

## Strategies for retailers during recession

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### Keywords

Recession, Strategies, Retail, Competition

### Abstract

*The retail market in India is facing slowdown with the ongoing financial crisis happening across the world markets. Since the markets always have internally linked with each other, the impact of the crisis is generally shared among all. The inflation or the economic slowdown is adversely affecting the retail industry. With the suddenly disturbed economical status, consumers are gradually losing interest on buying. And for the interested, the unbalanced income, followed by the economic slowdown, is not meeting their buying requirements. Recessions do offer a myriad of opportunities for those marketers who understand marketplace dynamics and who are willing to plan thoughtfully for recession survival, learn from the problems and then move on to prosperity.*

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### Introduction

By definition, recessions are periods during which economic activity is abnormally slow. Variations in indicators of economic health such as GNP, employment, customer spending, and industrial purchases, for example, imply that recession are simply scaled down versions of normal economic eras. In reality, recessions are times of rapid marketplace change and turbulence characterize by a reassessment of business relationship by all participants.

According to an old Spanish proverb, "To be bullfighter, you must first learn to be a bull. The quote stresses the importance of understanding the way customers are likely to feel and behave (Kotler). The point is even more appropriate during recessions, given that organizational purchasing behaviors and attitudes change rapidly as the recession progresses through its stages (Philips & Charles).

The American Marketing Association believes they have entered a period of austerity marketing, which is defined as marketing to consumers who don't want to spend. This involves creating incentives beyond the discounts and coupons which already flood the market place, and making very clear to the consumer why offerings are worth the money and how they are relevant to the purchaser's needs or desires (Elizabeth A. Sullivan).

Recessions are challenging times for professional retailers. The effect of recession primarily depends on the type of retail business. This comes down to the demographics

being targeted by the specific businesses. Also, consumers are spending less money, hence the retailers lose their profit margins, if this happens they are then unable to buy the stock in, or if they buy the stock on credit and they are not seeing healthy profit margins the suppliers will not take a chance on supplying the goods, without the goods the retailer cannot sell (Phil Izzo). Also there are problems with loans from banks and creditors, they are unwilling to invest in a company which has not had profits, or whose profit margin has decreased therefore the problem with supply and demand comes up again. Reports of recession across the world have made an impact on consumers. They are pretty cautious about spending their money now. They have begun to cut down on their monthly budget and not spending on luxury items. This has a direct and visible impact on the retail sector. This trend is affecting the turnover of retailers (Brooke Master).

To weather the recession, Bonoma(1991) advises practicing marketing manager to (1). Avoid empty middle marketing, (2) don't mistake expansiveness for empire, (3) Do more for less (4) Remember what winter is like when summer again comes. In a related study, Goerne(1991), reports that marketing managers have been using significantly more coupons in the promotion mix in order to fight the negative impact of the recession on sales. In view of this, it is critically important that marketing managers make sure that the economic environment facing their company is indeed one of recession

## **Research Problem Definition & Research Objective**

The recent meltdown in world markets is affecting all countries across the globe. The retail market in India is facing slowdown with the ongoing financial crisis. To objective of the survey is to find out the effect of recession on the sales in the retail industry. With the suddenly disturbed economic status, consumers are gradually losing interest on buying. And for those interested, the unbalanced income, followed by the economic slowdown is not meeting their buying requirements.

## **Research Methodology:**

The explorative Research was carried out to identify the impact of the recession and buying objectives of the organized retail shoppers in Navi Mumbai. Primary data is collected through structured questionnaire from the 25 retailers. Research sample were randomly selected from the different retailers like kirana stores, hypermarkets, supermarkets and departmental stores. The data collected was first collated into digital form. Qualitative Analysis was then done on the data collected using SPSS Software

## **Key Finding:**

During times of recession, customers are like to plan their expenditures more

deliberative, postponing major purchase decisions. Most of the respondent's reluctant to go for shopping in a modern retail formats. Especially the department stores are relatively affected during the recession time.

**Business performance during recession**

52% of the retailers said that their business performed less than usual. These included departmental stores, hypermarkets and supermarkets. Only kirana stores had the same sales during the past few months.

**Footfall**

|                         | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid Remained the same | 7         | 28.0    | 28.0          | 28.0               |
| decreased               | 18        | 72.0    | 72.0          | 100.0              |
| Total                   | 25        | 100.0   | 100.0         |                    |

Table 1 *Footfall ratio*

It has been found that according to 72% of the retailers there has been a decrease in footfall. No change observed in footfall of kirana stores. Most of the regular customers used to shop for more than once a week before recession.

