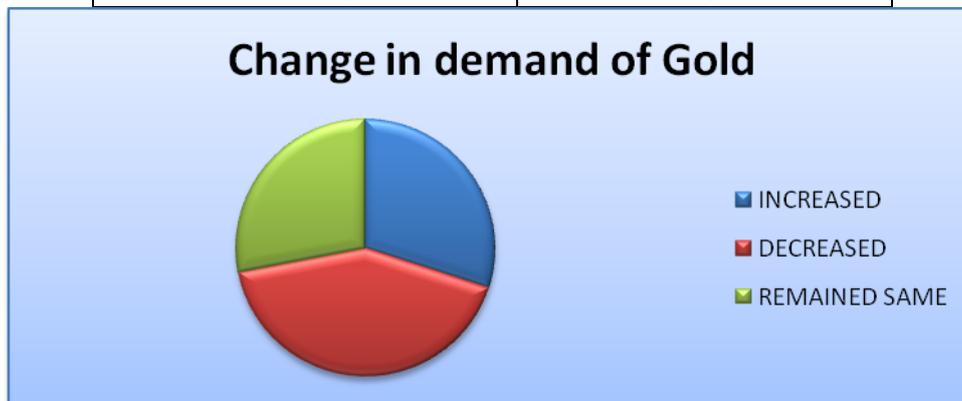
- Impact of recession on income

RESPONSE	RESPONDENTS
INCREASED	18
DECREASED	41
REMAINED SAME	36
DON'T KNOW	5



- Change in demand of gold due to increase in prices

RESPONSE	RESPONDENTS
INCREASED	30
DECREASED	42
REMAINED SAME	28

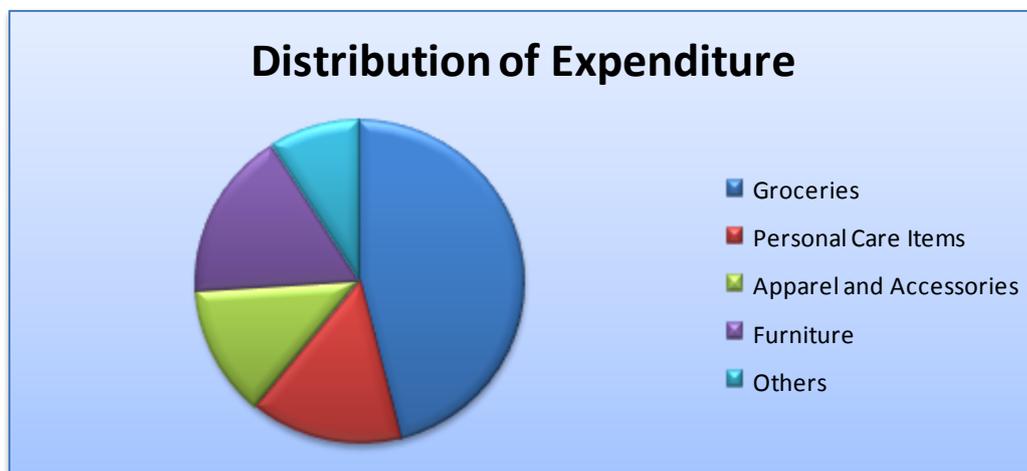


- Change in demand of inferior food products due to change in income or change in prices of normal goods:

RESPONSE	RESPONDENTS	
	INCREASE IN INCOME	DECREASE IN INCOME
INCREASED	1	29
DECREASED	12	4
REMAINED SAME	5	8
TOTAL	18	41

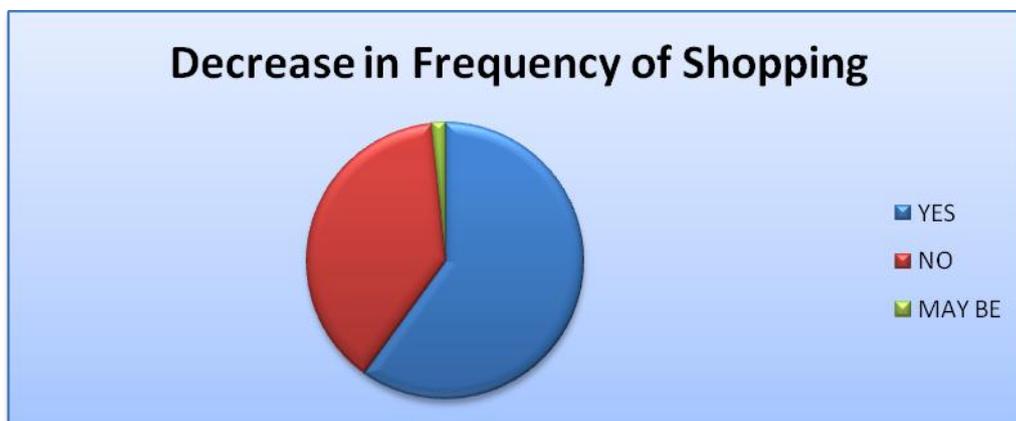
- The distribution of expenditure (preference for products):

