Summary

During periods of recession many changes take place, not only in the economy, but also in consumer's buying habits and in corporate strategies. In order for companies to handle the economic crisis, which will more than likely affect their business, it is imperative that they understand the nature and magnitude of change in consumer habits and then take action accordingly.

I. Introduction

The last decade in the U.S. and Western Europe has provided marketers a great opportunity to study how buyers react to adversity. Z.E. Shipchandler, a business professor from Purdue University, has compared buyer habits in major purchase categories and has identified four trends that he has observed.

1. Conservation Ethic - Conservation becomes an important ethic for many purchases, as evidenced by the increased market for fuel-efficient cars and energy-efficient homes. Consumers also look for lower price alternatives or price reduction through promotion (use more coupons).

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2. Simpler Way of Life - Buyers are willing to forego product frills and go back to basics. This is reflected in the growth market of natural foods, health services, and do-it-yourself goods. They also look for ways to stretch or extend a product's usage.

3. Planned Shopping - Consumers are less likely to buy on impulse or use credit cards. Stores that cater to a variety of needs flourish (i.e., those that market groceries, pharmaceuticals, dry goods and flowers all in one store).

4. Greater Value - A products' value and durability are more important now more than ever to consumers. Consumers will buy quality durables or semi-durables that last.

II. Some Commonly Observed Consumer Purchase and Spending Behavior Seen During Recession

In addition to these trends there are some specific consumer purchase behavioral changes seen during a recession which should be noted.

1. Price Sensitivity and Cost Savings
   A. Higher Price Elasticity

   One is that consumers become very sensitive to changes in price and react accordingly. During the last 15 years in the U.S. there have been two main recession periods 1973-74 and 1979-83. In general, test results of price elasticity show a higher price sensitivity by consumers during recessionary periods. During non-recessionary times, approximately 36% of products tested show no significant difference in price sensitivity. However, in times of recession, only 22% of products show no significant price sensitivity. The following example from an in-market experiment typifies the increase in price elasticity between non-recession and recession times with respect to a mature product which is also a brand leader in its category.

   In 1977-78, an in-market price test yielded a price elasticity estimate of -1.26 for a particular product. The same controlled experiment was conducted during 1981-82 with a
17% price reduction. The following sales data, in the form of monthly indices, is based on store audit data comparing the two sales figures per million ACV.

Example of Price Elasticity During the 1981-82 Recession

<table>
<thead>
<tr>
<th>Month</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales At Control Price:</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Sales At Test Price (17% Price Reduction):</td>
<td>136</td>
<td>142</td>
<td>128</td>
<td>130</td>
<td>122</td>
<td>126</td>
<td>130</td>
</tr>
</tbody>
</table>

Estimated Price Elasticity: $-1.76$

During Recession (1981-82)

Estimated Price Elasticity: $-1.26$

Non-Recession (1977-78)

From this 6-month experiment, our estimated price elasticity is now $-1.76$, which is a 40% increase in price sensitivity compared to the 1977-78 period.

B. Increase Use of Coupons

There are many additional habits that consumers develop because of this price sensitivity. Consumers redeem more coupons and continue to do so even after the recession. The following table shows coupon distribution and redemption trends from 1979 to 1984 in the U.S.
Consumer Behavior During Recession and Manufacturers’ Reactions and Strategies

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Manufacturers’ Coupons Distributed (Billions)</td>
<td>81.2</td>
<td>90.6</td>
<td>102.4</td>
<td>119.5</td>
<td>142.9</td>
</tr>
<tr>
<td>Total Coupons Redeemed (Billions)</td>
<td>3.4</td>
<td>3.8</td>
<td>4.1</td>
<td>4.5</td>
<td>5.6</td>
</tr>
</tbody>
</table>

In 1982, one particular survey found that 76% of households use coupons, and 36% of redeemers account for 70% of coupon redemptions. That is 27% of all shoppers are heavy redeemers. In another survey among homemakers, 70% said they were doing more of cashing in cents-off coupons. Consumers seek every advantage they can find in reducing their shopping bill and using coupons is an easy way to accomplish this.

C. Shopping Cost Reduction

Consumers also shop more economically, cut shopping costs and maintain budgets more during a recession. Bargains and specials are more important than ever to them. Because of the difficulty in cutting back on utilities, food is one area where homemakers can cut back effectively. They are more selective in what they purchase, seeking a value relationship for their dollars spent and the quality of the product. Since the consumer goes back-to-basics, consumption of large bags of potatoes, carrots, cabbage and oranges tends to increase.

