
Effects of the Economic Crisis on the Romanian Consumer

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My purpose for this study is to analyse the Romanian consumer's behaviour in the context of the economic crisis that our country as well as other countries have gone through after 2008. The post-crisis Romanian consumer's behaviour is also going to be approached in comparison to that in the period preceding the economic crisis (2005-2008). I will show the consequences brought by the changes in the consumer's behaviour and attitude for retailers and how crisis forced them to apply new strategies and to reinvent some of them in order to cope with the crisis and to record increase in sale despite the crisis.

Keywords: consumer's behaviour; crisis; comparison; change; fast adaptation

Introduction

An increased complexity of the economic life led to the necessity to know the mechanism of the human economic behaviour which becomes more ample and complicated day by day and it asks for a separate study of the two intrinsic components: behaviour of man as manufacturer of goods and services and behaviour of man as consumer.

If we were to talk about attitudes, we can presently observe a dominant uncertain behaviour, which is completed by hesitation, scepticism, frustration and a „wait and see” attitude. All this comes after the pre-2008 period dominated by enthusiasm, effervescence, growth, certainty, optimism, initiative and courage, a period in which anybody could by anything and retailers sold anything.

The crisis shock in Romania

This passage between the two periods was suddenly felt in Romania, it came rather like a shock. It took everybody by surprise, analysts and economists, consumers and retailers. There is no doubt that, beyond the psychological shock, attitudes split up in two large categories: „the atheists” – those who did not believe in the crisis and denied its existence, considering it an invention or a global conspiracy – and „the believers” – those who not only believed in its existence, but also feared it. Regardless of who was right or wrong, „atheists” or „believers,” one thing is for sure: all of them experienced its strength. Some of them felt it directly, other indirectly, through the actions of those who felt it directly, dictated by attitudes as those mentioned above: uncertainty, hesitation, scepticism, fear, retreat. This phenomenon developed owing also to media: all newspapers and news channels only discussed of one thing, the economic and financial crisis, so the idea of crisis entered deeply in the Romanian consumer’s mind, but also in the retailer’s, both reacting in consequence. Normally, most people have the same needs and motivations, but they express them differently based on psychological, personal and external factors, regardless of crisis or non-crisis.

Differences of behavior relative to the economic crisis

Although they were guided by a general attitude of fear, Romanian consumers experienced several types of behavior, slightly different based on their financial resources, income level and education.

For consumers with high and above average income, the crisis and its effects were felt rather on an emotional level. Their consuming behavior did not suffer major changes. Consumers in this category were rather cautious, realizing what was going on, being ready to take action and preparing strategies.

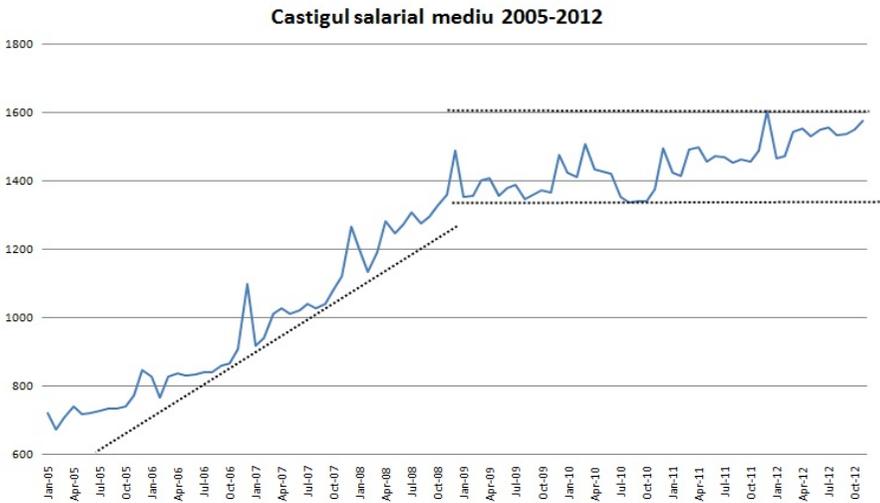
The crisis experience was not the same for consumers with low and below average income. They felt the crisis more deeply because it had direct consequences on their wage income (e.g. budget employees), social benefits (maternity grant). Lower income determined consumers to spend less

money. On a psychological level, this category of consumers experienced uncertainty, fear, anxiety, stress, self-helplessness.

