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**Influence of the Global Economic Crisis
on Consumer Behaviour in Slovakia**

Juraj Chebeň – Lucia Hudáčková

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Influence of the global economic crisis on consumer behaviour in Slovakia

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Summary:

The aim of this article is to explain the impact of the global economic crisis on consumers, and identify the main changes that have occurred in consumer behaviour in Slovakia. The contribution explains the main features of globalization in the context of the impact of the global economic crisis on consumer behaviour. It defines the origin, symptoms and consequences of the global economic crisis on Slovak consumer behaviour, as well as analyzing the main changes in consumer habits and preferences in Slovakia. Analysis of the economic crisis and consumer behaviour relationship is, in addition, to secondary data sources, based on a survey carried out among Slovak consumers. The conclusion of the contribution contains a summary of the characteristics of consumer behaviour in times of crisis in Slovakia, which is applicable to all of Central and Eastern Europe.

Keywords: consumer behaviour, financial crisis, economic crisis, globalization, microeconomics, thrift

Vliv globální ekonomické krize na spotřebitelské chování na Slovensku

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Abstrakt:

Cílem tohoto příspěvku je vysvětlit dopad globální ekonomické krize na chování spotřebitelů a identifikovat hlavní změny, které u spotřebitelů na Slovensku nastaly vlivem krize. Příspěvek vysvětluje hlavní znaky globalizace v kontextu globální ekonomické krize a její vliv na spotřebitelské chování. Definuje původ, symptomy a následky globální ekonomické krize u slovenských spotřebitelů a jejich vliv na změny spotřebitelského chování na Slovensku. Analýza ekonomické krize a spotřebitelského chování je založená především na sekundárních zdrojích dat a na primárním výzkumu, který jsme uskutečnili mezi slovenskými spotřebiteli. Závěry práce jsou aplikovatelné na spotřebitelské chování v celé střední a východní Evropě.

Klíčová slova: spotřebitelské chování, finanční krize, ekonomická krize, globalizace, mikroekonomie

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Introduction

One of the main factors responsible for the current situation in the world, and the world economy, which significantly affects the behaviour of consumers is the global economic crisis. Globalization, and the subsequent cross-linking and growing dependence of shared economies, has certain consequences, and it contributes to rapid change all over the world. Globalization presents opportunities for strong and flexible companies which continually analyze, and react to, consumer behaviour in the correct way, but it is a threat to companies which have difficulty adapting to changing situations.

During the second half of 2008, the United States financial markets, and eventually all major world markets, were devastated by the consequences of unethical lending practices by major lending institutions. When the overheated United States real estate market finally began a severe and protracted correction of fair market values, due to these bad sub-prime loans made to questionable borrowers, not only did the real estate markets collapse, but it resulted in a domino effect causing the collapse of major banks, accompanied by a precipitous and protracted market drop in stock values, financial companies, insurers; eventually leading to the biggest financial crisis since the great depression (Lewis, Kay Kenneth, Kelso, Larson 2010: 77–84). The result was an imbalance between the supply, demand and value of a product. Because of globalization, the U.S. financial crisis has influenced nearly every country in the world.

The result of the U.S. economic crisis is the decline of economic performance, decreased production, increased unemployment and a drop in households' income and consumption. The resulting recession significantly changed consumers' behaviour routines, disposable income, price level of goods and services. Consumers' expectations for the future have become one of the main factors determining the nature of consumption in times of global economic crisis.

In countries where the economic crisis spread directly through the financial markets, economic development has deteriorated rapidly and intensively. On the other hand, several countries including Slovakia, a small and open economy still maintained relatively high growth until the end of 2008, and a decline in demand from the most developed countries had clearly begun in 2009.

In 2008, when the economic crisis began to spread in Slovakia, the total value of the openness of our economy reached 166.8% of GDP (National bank of Slovakia 2009). It is this extremely high value that has caused the rapid impact of the negative effects of the global economic crisis in the country.

The fall in demand of foreign business partners of companies in Slovakia began to decrease significantly in November 2008 and positive values increased in late 2009.