D. Search for Special Sales

In another survey, 70% of shoppers said they checked newspaper grocery ads before their shopping trip and two-thirds used lists. Consumers are not as brand loyal or store loyal and will switch to the supermarkets that offer lower prices. Consumers “cherry pick” specials and will trade down in product searching for better bargains. Not only that, but consumers will buy cheaper cuts of meat in order to save money.
E. Generic Product Purchases Increased

The purchasing of generic products by consumers reached its peak in 1982, when they had a share of 4.1% of 38 selected categories.

The basic marketing strategy used for generic brand products is that of reducing or eliminating traditional marketing frills such as packaging and advertising and then offering the product at substantially lower prices.

In 1982, among all generic product categories in the U.S. some generics have obtained a substantial share of their category for example:

- Generic Dog Food: 3.00% share of total sales
- Generic Toilet Tissue: 5.19% share of total sales
- Generic Household Plastic Bags: 6.22% share of total sales

A survey conducted late in 1981 found that 59% of total homemakers claim to have bought generics and 32% said they purchased a generic item on their last shopping trip. Paper and plastic products are the most popular generic items being purchased by 65% of those buying a generic on their last shopping trip.

Consumers perceive generics as having better prices while national brands are perceived as being higher in quality. Among consumers who have tried generics, over half of them say quality depends upon the product category of the item.

The following table shows share trends of generic, controlled and branded labels from 1979-1984.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic Labels</td>
<td>0.4</td>
<td>1.1</td>
<td>2.3</td>
<td>3.3</td>
<td>4.1</td>
<td>3.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Controlled Labels</td>
<td>25.3</td>
<td>25.2</td>
<td>24.5</td>
<td>23.8</td>
<td>23.1</td>
<td>22.8</td>
<td>21.8</td>
</tr>
<tr>
<td>Branded Labels</td>
<td>74.3</td>
<td>73.7</td>
<td>73.2</td>
<td>72.9</td>
<td>72.8</td>
<td>73.3</td>
<td>74.8</td>
</tr>
</tbody>
</table>
2. Delay Purchasing of More Expensive Items

Another commonly observed consumer behavior seen during recession is postponing purchases of some durable goods and big ticket items. The automobile market suffers as do appliances, but when a purchase is made in these areas the consumer tends to be more quality conscious so that they buy a product that will last. As a result of this postponement of major purchases, consumers are more likely to do their own repairs or have items repaired rather than purchasing new products. The do-it-yourself industry in general flourishes.

3. Expenditure for Non-Necessity Reduced

Another result, due to the recession is that tourism and leisure spending by consumers is reduced. The number of trips that consumers do make are lowered and more stay closer to home. Non-necessity consumption in general is reduced.

4. Buy Only Quality Products

Looking at other countries during times of recession, in West Germany for example, consumers don't sacrifice on quality instead they look for special offers from stores on quality products. They tend to buy less frequently and in lower quantity.

III. Manufacturers' Strategies and Reactions During The Recession Along With Some Case Examples

During the recession in 1982 U.S. corporate profits plunged 22%, the unemployment rate was 11% and the business failure rate was about 500 per week. To combat these drastic effects of recession, manufacturers need to make adjustments to their marketing strategies and react quickly to implement them.

1. Sales Promotion and Price Reduction

One major tool which manufacturers' use with much success during economic downturns, is to increase their usage of sales promotion and price reduction. These two important
strategies thrive in difficult economic times. Significant increases in promotion budgets are used to create "quick thrusts" at consumers in hopes of capturing their interest and encourage their steady purchases. Retailers and manufacturers push price-cutting efforts to get buying started again. In keeping with this, manufacturers strategically plan their promotions to achieve the most impact for their dollars.

The following table shows a summary of promotions used in 1981.

