CONSUMER BEHAVIOR
IN THE ECONOMIC CRISIS AND
ITS IMPLICATIONS
FOR MARKETING STRATEGY

Hermawan Kartajaya
I Putu Mandau Wijayanto
Yuwohady

Krisis ekonomi yang terjadi di Indonesia berdampak pada tidak menentunya kondisi ekonomi, mandiriya dan usaha yang menyebabkan gelombang P3KE dan yang terjadi mempunyai secara drastis daya beli masyarakat sehingga akibat melonjaknya harga dan terus-menerus tingkat pendapatan masyarakat. Berbagai perubahan karena isu-isu krisis ekonomi ini berdampak langsung maupun tidak langsung pada terjadinya perubahan perilaku dalam pola perilaku konsumen.

Tulisan ini memberi melihat gambaran metagenai pola perilaku konsumen di masa krisis melalui sebuah survei yang dilaksanakan di delapan kota besar di Indonesia. Tulisan ini juga mencoba melihat berbagai pengaruh dan implikasi strategi dari perubahan perilaku konsumen dan terutama dalam kaitan formulasi strategi penjualan, dalam hal ini penulis mengukurkan berbagai Kinerja Keuangan Perusahaan 2000 sebagai acuan dan perangai analisis. Penulis menggunakan rupa alternatif strategi yaitu "outsming the brand", "downscaling" dan "countertrading".

Tulisan ini akan dalam latar bagaimana bagian pertama membahas krisis ekonomi di Indonesia berikut dampak-dampaknya terutama yang berupa perubahan perilaku konsumen, Bagian kedua membahas gambaran pola perilaku konsumen di Indoneisa pada masa krisis. Sedang bagian akhir tulisan ini menunjukkan konsekuensi strategi pemasaran dalam menghadapi berbagai perubahan perilaku konsumen.

Keywords: marketing, consumer behavior, Indonesia, economic crisis
The Economic Crisis and Its Effects on Consumer Behavior

Foreword: Chronology of Main Events Leading up to the Crisis

For the past nine months Indonesia has been beset by economic crisis. The effects of this crisis have been both profound and wide-ranging. The crisis was triggered by the financial turmoil which first occurred in Thailand. Firstly, the rupiah was hit by the "contagion effect" on the Thai baht around mid-July 1997. Pressure from the baht caused the rupiah to weaken. In an effort to counteract the rupiah's slump, the government raised in its liquid assets and on August 14, 1997 made the decision to lift the band intervention and implement a floating exchange rate system, thereby completely surrendering control of the exchange rate to market forces.

The lifting of the band intervention was immediately followed by widespread public panic, as people rushed to sell rupiah. The government reacted to this by increasing its liquidity, among other things by raising the interest rates on central bank promissory notes and withdrawing Rp 2 trillion from state companies. While this policy does to some extent achieved to objec-

tive, it also created a new crisis, both latent and dangerous - a crisis of liquidity. The situation was further exacerbated when on November 1, 1997 the government made the decision to close 16 banks. This created a loss of public trust in the banking sector and led to a mass withdrawal of private funds. These last two decisions provided the trigger that led to the free fall of the rupiah.

Concern about the possibility of the total collapse of the rupiah finally prompted the government to turn to the International Monetary Fund (IMF) for assistance on October 8, 1997, and after a month-long series of intensive discussions, it is succeeded in committing the IMF, the World Bank, the ADB and neighboring countries to releasing a $43 billion loan package. This aid package was linked to heavy terms and conditions amounting to a near-total reform of the Indonesian economy, covering fiscal, monetary, banking and structural reforms. However, the IMF loan was unable to put the brakes on the rapid free fall of the currency, owing to Indonesia's unwillingness and equivocal attitude in implementing the reform package. Two weeks after the agreement with the IMF was signed, Indonesia took its own steps to overcome the crisis, advocating the implementation of a Currency Board System

Figure 1: Fluctuation in Rupiah Exchange Rate Against the US Dollar: July 1997 - March 1998