Slovak export-oriented firms, due to the loss of exports, experienced a significant decline in production. According to the Statistics Office, the industrial production index decreased in 2009 by 14.5%. The significant decline in industrial production in January caused the breakdown of gas supplies from Russia, which has crippled production in Slovakia for two weeks. “The damage to the economy is estimated to be approximately 100 million EUR a day” (Today 2009).

The lower production resulted in the growth of unemployment. The rate of unemployment was 9.6% in 2008, but in 2009 this indicator had increased to the value of 12.1% (Statistics Office of the SR, 2009). The survey conducted in January 2009 shows that the rise in employment as a consequence of the crisis affected, in particular, less educated people, skilled and unskilled manual workers, but also managers, entrepreneurs and freelancers were affected. The crisis affected mainly employees in the Prešov, Košice and Nitra region. The survey also shows that only 79.6% of respondents feel no change in their workload or work situation. Thus we can state that the impact of the crisis on the perceived change of employment was not as extensive and did not affect all employee groups in the same way (Môciková 2009: 16).

“Labour market developments have led to the slowdown in the growth of households’ disposable income, which is then reflected in a slowdown of households’ final consumption” (National Bank of Slovakia 2009). At the end of 2009, 56% of Slovaks said that the economic crisis had an impact on their personal financial situation. 45% of Slovaks think that they have the same amount of money, 42% think that they have less money than in 2008, while only 13% of them may spend more.¹

Values on the consumer confidence indicator; which shows the consumer climate in the country; i.e., expectation and trust, as well as people’s investment intentions for the next 12 months, had significantly more negative values in 2009. Consumer expectations are negative and they feel less confidence, hence they are more careful when buying goods and services. According to the European Commission, the consumer confidence indicator had a negative value of 12.7 in 2008. In 2009 the indicator fell to a negative value of 35.4. The low level of morale in Slovakia is also illustrated by the fact that, on the one hand, 72% of the population of Slovakia state that they spend less because of the crisis; on the other hand, 71% of Slovaks are not afraid of losing their jobs, and

¹ A Deloitte survey conducted on a sample of 17,567 respondents from 18 European countries in the last week of September and the first week of October, 2009.

65% have no debts (Deloitte 2009). Consequently, although the Slovaks do not have a compelling reason to spend less, they prefer to save their money, because they have feelings of insecurity and fear.

The growth of unemployment, decline of disposable income and negative expectations for the future reflect the decrease of the total household consumption. The decline in consumption has led to lower borrowing by households. Consumers are unwilling to spend and the banks are tightening their credit conditions. The decrease in consumption leads to decreased turnover in the retail trade, too. "The decline of the total turnover of the TOP 10 firms in 2009 was almost 12% in comparison to 2008" (Drahovský 2010).

1. Objectives and Methodology

The aim of this paper is to explain the impact of the global economic crisis on consumers in Slovakia, and to identify the major changes in consumer behaviour which have occurred due to the economic crisis.

Data from research agencies and press were complemented by the primary results from the questionnaires and the economic analysis which was conducted. Internet questionnaires were completed during the period from March 3 to March 11 2010. After excluding useless questionnaires, a sample of 145 respondents still remained; which represented a balanced ratio of Slovak citizens on the basis of gender, age, employment and region. The aim of the survey was to highlight the changes which had occurred in consumer behaviour.

2. Results and Discussion

Unemployment, the decline of disposable income and pessimism caused a genuine transformation in consumer behaviour. Households respond to changes and take different steps to avoid having to sacrifice too much if they wish to maintain their living standard and consumption level. They change their behaviour in order to preserve the original composition and volume of their shopping baskets.

2.1 Changes in Consumer Behaviour in Slovakia

People from the Trenčín, Žilina and Prešov regions, especially, experienced the greatest changes in behaviour. "Specifically, there are families with three and more children, manual workers, unemployed, households with a net monthly income of EUR 1,000, households that have long-term problems to ensure their basic needs are met, and those who occasionally, or permanently, default on their accounts" (TNS SK 2009).