**Change in frequency of shopping**

60% of the retailers found that their regular customers have been less frequent now for shopping. Hence people have changed their frequency of shopping. In this current meltdown, driving the customers to the retail stores seems difficult. But, the markets always have the hidden potential despite the slump. Today, the changing market trends demand the retail industry to expand its reach to the more customer touch points so as to drive them to the retail points.

**Customer response towards sales, discounts and schemes**

|  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
| Valid Customer purchases increase during sales & discounts   | 16        | 64.0    | 64.0          | 64.0               |
| Customers are indifferent to sales & discounts   | 4         | 16.0    | 16.0          | 80.0               |
| Customers want to purchase during sales and discounts but are looking for better quality, variety etc. | 5         | 20.0    | 20.0          | 100.0              |

|       |    |       |       |
|-------|----|-------|-------|
| Total | 25 | 100.0 | 100.0 |
|-------|----|-------|-------|

Table 2 *Customer Response*

Most of the retailers find that their sale boosts up during sales, schemes and discounts. This is because people are cautious of spending money now.

### Change in buying behavior of luxury items

|  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
| Valid Purchase of luxury items has remained stagnant | 2         | 8.0     | 8.0           | 8.0                |
| Purchase of luxury items has decreased               | 6         | 24.0    | 24.0          | 32.0               |
| not applicable                                       | 17        | 68.0    | 68.0          | 100.0              |
| Total  | 25        | 100.0   | 100.0         |                    |

Table 3 *Buying behavior of Luxury Items*

It has been found that the sales of luxury items have decreased during the past few months. This shows that customers have cut their expenses on luxury items.

### Spending habits

|  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
| Valid Household purchases like grocery | 15        | 60.0    | 60.0          | 60.0               |
| Personal care items                    | 4         | 16.0    | 16.0          | 76.0               |
| Apparel & accessories                  | 6         | 24.0    | 24.0          | 100.0              |
| Total                                  | 25        | 100.0   | 100.0         |                    |

Table 4 *spending Habits*

It has been found that 60% of the customers spend their money on household items. Customers spend their money on necessity items like grocery etc which means recession has not affected the sale of necessity items.

### Change in billing amount

|           | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------|-----------|---------|---------------|--------------------|
| Valid Yes | 14        | 56.0    | 56.0          | 56.0               |
| No        | 11        | 44.0    | 44.0          | 100.0              |
| Total     | 25        | 100.0   | 100.0         |                    |

Table 5 *Billing Amount*

According to most of the retailers there has been a change in the billing amount as compared to previous year.

**Ranking Of Factors Affecting Purchase Decisions**

Retailers were made to rank the factors that are considered by customers prior to purchase on a scale of 1-5.

| Factor                         | Overall score |
|--------------------------------|---------------|
| Price                          | 108           |
| Quality                        | 105           |
| Variety                        | 98            |
| In-store Service & convenience | 99            |
| Ambience                       | 80            |
| Sales, schemes and discounts   | 100           |

|                        | Type      | Business performance | footfall  | frequency | Change in frequency | Response to discounts | Change in luxury items | Most spending | Change in billing amt |
|------------------------|-----------|----------------------|-----------|-----------|---------------------|-----------------------|------------------------|---------------|-----------------------|
| Type                   | 1         | -.236                | -.524(**) | -.206     | .721(**)            | .000                  | .260                   | -.093         | .158                  |
| Business performance   | -.236     | 1                    | .649(**)  | .179      | -.360               | -.327                 | .238                   | -.125         | -.277                 |
| Footfall               | -.524(**) | .649(**)             | 1         | .168      | -.764(**)           | -.230                 | -.161                  | .051          | -.524(**)             |
| Frequency              | -.206     | .179                 | .168      | 1         | -.200               | .509(**)              | -.623(**)              | .578(**)      | -.260                 |
| Change in frequency    | .721(**)  | -.360                | -.764(**) | -.200     | 1                   | .041                  | .303                   | -.232         | .428(*)               |
| Response to discounts  | .000      | -.327                | -.230     | .509(**)  | .041                | 1                     | -.612(**)              | .534(**)      | -.116                 |
| Change in luxury items | .260      | .238                 | -.161     | -.623(**) | .303                | -.612(**)             | 1                      | -.649(**)     | .137                  |
| Most spending          | -.093     | -.125                | .051      | .578(**)  | -.232               | .534(**)              | -.649(**)              | 1             | -.291                 |
| Change in billing amt  | .158      | -.277                | -.524(**) | -.260     | .428(*)             | -.116                 | .137                   | -.291         | 1                     |

Table 6 *Factors affecting purchase decisions*

It was found that price, quality and sales/discounts were found to be the major drivers affecting purchase decision of customer. Variety is not required in case of kirana stores as grocery items are considered. Moreover people are very brand loyal in daily products category. Also, ambience is not at all a factor to be considered for kirana stores. But the most important factor for kirana stores is convenience provided to the customer in the form of services like home delivery. On the other hand retail outlets like supermarkets, hypermarkets and departmental stores require a great variety, in store service and sales and discounts.