<table>
<thead>
<tr>
<th>Summary of Promotion - 1981</th>
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<tbody>
<tr>
<td>Based on 6,147 Promotions Reported During 12 Month Period</td>
</tr>
<tr>
<td>Coupons</td>
</tr>
<tr>
<td>Price Packs</td>
</tr>
<tr>
<td>Premiums</td>
</tr>
<tr>
<td>Refunds</td>
</tr>
<tr>
<td>Sweepstakes</td>
</tr>
<tr>
<td>Bonus Packs</td>
</tr>
<tr>
<td>Trial Size Samples</td>
</tr>
<tr>
<td>Cross Sampling</td>
</tr>
</tbody>
</table>

The use of coupons is the most prevalent type of promotion used by manufacturers. During 1982 the number of manufacturer coupons distributed increased 17% over 1981 to 119.5 billion. Companies can tap the value-consciousness of consumers by giving them brands they recognize at discounted prices through the use of coupons and other promotions.

2. **Increased New Product Activities**

Another trend seen during recession periods is that the number of new product introductions and new product development increases by manufacturers. The table below shows that the highest increases seen in new product introductions over a previous year were in 1982 and 1983. The higher increases seen in 1982 and 1983 rather than 1981 and 1982 can
be traced to the fact that the new product development came in 1981 and 1982, resulting in the higher new product introductions of 1982 and 1983. The table below shows this.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>1164</td>
<td>NA</td>
</tr>
<tr>
<td>1980</td>
<td>1268</td>
<td>+.9%</td>
</tr>
<tr>
<td>1981</td>
<td>1317</td>
<td>+3.9%</td>
</tr>
<tr>
<td>1982</td>
<td>1510</td>
<td>+14.7%</td>
</tr>
<tr>
<td>1983</td>
<td>1803</td>
<td>+19.4%</td>
</tr>
<tr>
<td>1984</td>
<td>1988</td>
<td>+10.3%</td>
</tr>
<tr>
<td>1985</td>
<td>2206</td>
<td>+11.0%</td>
</tr>
</tbody>
</table>

Capitalizing on price and new product development, Miller Brewing Co. introduced two new low priced beers during the recession; Meister Brau and Milwaukee's Best. Meister Brau's advertising focused on its tasting as good as Budweiser (another leading brand) but costing less. In less than two years sales quickly reached the 8 million barrel level, or about $240 million in supermarkets alone.

3. Emphasis on Product Quality, Efficiency and Value

Other ways that marketers may respond is by emphasizing efficiency in their products. During the recession, the only type of automobiles that fare well are the fuel-efficient ones, because they are smaller and offer much better gas mileage. Energy efficient homes also do well and products related to energy savings.

Not only do consumers want products to be more efficient they also want to conserve their own money. One way consumers can meet these needs and manufacturers can capitalize on it is by offering "doing-it-yourself" products. During the
recession in 1981-82 in the U.S., the do-it-yourself market expanded dramatically and the do-it-yourselfers were the fastest growing consumer segment in the U.S. Some of the products and services that thrived were do-it-yourself auto repair and service, self-serve gas stations, do-it-yourself home improvements and more importantly how-to books that show step-by-step how to make improvements, repairs and to do-it-yourself for any number of subjects or projects.

Another action marketers can take is to emphasize value, durability, and functionalism in their products. Manufacturers must take a hard look at products that lack these qualities and consider modifying them or discontinuing them. In the automobile industry, for example, extreme product changes, product line pruning and lower forecasting for existing models are necessary.

Another product attribute that marketers can emphasize is product quality. During the recession we saw a pattern for purchasing that did not just go for the low price. We saw a lot of high price, high quality products move as well. Consumers are willing to pay a little more for a high quality product that will last. In their mind there is not substitute of quality.

4. Versatility of Product Usage

Another action marketers can take is to extend or expand current product usage. Bisquick Baking Mix was very successful in doing this. This is a product used by almost all households, it is inexpensive and very versatile. Before the recession it was used primarily for making biscuits, pancakes, waffles and coffee cake. During the recession, extensive advertising started in women's magazines, which centered on low cost, nutritious and unique recipes that require little effort but make a fantastic dish. Each ad was different and featured new main dish recipes. Through this effort the number of usage occasions increased, as well as new usage occasions and thereby increased sales. Bisquick also offers another unique service. It has a toll free
number on its package which consumers can call anytime. They can ask advice or air a problem they may have about cooking, and get an answer on the spot. They can also ask for new recipes or any questions they may have. Bisquick has a number of attributes that consumers seek during a recession; it is low in cost, nutritious, can be used in a number of ways and it offers a good service.

5. Internal Cost Reduction

On the other side, manufacturers need to make changes internally in the company during a recession also. Adjustments need to be made to current costs and to costs and expenditures applicable to future years.