2.2 Features of Consumer Behaviour in Times of Crisis in Slovakia

Based on our research, we have ascertained six main features that describe changes in consumer behaviour in times of economic crisis.

a) Reduction of spending on less necessary goods

91% of Slovaks consider limiting spending in less important areas as the best way to save in times of crisis and declining purchasing power. It concerns above standard goods. Slovaks limit the purchase of alcohol and cigarettes, visiting cafes and restaurants, spending on amusements, luxury or new items of fashion, hotels and telephoning. The next category of products on which less money was spent, compared to 2008 and 2007, include holidays and certain types of food. Consumers prefer cheaper trips, or prefer to spend holidays in Slovakia instead of travelling abroad. In the case of food, consumers limited their purchases of fruit, vegetables and meat. They also reduced purchases of flavoured soft drinks, sweets or ice cream, and they are trying to eat mainly what they produced themselves. In general, in the case of food, people are trying to maintain the current standard. If consumers had more money, they would prefer health care, spending on culture, travel and leisure.

b) Price became the main factor in decision-making

Under the influence of the global economic crisis, consumers are more price-sensitive than ever. Up to 60% of people choose general consumer products according to the price (Strategies Online 2009). Sophisticated consumption is based on seeking the lowest price, but not for all products and services. Lower price often means lower quality to consumers. Price, in Slovakia, is the decisive criterion for the purchase of products when it comes to hobbies, clothing, leisure and travel. Quality, however, supersedes price when buying a car, household appliances and electronics.

c) Increased use of discounts and price reductions

71.5% of the population of Slovakia take note of the various sales, newsletters or special offers in routine shopping; far more than in the past. When buying mid-and long-term consumption goods 70.8% of respondents claim that they are motivated by discounts or favourable offers (Strategies Online 2009).

70% of consumers would buy lower priced alternative products if their purchasing power decreased further (Cetelem Barometer 2008). This increases rate of visits made to discount stores which are characterised by their lower price levels; it raises interest in the purchase of retail chains' generic products, and consumers are actively searching for, and travelling to get, cheaper goods.

Thanks to the interest of consumers in reducing spending on their purchases, we can file the growth in the sales volume of discounters. Up to 71% of consumers wish to shop in discount stores if the economic crisis continues. Discount is no longer a synonym for poor people's consumption, but rather, prudent consumption. Price-sensitive consumers present 70–80% of discounts customers (Hlinková-Dibarborová 2009b: 10). Discount stores have become just like other shops, because of a wide variety of the basic range of goods at affordable prices, broadening the range of non-food goods on offer, as well as giving the option to pay by credit card, while at the same time preserving the reputation of having the best prices. The shift of demand to the shops with lower price levels was confirmed by the fact that Kaufland and Lidl recorded the smallest drop in turnover; only about 5–8%.

Generic products are, on average, approximately 15–20% cheaper than brand products. They comprise mainly products that consumers buy regularly and do not pay attention to the brand, such as food and cosmetic products. In the first four months of 2009 the share of products under the retail brand increased by 1.2% compared to last year, and reached the level of 20.2% (Hlinková-Dibarborová 2009c: 16). The share of generic products on the short-term goods market in Slovakia is the highest among the Visegrad countries (Hlinková-Dibarborová 2009d: 14). Slovaks spent about a quarter of their expenditure on generic products. They prefer them because of cost saving and the advantageous price/quality ratio.

With the coming of the crisis, surrounding countries' currencies depreciated. This together with lower value added tax and a fall in fuel prices in neighbouring states had created an opportunity to get bargains abroad. The fact that 70% of the Slovak population live within 50 km of the border contributes to the shopping tourism. In January 2009, more than 5% of Slovak households did their shopping abroad, which is 18,500 households more in the year long comparison. These consumers bought from our neighbours about 83% more goods than last year (GfK Slovakia 2009a). In border areas, annual revenue declined, approximately, by 30-35% in comparison with last year. Up to 45% of Slovaks purchased something in Hungary in the first quarter of 2009, 30% in Poland, 20% in the Czech Republic and 5% in Ukraine (Hlinková-Dibarborová 2009a: 16).