### **Correlation Analysis**

(Significant Correlations are shown in bold in the table below)

\*\* Correlations that are significant at 0.01 level

\*\*Correlations that are significant at 0.05 level

The following correlations were found from the data:

#### **1) Positive Correlations**

| <b>VARIABLE 1</b>         | <b>VARIABLE 2</b>               | <b>INTERPRETATION</b>  |
|---------------------------|---------------------------------|--|
| Type of the retail format | Change in frequency of shopping | Hypermarkets, supermarkets witness a greater change in frequency of shopping as compared to kirana stores. |
| Footfall                  | Business Performance            | Lower the number of people visiting the stores lower will be the performance of the retail businesses      |
| Response to discounts     | Frequency of shopping           | Customers who shop more frequently are more likely to respond to schemes and discounts                     |
| Frequency of shopping     | Most spending                   | More the frequency of shopping more is the spending pattern of customers                                   |

#### **2) Negative Correlations**

| <b>VARIABLE 1</b>   | <b>VARIABLE 2</b>        | <b>INTERPRETATION</b>   |
|---------------------|--------------------------|---|
| Change in frequency | Footfall                 | More the change in frequency of shopping of customers, lesser will be the footfall experienced by the retailers     |
| Footfall            | Change in billing amount | Lesser the number of people visiting stores more is the fluctuation in the billing amount recorded by the retailers |
| Type                | Footfall                 | Luxury shops face more fluctuations in footfall in times of recession   |

|           |                        |   |
|-----------|------------------------|---|
| Frequency | Change in luxury items | Shopping for luxury items faces more fluctuations than regular shopping items |
|-----------|------------------------|---|

Majority of the retailers have witnessed a decrease in their business performance during the past few months. According to most of the retailers there has been a decrease in footfall. It has been found that there has been a change in the billing amount as compared to previous year. Most of the retailers find that their sale boosts up during sales, schemes and discounts. 60% of the retailers found that their regular customers have been less frequent now for shopping. Majority of the people spend on household items and the sales of luxury items have decreased during the past few months. It was found that price, quality and sales/discounts were found to be the major drivers affecting purchase decision of customers.

### **Present communication channel is ineffective and involves high costs:**

The present channel for customer communication is apparently ineffective which the retail industry has been following for the decades. Moreover, it always involves high costs too. The outdated communication channels should be modified according to the changing market trends. Now, an uninterrupted marketing channel, which will be continuously tied to the shoppers, is needed to boost up the retail industry. Going beyond the traditional marketing at low prices will cut down the high costs and brings good returns.

### **Areas Hit**

The change in shopping pattern points to the impact of recession in the retail sector. The effect of the recession on the demand of various categories of goods is not the same. The recession has not affected those retailers dealing with essential commodities. The areas hit are the home appliance, footwear and textile sectors. Retailers in the food sector are also not affected. This is because the people have not cut down on food products. Economists believe that during hard times people forego extravagant purchases like cars, holidays and kitchens and instead spend their money on small luxuries like make-up (Guy Trebay). This is called the 'Lipstick effect.' The current economic environment is bad for most retail names, but it particularly hits mid-level and upper-middle level retail giants that have to still maintain inventory while many of their customers go discount shopping at clearance stores or at smaller chains.

Recession has not affected all product categories equally. A few luxury goods like real estates, textiles, automobiles are strongly affected while most of the necessity goods do not experience as strong of an affect (Ming-Hui Huang). The approach for coping with an economic slump depends on a product's category. The approach also varies according to a products' brand category: a business which has promoted its brand as the 'cheapest cost' alternative need not change its branding strategy during a recession while another brand which has promoted itself as a 'best quality' alternative may need to change its branding strategy during such a darker economic phase.

Economic downturns have a way of turning consumer purchasing hierarchies upside down. Self-actualization and esteem-building don't seem nearly as important as taking

care of basic needs (Ylan). Increasing market share during recession is very difficult because during recession, every rupee matters to consumers and they use greater discretion in making purchasing decisions. They do not want to experiment a new brand and tend to stick with brands they can trust. As a result, businesses often find it difficult to position their brands in a market during a recession. But despite these difficulties, business can gain success if they position their brands keeping in mind their product brand category and the expectations of their consumers. A business can succeed during a recession projecting their brands from a value-added perspective and also from an innovative-product perspective(Yang, J.L).