ISSN: 003 - 7645
The latest IMF report (1998) published in mid-April concludes that in general the Asian countries affected by the crisis will begin to exhibit the first signs of economic recovery by the end of this year, and start to show positive growth. However, the IMF still doubts whether Indonesia will be able to pull itself out of the crisis, and maintains that the country will still be saddled with a 5 percent negative growth rate and a 44.5 percent inflation rate for the rest of the year. These gloomy predictions are reflected in the projections used by the government for the compilation of the 1998/1999 state budget. At the beginning of April the figures taken were -4 percent and 17 percent respectively. This means that the economy will continue to contract and be plagued by soaring prices at least until the beginning of next year.

b. Industrial Stagnation and the Increase in Lay-offs

The stagnation within the manufacturing sector and the subsequent decline of many industries is an unavoidable consequence of economic crisis. Failure of these industries is caused on one hand by rising production costs resulting from the sharp decline of the rupiah. A large part of Indonesian industries rely heavily on a steady supply of imported raw materials. On the other hand, the demand for goods and services has decreased owing to the drop in people's buying power. Many industries have also become paralyzed by fundamental policy errors due to oversight fiscal policies (Economist Advisory Group, 1997). Such policies were introduced in order to undermine the efforts of speculators trying to buy up the entire reserve of dollars. However, this policy is counterproductive since it acts to paralyze national business.
The collapse of several industries has brought it with some very bitter consequences with regard to employee lay-offs. Since the middle of last year, the newspaper publishers have been filled with stories of companies being forced to fire their workers, either because of productivity losses or because of actual bankruptcy. The worst estimates show the total number of unemployed to be approximately 13 million. A survey carried out by the Japan-based research division of Dai-Ichi Mutual Life during March predicts that the unemployment figure for the nine Asian nations affected by the 1998 crisis will reach 21.58 million, 8.9 million of whom will comprise newly laid-off workers. Of this last figure, 6 million will be Indonesians. Whereas in 1996 the total number of unemployed constituted a mere 6.1 percent of people of working age, in 1997 this figure had increased substantially to 14.2 percent. As a result of the crisis, in 1998 the figure is expected to rise further—to around 16 percent.

Figure 2. Inflation Rate: July 1997 - March 1998

The monetary crisis has directly affected the general public on one hand through the rise in prices and on the other by the drop in income due to pay cuts, lay-offs and business failures. The combined effect of these two realities has had a serious impact on personal buying power. The depreciation of the rupiah, coupled with the rise in production costs as a result of higher interests rates aimed at strengthening the local currency, in addition to the widespread drought of 1997, have caused the prices of goods to skyrocket since the middle of last year. Initially, only goods with a high import content—such as electronic goods, pharmaceutical products, motor vehicles, air tickets and hospital services—were affected; however, recently almost all kinds of goods have experienced considerable price increases. These price hikes often seem unrealistic, with many commodities, such as milk, cigarettes and cooking oil, doubling, tripling, and even quadrupling in price.
These price rises are reflected in the inflation rate, which has been climbing consistently since July of this year, and which really started to soar at the beginning of 1998. Figure 2 shows that the inflation rate for July through December maintained unacceptable levels, however, it took off in January 1998, reaching 25 percent for the month of February alone. The cumulative figure for the fiscal year ending March 1998 stood at 34.23 percent, while the figure for the first quarter of this year was a fantastic 25.13 percent.

The price rises were accompanied by a drop in income. Because of the crisis, companies found it impossible to raise employees’ salaries. Instead, they found themselves actually having to cut salaries or even lay off their workers altogether in order to stay afloat. Overall, the rapid devaluation caused a drastic decline in per capita income nationwide. In 1999, Indonesia’s GDP per capita had reached US$883, and US$1,668 in 1997. In 1998 it is expected to rise to only US$600 (International Financial Statistic Yearbook, 1997).

Consumer Behavior in the Crisis

The impacts of the economic crisis outlined above will lead to changes in consumer behavioral trends. Future economic uncertainty, job insecurity, and large-scale lay-offs will adversely affect many economic activities, consumers’ perceptions, and consumption trends. Lower incomes and higher prices, for example, will influence buying confidence, attitudes, and intentions. Shifting consumer purchasing trends and decreasing levels of trust constitute the main psychological factors which emerge from the results of studies conducted in Thailand (Far Eastern Review, 1997), Singapore ( Straits Times, 1998), and Mexico (Casablanca, et al., 1998).