Slovak cross border shopping significantly declined in the second quarter of 2009, compared to the first quarter of 2009. There are several reasons: strengthening of the currencies of the neighbouring countries against the euro, a massive marketing campaign comparing food prices in Slovakia with those in surrounding states, the gradual levelling out of fuel prices in the region, and Slovaks' growing caution when it comes to their expenditures being affected by the current economic crisis (Drahovský: 2009). Purchases abroad still persist, but on a much smaller scale and pose no threat to the sale of goods in Slovakia.

d) Delaying larger purchases ad infinitum

Consumers thoroughly review their expenditures and put off the purchases of expensive durable goods to a later date. Only those goods without which a household could not exist are bought; such as vacuum cleaners, irons or mixers. Only 27% of consumers think that it is the right time for purchasing (GfK Slovakia 2009b). These people try to take advantage of the decrease in prices to buy electronics or household equipment. “The value of the market in technical consumer goods in Slovakia in the first half of 2009 decreased by 20% compared to the same period last year. In the third quarter of 2009, the negative trend has deepened and there was a decrease of 25%” (GfK Slovakia 2009b). Mainly people aged 40–60 from Košice, Banská Bystrica and Nitra postpone purchases of electronics and home appliances. The highest fall in sales, about 25–30%, confirm the fact that consumers save on durable goods, as well as those which are not essential to their life, which has affected dealers’ sales of the non-food range of goods in 2009 (NAY, Baumax and Metro Cash & Carry) (Drahovský 2010).

e) Reducing consumers’ loyalty to brands

When it comes to ordinary purchases, only 29% of people still remain loyal to their well-tried brands, even though there are cheaper versions of those products. When buying expensive goods, 39.4% of people still believe that the brand is as critical as the price. The brand is crucial for 37.5% of consumers in their decision-making (Strategies Online 2009). Up to 73% of Slovaks compare prices of their favourite brands with alternative generic products and decide according to the price difference (Hlinková-Dibarborová 2009c: 16).

f) More rational decisions

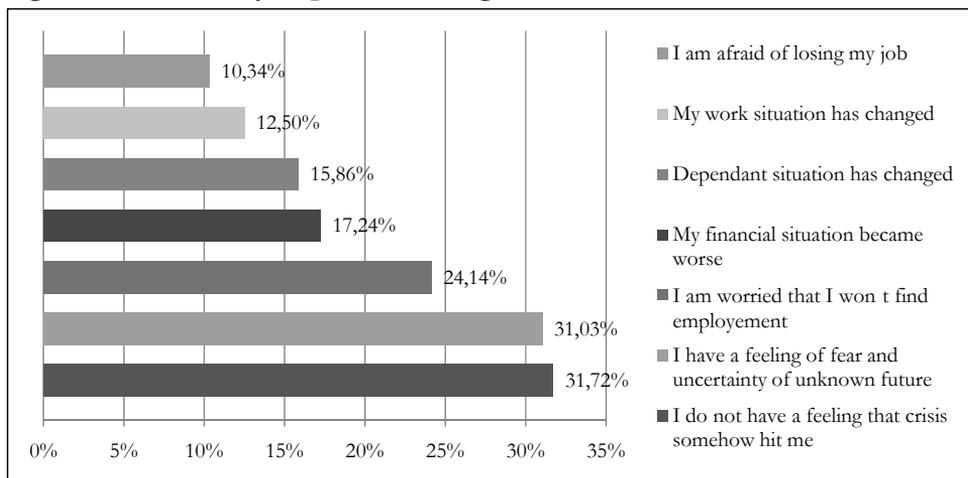
Consumers carefully review the price/quality ratio, plan their spending and investment purposes; then they make conscious and less impulsive decisions. More and more people begin to review their purchases, even if they do not have to. This group of consumers perceives the crisis as an opportunity to review the consumer lifestyle and to reduce waste. The result is a rational thrift, searching for greener solutions, and the drive to return to traditional, nature-friendly solutions. Especially those respondents, who do not feel that the crisis somehow hit them, agree with this statement.