**Strategies for the retailers;** (Srini.R.Srinivasan) it's easy to forget, but many products that we now remember as stunning successes were actually launched during economic downturns. Helm (2008), highlighted in his paper many successful companies like CNN, MTV, FedEx, iPod, Microsoft, BurgerKing,Colors are started during recession period. Indeed, many of them found success precisely because, not just in spite of, unusual economic conditions.

**Understand the Customers:** Learn how consumers are redefining value and responding to the recession. Discount retailers are doing much better than mall anchor groups(Goodell). Retail food and Drug have seen lower sales due to weakened customer, branded apparel and footwear are at the safest position due to their low capital intensity and high margins to absorb any pricing pressure. Moreover, private labels have a huge impact on bottom line. In some cases, the margins of private labels are usually double than of branded products.

Since consumer spending is low, this has led to the malls taking the concept of regular discounts, and rewards a step forward, by including promotional events to attract maximum footfalls. Also, there has been increase in turnover in discount stores like loot. Discount format chains are going ahead with expansion plans even as larger organised retailers are cutting targets and putting expansions on hold to cope with the economic slowdown. A lot of new customers shop at these stores who could have been previously shopping at full-priced retail stores. Such formats have the capacity to attract shoppers as they offer great deals and bargains.

**Shopintainment:** Walt Disney once said that people spend money when and where they feel good. Research has confirmed this to be true. When customers enjoy the shopping experience, they will spend more time browsing products in the store and are then more likely to make discretionary purchases(Ylan Q. Mui). At one extreme, there are the shopaholics, for whom shopping is an addiction. Evidence shows that the average number of hours spent shopping has risen in many shopping malls. Although the need to walk longer in order to shop may explain some of the observed increases, it appears that shopping has become more attractive as a leisure experience. However, the

amount of time devoted to shopping is based on the culture, disposable income and lifestyle.

**In store Brand:** Consumers by and large seem to be down trading i.e. moving from their regular brands to those which may cost less (Bazinet),. Private labels have also been the biggest beneficiary now. Consumers who don't want to pay more are opting for private labels. Private labels can become a good vehicle to drive consumption. Every retailers must develop its own strategy to develop the in store brands. Retailers will have more competitive advantage by having more store brands.

**Differentiation:** Opportunities for competitive differentiation are everywhere new brands and formats, services, presentations, interactivity, etc . Even small personal touches can encourage shoppers to buy often and stay loyal. Companies must continuously capitalise on innovation and make strategic adjustments in the store. Retail moves so quickly and competitively that the only constant is the ongoing push for ideas that will lead to better performance.

**Feel-good factors:** The product is the focal point of a shopping experience. It is what draws consumers into the store and energizes the shopping process. The store should present an attractive selection of merchandise, often stocking new and fashionable items to keep the shopping experience fresh and interesting. The environment should stimulate consumers' senses with appealing sights, sounds, smells, tastes, and sensations. These stimuli can evoke powerful emotions by connecting with consumers' past experiences and memories.

**Special events:** These are an important tool for managing a store social atmosphere. They can attract groups of customers with common interests and lifestyles, creating social opportunities for patrons and economic opportunities for merchants. Retail theory has been constrained within the notion that shops need to attract customers. Conversely, wherever there are people in numbers, there is a retail opportunity. The process of converting people who are engaged in one activity to become shoppers needs to be better understood.

**Online Marketing:** Markets have been thrived for many years so far. In this course of time, consumers are highly habituated to buy the things to fulfill their needs. It means buying the things has become a part and parcel of their lives. Now, for any reason people may not keep off their buying needs. But, following the economic slump, people wanted to postpone their buying needs. It is not the loss of interest or short of the buying capacity. This postponing aptitude is stopping the customers from visiting the stores temporarily. But the times always tend to change.

**Limitations:** The data collection was collected during the period of 30 days. Sample was collected from 25 retailers from the area of Navi Mumbai. Most of the data were collected from kirana shops. Location of the survey was restricted only to Navy Mumbai; this collected data may not represent the whole retailers in India.

**Scope for future research:** Customer purchasing behavior may change during recession. But the fundamental aspects of buying characters of the shoppers will remain the same. This research is mainly focuses on shopping pattern and buying behaviors of the customers in various retail formats, in future the same research could be done on specific retail formats or even product specific.

## **Conclusion**

Recessions are stressful periods for business manager. Change is occurring rapidly throughout the market place. Basic demand drops. Customers alter their behavior, regress down the consumption chain, and migrate to better values. During an economic slump, it is also possible for businesses to grab success in terms of both market share and brand equity. Businesses which promote themselves as self confident during hard economic times perform better not only during the slowdown period but even for the following years. This strategy helps bolstering consumers' confidence making them think that they have chose the right product from the right business at a difficult economic time.

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