The consumer’s decision whether or not to buy gives us a picture of consumer buying trends, which are based on the consumer decision process. This process is influenced by a variety of internal and external determining variables, namely, environmental influences, individual differences, marketing strategy, and psychological process (Eagel, et al, 1990). With respect to environmental influences, issues often discussed in connection with consumer behavior include the role of the trader in merchandising his product, the retail atmosphere, and POP (Kotegon and Cereos, 1997) material, in addition to the influences of climate, social group, family and others (Korchen, 1976). However, the consequences of the current economic crisis has been that the macro-scale implications of the consumer decision process have arisen from external influence rather than internal ones. The behavioralistic formulation is related to a sequential atmosphere-reacting (S-R) relationship (Korchen, 1976). In reality, human behavior is primarily governed by external influences, or stimuli.

If we take classic consumer behavior as our model (Eagel, et al, 1990) we can assume that the economic crisis as a variable internal stimulus has an indirect influence on the three elements contained in the model structure: Need Recognition, Search and Alternative evaluation. These external influences have, in turn, an indirect effect on the Beliefs, Attitude and Interest of the consumer.

For instance, the steady rise in the price of cooking oil and milk has convinced consumers of the scarcity of basic commodities in the market. Simultaneously, a large section of the public is feeling the desperation in their financial
situation, thereby causing a change in consumer confidence with respect to buying power. The end result of this has been a fundamental change in consumer attitude. This includes the classic "wait and see" attitude, pessimism (Far Eastern Economic Review, 1998), or a negative attitude leading to panic brought on by an element of "crowding" within the social environment. These convictions and attitudes form the basis for consumer intention. This is the third of the three elements measured in the model above, and is the main determinant of consumer behavior, although moderating factors such as time and context also play a part in determining the nature and extent of behavioral change.

Research and Methodology

In order to gain a clearer picture of consumer shopping trends during the crisis, a survey was carried out in February 1998 in eight of Indonesia's principal cities. The survey was designed with the aim of obtaining a "scrapbook" of consumer behavior, rather than supporting any previously held assumptions concerning behavioral changes. It had been logically assumed that the economic crisis had already had an effect on existing trends, and that these trends would be quite different in those witnesses in boom periods. The preliminary study took the form of a Focus Group Discussion, with the aim of pinpointing important attributes or aspects to consider when compiling a questionnaire.

The survey covered eight urban areas, and 2,500 interviews were conducted with housewives aged between 16 and 55. The women interviewed were all from the middle and upper socio-economic levels. The eight cities covered by the survey were Jakarta; Bandung; Surabaya; Medan; Palembang; Ujung Pandang; Banjarmasin.

These eight cities were assumed to give a roughly balanced profile of Indonesia's middle and upper socio-economic classes, most of whom reside in urban areas. Socio-economic classification, based on respondents' levels of expenditure, was divided into:

1. Class B (expenditure Rp 400,001 - 600,000) = 56.3%
2. Class A (expenditure Rp 600,001 - 1,000,000) = 24.8%
3. Class C (expenditure Rp 1,001,001 - 2,000,000) = 18.9%

The economic crisis has indeed had a significant impact on almost all levels of society. However, the survey targeted only the middle and upper levels, since these are considered more attractive to market people. It was also felt they would be the most easily accessible by the investigation.

A stratified sampling and quota sampling method was used in the survey, in which the number of interviews conducted for each class stratification is proportionate to the socio-economic conditions existing in the area (or, in this case, city). Data was compiled with the aid of a carefully structured questionnaire, while the validity of field data was controlled using field trials, witnessing techniques, and back-checking 30 percent of the total respondents in each city. The data was processed using Windows Release 6.0 SPSS statistical application software.

Research Results

Conversions and Attitudes of Respondents

To understand the consumer's decision-to-buy process is to understand the contents of the "black box" of consumer behavior. Among others, important elements explored by the survey included studying the beliefs and attitude of the
consumer during the time of crisis (see Figure 3).