Research among Slovak consumers confirmed that the effects of the global economic crisis do not affect all citizens in the same way (see Figure 1). One third of respondents do not feel that the crisis hit them in any way. The consequences of the economic crisis affected least the inhabitants of Western Slovakia, young people aged 20–25 years and employed inhabitants. There were only small differences, so the place of residence, age and employment influence

very little whether consumers suffer from the negative consequences of the crisis or not.

Of the two-thirds of respondents who suffer from the consequences of the crisis, most have a feeling of fear and uncertainty from the unknown future. The difference between the number of households which suffer the consequences of the crisis mentally and the households which are really affected by job losses, the subsequent fall in income and financial difficulties is approximately 15%. This large difference shows that even when consumers do not have a compelling reason to limit their spending, because of the fear of an uncertain future, they would rather save and change their behaviour. Another group of respondents is worried that they won't find employment. This group of respondents was represented by young people aged 20–25 years who are mostly university students and fresh graduates seeking employment. The global economic crisis caused a decline in the number of vacancies. This is one of the reasons why fresh graduates worry about their future. Other groups of respondents perceive the impact of the crisis because of the deterioration of their financial situation, subsequent change in the current employment situation or because of their own employment situation.

Figure 1: How do you perceive the global economic crisis?



Source: authors' own elaboration

There are several ways of meeting one's needs in the case of insufficient financial means and declining purchasing power. Consumers try to increase their household income, try to use savings or borrow money, try to make goods on their own, or buy cheaper versions of products; they decrease the consumption of luxury goods or reduce the quantity, or frequency, of their purchases to maintain their usual standard of living during the recession. The most popular way of making up for the loss of revenue is the restriction of purchases of less necessary products and searching for cheaper varieties. The less appropriate

solution is to ask for a loan and use the savings, because it is associated with some risk in the future.

In 2009, Slovakia adopted a new currency. The survey also showed that people do not see the Euro as the cause of the economic problems that have occurred in Slovakia. However, the inhabitants feel they spend more because of the Euro. Slovak citizens have learnt how to budget themselves and their organizations, how to estimate value and how to prioritise.

The survey showed that not all consumers perceive the crisis negatively. Many respondents have been provoked to think about their excessive, and often irrational, consumption. There are also people who see the recession as an opportunity to get bargains. They deem this time appropriate for the realization of long planned purchases, which they had been putting off until later and waited for more attractive price offers.

The different influences wrought by the crisis were noticed among different age categories. This fact is also supported by Megan and Buff. Results of the research among university students suggest that these are not brand loyal consumers, that there are no gender differences with regard to overall brand loyalty, and that purchasing behaviour has not been greatly affected by the economic recession (Lodes, Buff 2009: 127).

Following the information contained in the press, and also the results of research conducted among Slovak consumers, we can state that consumer behaviour in developed economies is shaped by similar trends. Fear of the future, demand for hard value and cost benefits, a compressed time preference, overcoming financing bottlenecks and safety are becoming the key factors (Simon 2009: 177).

2.3 Changes in Consumer Behaviour in Europe

The main reason for the global financial and economic crisis' impact on the Slovak economy is the decline in demand among our major foreign trading partners. The member states of the European Union have the largest share of Slovak foreign trade. Because the European consumers have a major impact on the recovery of demand for Slovak products, it is important to deal with changes in their behaviour and preferences.

New behaviour on the part of European consumers is characterized by several factors. One of the most important factors is the increase of European consumers' price sensitivity, especially in case of the food and fuel. Another important aspect is savings. Here, 65% of Europeans are preparing to save more than in the past in order to compensate for losses from 2008, and 78% of young consumers have decided to spend less money on a daily basis and to buy substitutes that they can afford (69%). Firstly, consumers want to satisfy their

reduced basic needs, and only then do they prefer to save some money. This trend is visible in 84% of European consumers who switched to shopping in discount stores. As a result of the crisis, one in four Europeans plans to postpone his retirement (TNS 2009).