General Motors for example, extensively cut their operating costs in 1981 and turned a loss from the previous year into $333 million in the black. Although it closed a number of assembly plants, it continued its commitment of $45 billion to future plant replacement and expansion by 1985.

Another example is the German electrical giant, Siemens. This company sacrificed short-run profits during the hyperinflation in 1920-1923, but continued efforts directed at the future such as scientific and technical research, product and process innovation, customer and market development and training managerial personnel. Today, Siemens is a monstrous success; its competitor, Stinnes, however pushed for short-run profits and met its demise in 1924.

A recession does not always have to have a negative impact on manufacturers. Companies have benefited from the fiscal discipline they have been forced into. They have been forced to cast out unproductive products, plants and divisions and to focus on what their companies do best. They have learned to operate on leaner inventories and to be more diligent about receivables. In sum, corporations have lowered their breakeven points, at which sales equal costs, which essentially means they are doing more with less. For some, a lower breakeven means losing less money than they would have. For those that have
lowered their breakeven points, profitability will come more quickly once the economy recovers.

For example, Clark Equipment Co., a maker of construction machinery was estimated to lose about $11.55 per share of stock in 1982. But by eliminating one-third of its work force, shutting three plants, and taking other cost-cutting measures, Clark was able to breakeven with about $925 million in revenues in 1983 versus the $1.43 billion needed in 1982.

Another example is provided by machine-tool maker Acme-Cleveland Corp. In 1981, its sales were around $400 million, but in 1982 sales tumbled toward $200 million. Management immediately lowered its breakeven point through hefty-layoffs, concessions from unions, and the shifting of some production from Cleveland to lower-cost plants in the Southeast. It received $50 million out of its cost cutting bringing the breakeven point to $260 million in sales. In 1983 it planned to lower the breakeven point another $20 million.

Miami's Ryder System, Inc. is one company that beat the recession even though it is in a business that is usually very vulnerable. Ryder is the U.S.' number one truck leasing and rental company, which had estimated earnings in 1982 of $3.2 billion. During the 1974 recession, Ryder went through a financial crisis but in 1981 and 1982 it was prepared for the recession. As the recession deepened, instead of going on the defensive it turned offensive. For example, when business began to fall off in one-way consumer truck rentals, Ryder didn't hesitate. It proceeded to cut prices from $40 to $19.25 a day. By cutting prices 50%, utilization more than quadrupled, and more profit dollars were brought to the bottom line.

Ryder was just as inventive in their auto carrier business. As new car sales dropped, Ryder decided to expand rather than contract and acquired two other new-auto carriers. This inevitably increased volume but eventually raised profits considerably more, increasing utilization and providing a much needed back haul. Before the acquisitions they moved their trucks one way full and then back empty. After the acquisi-
tions they moved Chevrolets to one geographic area, then picked up Chryslers or Volkswagens and hauled them back. Through this process equipment was better utilized and they were able to consolidate maintenance facilities. The President of Ryder said that he believed that utilization of assets is the key to their business, and by increasing market share and reducing the cost structure you end up increasing profitability.

6. Better Usage of Excess Production Capacity

Other types of manufacturers may be able to use their excess capacity rather than lose it or shut down. Many companies, can use their excess capacity to provide generic products, off-label brands and private label brands. Especially those that manufacture paper and plastic products, pet foods, canned vegetables, soap and laundry products and peanut butter and preserves.

IV. Conclusion

In summary, some of the important aspects that marketers should not overlook during a recession are to offer consumers:

- promotions on brands that they use
- a low price alternative product
- efficiency and value in advertising
- a means of extending current product usage
- good service
- a quality product that lasts.

In addition, manufacturers need to:

- adjust current costs and research and development expenditures
- examine products and plants for productiveness
- utilize their assets and focus on what they do best.

Companies that do not properly deal with a recession or any economic crisis and just go on as usual are a likely candidate to be among the 500 companies per week that failed in the 1981-1982 recession in the U.S.
What happens to new products introduced during a recession after a recovery? Only those products that satisfy consumers' needs and have good quality and value can survive and grow after a recession.
References

2. Cook; "How To Beat The Recession – Any Recession", Forbes, 12/20/82.
8. Lin, Pioche, Standan, “Price Sensitivity - Does It Increase During A Recession?”, ESOMAR Congress - Copenhagen, 10/17/84.