Figure 4 illustrates respondents' beliefs, attitude and values towards a product. Growing convictions are largely determined by the respondents' subjective evaluation (Ajzen, 1985) as shown by the survey. The most conspicuous conviction was that it was important that the price of a product was reflected by its quality (66.7%). A second group of respondents (22.6%) claimed not to see too much store by quality, but emphasized the importance of affordable prices. The last group (12.7%) said brand names were important. The largest of these groups could be said to comprise what is commonly known as "smart" customers, since they place equal importance on the quality and price of a product, since the economic crisis has eaten away at their finances. The second group could be termed "dumb" customers, while the third exemplify "rich" customers. It is interesting that this last group still exists, although in much reduced numbers, even in a crisis.

Figure 5 illustrates consumer convictions based on area. Jakarta has an almost equal number of dumb customers and rich customers, with a greater proportion of dumb customers than in any of the other seven areas surveyed. The same is true for Ujung Pandang. However, in Banjarmasin a uniquely different pattern emerges, with snob customers accounting for a greater number of respondents than dumb customers.

Figure 6 illustrates consumer convictions and attitudes based on socio-economic group. In every group, the proportion of smart customers accounted for the greatest share of respondents, with no noticeable difference between the groups. The results do indicate, however, that the lower the socio-economic group, the greater the proportion of dumb customers, and the smaller the proportion of snob customers. Conversely, the higher the socio-economic group, the higher the proportion of snob customers.

Respondents' Intention to Buy

"Intention" is here defined as the predisposition (or desire) of respondents towards an object or event (Ajzen, 1985). The survey investigated aspects of intention, which would shed light on the buying tendenices of respondents during a time of crisis. Important questions focused on what motivated consumers in the current situ-
Figure 5. Consumer Buying Attitudes by Area
Base: All Respondents

- Considers the relationship between quality and price important
- Does not consider quality, only price
- Places importance on buying trusted brand names

Figure 6. Consumer Buying Attitudes by SEC
Base: All Respondents

- Considers the relationship between quality and price important
- Does not consider quality, only price
- Places importance on buying trusted brand names

112
tion. As Figure 7 shows, 83.5 percent of respondents expressed a tendency to look for high-quality, yet affordable goods. These can be categorized as value-oriented consumers. 12.1 percent of respondents said they looked only for cheap products, and may be termed price-oriented customers. The remaining 4.4 percent were primarily concerned with the make or brand, and may be termed quality-oriented customers.

By splitting the data based on area, as shown in Figure 8, value-oriented consumers accounted for more than 60 percent of the total in every city. Jakarta had the highest number of price-oriented consumers. The capital was indeed the first area to feel the effects of the recession.

In Medan, the quality-oriented group had a higher proportion of any city surveyed. Figure 9 divided the respondents according to socio-economic group; the results obtained almost exactly mirrored those in Figure 8, with "value seekers"
accounting for the largest proportion of the total.

Respondents’ Shopping Habits

Figure 9 shows that respondents tend to favor local products during the crisis. Approximately half of all respondents (51.9%) buy locally-made, high-quality products. 40.3 percent of respondents have faith that domestic products are of sufficiently high quality and buy them accordingly. Those who favor foreign brands with attractive prices account for 6.1 percent. Only 2.1 percent of respondents buy foreign brands regardless of price. These findings are consistent with the dominant trend, which is the emphasis on value.

Regarding personal shopping habits, in almost all socio-economic groups approximately 52 percent of respondents favor locally-made, high-quality products (see Figure 12), with the highest percentage of respondents who consider these products to be sufficiently good coming from economic category B. The highest percentage of respondents preferring to search for foreign goods with a reasonable price tag come from category A+. The percentage of respondents favoring foreign products without considering their price did not vary significantly in each economic category.