VARIABLE	RESPONDENTS
GROCERIES	46
PERSONAL CARE ITEMS	15
APPAREL AND ACCESSORIES	13
FURNITURE	17
OTHERS	9



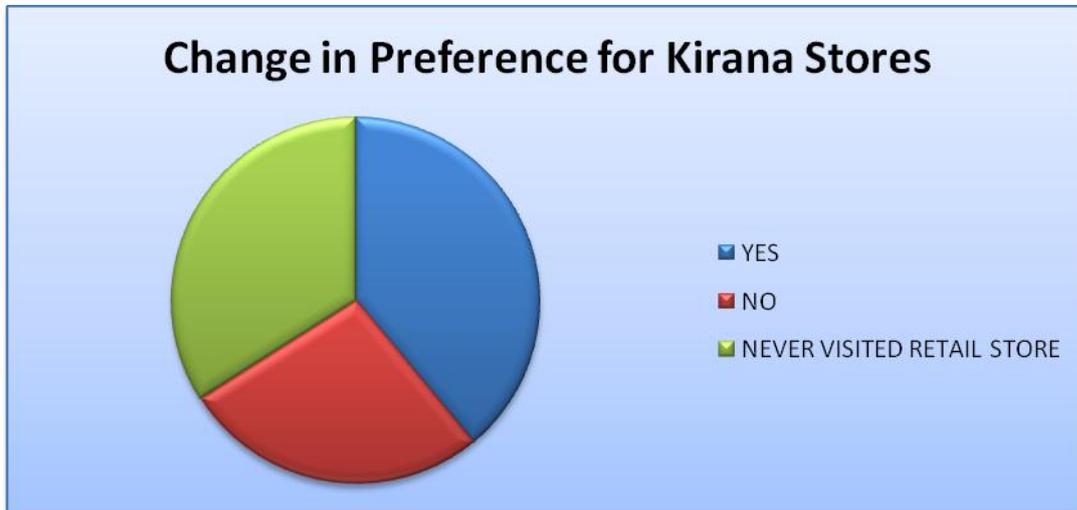
- Decrease of frequency of shopping:

RESPONSE	RESPONDENT
YES	53
NO	34
MAY BE	13



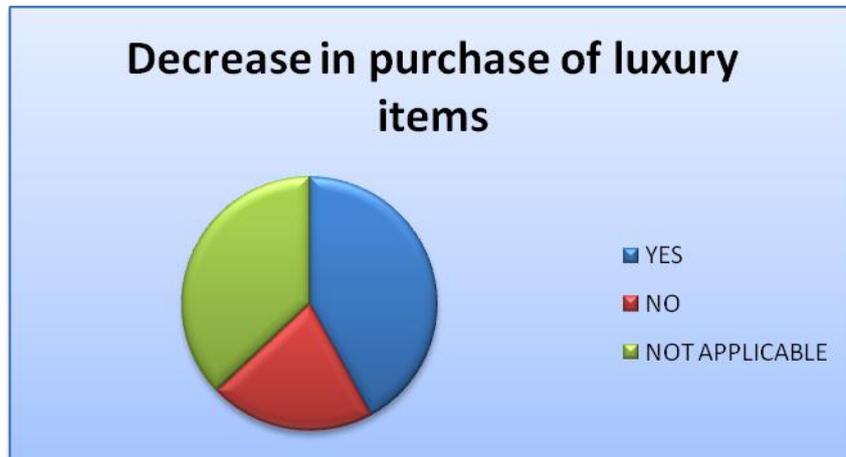
Change from Retail Store to Kirana Store (Grocery Store)

RESPONSE	RESPONDENT
YES	39
NO	27
NEVER VISITED RETAIL STORE	34



- Decrease in purchase of luxury items:

RESPONSE	RESPONDENT
YES	42
NO	21
NOT APPLICABLE	37



- In times of recession, most important factor before making a buying decision

RESPONSE	RESPONDENT
Price	31
Quality	27
Deals	11
Brand	22
Pleasure	9



- In times of recession, the preference of brand on the basis on family income:

INCOME (per annum)	RESPONSE	RESPONDENT
BELOW 100000	YES	12
	NO	19
	MAYBE	3
100000-400000	YES	7
	NO	6
	MAYBE	4
ABOVE 400000	YES	27
	NO	14
	MAYBE	8

### IX. Major Findings

- A majority of 41% people expressed to have a decrement in family income in the time of recession during 2013.
- Even due to increase in prices of gold in last two quarters of 2013, there was an increase in its demand for 30% respondents. This can be attributed to the fact that gold is an article of distinction and hence treated by high class people as an item of luxury. Also, people usually invest in gold with an expectation of receiving higher returns in future.
- There was a 30% increase in the demand for inferior food products during the period. This is because, the demand for Giffen goods increase with decrease in purchasing power of consumer.
- In times of hardships, 46% respondents admitted to have a preference for basic necessities like groceries and cut down on luxuries like apparels, accessories, etc.
- 53% respondents reported a decrease in frequency of shopping.
- 42% respondents admitted to have cut down on purchasing luxury goods.
- As high as 39% respondents substituted Retail stores for *Kirana* (Grocery) Stores in search for lower prices.
- Preference for branded products took a back seat during time of recession, where 31% respondents admit to have preferred a product after considering its price.

### X. Conclusion

The purpose of the study was to understand the effect of economic slowdown of 2013 on buying behavior of customers of New Delhi. The customer's buying behavior is conditioned by his/her purchasing power. This

purchasing power took a huge downturn due to increasing inflation and decreasing incomes in the year 2013. To conduct the research, a questionnaire administered survey has been conducted among 100 residents of west Delhi and the data revealed that with less money in hand, the consumer preference towards necessities increased whereas purchase of luxury items decreased, gold being an exception. In times of hardships, the branded products lost their cause to prices with people turning towards inferior quality products.

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