No matter how crisis was understood and felt on a psychological level and regardless of the every single consumer’s awareness degree of the crisis, it remains a reality, an exhausting period to be crossed by many countries, among which our country too. This is what we will look at in the following section which is meant to be an analysis of Romanians’ income in 2005-2012..

Salary level: before the crisis and the present time

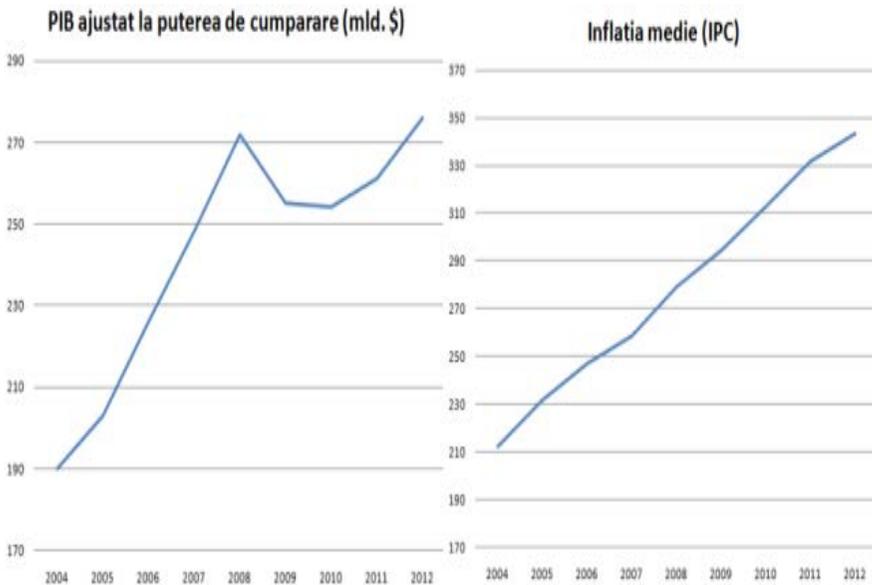
If we take a general look at a longer period of time, starting before the crisis, say 2005, until the present time, the monthly average net wage income has increased more than twice in this 8-year period, from little over 600 lei to almost 1.600 lei. However, we can see in the chart below that the most significant growth was right before the financial crisis began. During recession, Romanians’ income stagnated and even slected in some months.



The period 2005-2008 records an obvious growth which stops right at the moment the crisis began – the end of 2008. The beginning of 2009 records a slight growth, followed by stagnation and decrease tendencies. It is thus obvious for the economic sector that it is expected an oscillating period present all through the period until the end of 2012 when revenues try to break the 1600 lei borderline.

But to truly realize how much the average Romanian earned all this time, the inflation rate should be taken into account.

Starting with 2005 and ending with 2012, the consumer price index increased with 60%, weigh below the growth rate of the average net wage income (over 200%). However, if we analyze the last five years of crisis (2008-2012) in the chart below, we can observe that the average inflation increased with more than 30% while Romanians earned significantly less.



Also, GDP adjusted to the purchasing power has increased with 45% in the last 8 years which is less than the average inflation rate. Moreover, as

a consequence of the financial crisis, the GDP returned to the 2008 level only last year.

In conclusion, we have two distinct trends which gravitate around the financial crisis: the growing and economical explosion trend before the crisis and the stagnation and involution trend after the crisis. In the second period, the monthly average revenues increased insignificantly as they did not have the power to overcome the inflation rate while the economy was moving slowly.