Prudent thrift, consumers' desire for simpler and more user-friendly solutions, the instability of consumers' preferences and ecological preferences have become trendy and will persist also after the economic crisis has passed on.

Conclusion

We can learn how to resolve the financial crisis from countries that were hit the most by the recession, like Argentina.

Argentina had pegged the value of its currency at an artificially high level, leading to constant international trade deficits. In addition, government spending grew substantially, but was not matched by corresponding increases in revenue resulting in sustained fiscal deficits. Currency devaluation, renegotiation of debt, and emergency fiscal measures were undertaken to stabilize the situation (Casabé, Radcliffe 2008: 212).

The explanation of the impact of the global economic crisis on consumers and identifying major changes in consumer behaviour may help form an outline of possible future trends in consumer behaviour. It allows us to predict consumer reaction to developments in the environment, and to identify the anticipated changes of consumer behaviour due to the alternation of the various phases of the business cycle in the future also. Cognition of changes that have occurred among consumers due to the global economic crisis can allow traders to respond better to consumers' new needs and preferences. It will provide the opportunity for traders to review their offers, as well as the strategies applied to customers, and it will be the incentive to develop new approaches to retain existing, and acquire new, customers.

We consider suggesting a positive atmosphere, offering reasons for optimism and assuring consumers of the adequacy of their purchases by promoting utility and low prices. That is the best way to ensure the sale of products in times of economic crisis. The after-sales phase becomes very important as a means of assuring consumers that their money was spent wisely. Customer care at this stage can convince them of the suitability of their purchases. Customized pack sizes, would give consumers the feeling that they spend less, and that they do not have to pay a larger sum of money at the same time.

Those consumers who have postponed purchases for later need to be convinced that now is the best time to buy, because they can benefit from falling prices and special offers. It is good to convince buyers, who see the crisis as an

opportunity to review consumerism, of the merits of their purchases and show them the ecological nature of the products. Loyalty programs should be simple and should offer rewards that really interest consumers.

The complicated and lengthy system of discounts discourages consumers from joining in loyalty programs. In addition, some products offered as a part of loyalty programs still remain pricey. As a reward for loyalty we suggest a system of vouchers for the purchase of any goods, or percentage discounts on the purchase.

At present, young people are apprehensive about the difficulties of finding a job because the crisis has caused a decrease in job vacancies. Based on this fact we can assume that they will become more cautious, and will limit their spending. Therefore, it is necessary to convince young people that there is no reason to make great savings. Banks can play an important role by offering products that vary from cheap package offers, to affordable loans and profitable mortgages. Traders could respond by offering easy payment instalment schemes. There is still a possibility to decrease interest rates in Slovakia, improve the conditions for paying off the loans to re-start consumer demand and spending. The increased saving rates can also make consumer spending wiser, and help avoid irrational spending. Creating a positive atmosphere, and demonstrating the advantages that the crisis has brought with it, is the best way to ensure sales in times of recession.

One of the last recommendations is aimed at marketing managers. Marketing managers should be more socially responsible and try to handle consumers' insecurity better. "The marketing manager must be able to manage transition, build resilience, destabilize, manage disorder, create a learning organization, bifurcate, generate renewal, constantly seek transformation, and carefully follow the emergence and development of disruptive technologies. As counter chaos marketing strategies are developed, they must include detection, conversion, evaluation, facilitation, and implementation" (Samli 2006: 322).

Improved accounting standards can also help to diagnose better financial health of companies, and to avoid another possible financial crisis in the future. Last, but not least, we need to learn survival lessons, find our own path through the recession and understand and adapt better to the change in behaviour of customers during economic downturns (Amalia, Ionut 2009: 779).

Other activities that help to overcome the financial crisis are thawing credit markets together. It could recover in terms of output growth and employment. Once the national economy is stabilized, higher tax rates and lower spending will be required (Brown, Lundblad 2009: 42).

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