Consequences of changes in the consumer's behavior

These attitudes led to stagnation and decrease of the national consumes level. The direct effect is on employers. In order to compensate for the loss caused by the decrease in sale, they reduced costs regardless their nature: wages, bonuses, premiums, less personnel etc.). Of course, all this affected the consumer who applied the same strategy of reducing personal expenses. In this sense, the financial crisis could be considered „catch22”.

The proof is another consequence consumers dealt with – devaluation of the national currency as to the Euro currency, which led to increased prices of goods and services and to loan obstruction.

Under less favorable economic conditions, the local reality however can greatly differ from the general perception, so that some banks managed to close 2011 with a net profit with 16% over the previous year results. Romanian banks recorded growth on all credit lines, but it is worth highlighting is the 26% increase in credit portfolio granted to small and medium enterprises (SME) while several voices were saying that bank do not grant loans to SME.

Deposits from clients also increased with 7%, and deposits of physical persons increased even more, with 15%. This result defines a good reputation for banks on the local market, banks that did not aim at giving the highest interests, but rather at ensuring decent interests both for deposits and loans.

Decreased investments are another consequence of the economic crisis and of a cautious attitude. Business people stopped investing in their company development, they postponed extension plans made before the

crisis and they adopted the „wait and see” attitude. On the other hand, consumers also gave up investing in projects like purchasing houses and fields, vehicles, small businesses, house reconditioning, holidays.

The weak part of Romanians is their incapacity of thinking in perspective. Thinking in perspective might have been the attitude that would have helped them cope with the crisis, but few of them adopted it. The Romanian consumer thinks „here and now” and makes plans for the near future, avoiding long term projects, this attitude coming from the same uncertainty. If there are problems, they prefer to solve them „on the go,” finding temporary solutions.

How did the consumer cope with the crisis?

Once the crisis was accepted, the Romanian consumers found their own solutions to deal with it. This solution is directly related to the income level and definitely determines a change in the buying behavior.

Consumers in the lower and below average income category reduced the quantity of goods they bought, they changed their habits and their life style in order to reduce consumption of energy, gas, etc., they chose to buy cheaper and less qualitative products or they completely eliminated some goods from their shopping list, they reduced the number of visits in supermarkets, they paid more attention to promotions.

Unlike the category above, consumers in the higher and above average income category did not change their behavior significantly. They did not spend less; they did not choose cheaper or less qualitative products and did not shorten the shopping list. Instead they felt the crisis in their savings. Most of the times, savings are for major purchase projects, so change in their case means postponing house or car purchasing or choosing a cheaper holiday destination.

Changes in the consumer’s buying behavior and retailers’ reaction

The solution some retailers and manufacturers came up with as a reaction to the consumer’s tendency of spending less is diversity of products, was

packing them in larger packs meant to determine the consumer to save money by buying more or combining different products in the same pack.

Retailers and manufacturers did not forget about the consumers with lower and below average incomes who, in order to have better control on their budget, prefer to buy products in smaller packs. Promotions are another way to cope with the crisis. Promotions determined consumers to change their buying behavior, that is to choose a product that would not otherwise buy and use.

All these strategies are clearly in the advantage of the large department stores: supermarkets, hypermarkets, while small stores are affected. Large department stores can offer the consumer the possibility to minimize the risk and to control their shopping, two attitudes that suited both consumers and retailers during the financial crisis.

Conclusions

Therefore, we can conclude that Romanians as consumers approached crisis differently, mainly based on their income level and adapted their behavior in consequence. Consumers in the lower and below average income category adapted by reducing the quantity of products they bought, by preferring products in smaller packs, by preferring a smaller price to quantity, by changing their life style to save gaze and electricity consume. On the other hand, consumers in the higher and above average income category felt the financial crisis in their savings. They were not able to save money for larger projects anymore, but they did not have to buy fewer products or to give up quality and they did not change their life style with the purpose of reducing the amount of money spent on bills.

According to the growing tendency shown in the first chart, we could say the coming months should reestablish an economic growth. However, this does not mean that consumers will suddenly go back to their behavior before the financial crisis. Most certainly caution will characterize consumers' attitude in the following period.

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