Fixed Usage Purchases vs Reduced Usage Purchases

We have come up with a list of the products which are most used in everyday life. These have been divided into two categories: FMCG’s (fast-moving consumer goods) and Non-FMCG’s (see Table 1 and 2). The results of our research indicate that FMCG’s are considered the “safer” during the crisis, and are still deemed necessary purchases by all respondents.
Figure 10. Habitual Purchases for Personal Needs
Base: All Respondents

- buy locally-made, quality products
- consider locally-made products to be of sufficiently high-quality and buy them
- buy foreign-made products of sufficient high quality
- sometimes buy foreign-made products, regardless of price
- buy foreign-made products, regardless of price

Figure 11. Habitual Purchases for Personal Needs by Area
Base: All Respondents

- buy locally-made, quality products
- consider locally-made products to be of sufficiently high-quality and buy them
- buy foreign-made products of sufficient high quality
- sometimes buy foreign-made products, regardless of price
- buy foreign-made products, regardless of price
These include soap (37.6%) and shampoo (66.3%). Usage of these commodities, therefore, is the least reduced of all. Other commodities, FMCG or otherwise, which are still in constant use and have not suffered from reduced usage are: coffee (61.8%), detergent (77.5%), mineral water (56.6%), motor vehicle use (61.0%), and newspapers (54.0%). Products which are still bought regularly by over 50 percent of respondents include: radio (54%), television (63%), and insurance (70.1%).

The results show that almost all commodities have been hit by the crisis as a result of consumers' reduced buying power. Fast-food purchases, for example, have been reduced by 90.8 percent of respondents. Other high-ranking commodities and services to suffer personal cutbacks in expenditure include: imported fruit (85.2%), magazines (70.4%), beauty treatment (82.5%), and trips abroad (79.2%).

**Attitudes Concerning Aspects of Marketing Mix**

The survey looked at the attitudes of respondents towards the various elements of marketing mix. This information is crucial for facilitating the implementation of appropriate selling strategies, and is used during the process of formulating appropriate marketing tactics for use during the crisis.
### Table 1. Usage of FMCG's and Other Products During the Economic Crisis

<table>
<thead>
<tr>
<th>Product</th>
<th>Total Respondents</th>
<th>Reduced Usage %</th>
<th>Did not Reduce Usage %</th>
<th>Total Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shampoo</td>
<td>2441</td>
<td>13.7</td>
<td>86.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Coffee</td>
<td>2028</td>
<td>32.8</td>
<td>67.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Detergent</td>
<td>2343</td>
<td>22.5</td>
<td>77.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Soap</td>
<td>2402</td>
<td>12.4</td>
<td>87.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Newspaper</td>
<td>2126</td>
<td>46.0</td>
<td>54.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Imported Fruit</td>
<td>1380</td>
<td>85.2</td>
<td>14.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Perfumes</td>
<td>2116</td>
<td>58.6</td>
<td>41.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Beauty Care</td>
<td>1388</td>
<td>82.8</td>
<td>17.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Sweets</td>
<td>1396</td>
<td>64.4</td>
<td>35.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Soft Drink</td>
<td>1572</td>
<td>71.2</td>
<td>28.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>2312</td>
<td>57.4</td>
<td>42.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Magazines</td>
<td>1759</td>
<td>70.9</td>
<td>29.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Instant Noodles</td>
<td>2255</td>
<td>55.6</td>
<td>44.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Fast Food</td>
<td>1055</td>
<td>90.8</td>
<td>9.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Raisins</td>
<td>1727</td>
<td>64.4</td>
<td>35.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Telephone/Mobile Phone</td>
<td>1713</td>
<td>64.4</td>
<td>35.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Motorcycle Usage</td>
<td>1451</td>
<td>64.3</td>
<td>35.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Mineral Water</td>
<td>1757</td>
<td>63.4</td>
<td>36.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Automobile Transport</td>
<td>1081</td>
<td>39.0</td>
<td>61.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Clothing</td>
<td>2444</td>
<td>63.9</td>
<td>36.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### Table 2. Usage of Non-FMCG's During the Economic Crisis

<table>
<thead>
<tr>
<th>Product</th>
<th>Total Respondents</th>
<th>Reduced Usage %</th>
<th>Did not Reduce Usage %</th>
<th>Total Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kitchen Utensils</td>
<td>2184</td>
<td>40.7</td>
<td>59.3</td>
<td>100.0</td>
</tr>
<tr>
<td>AC Units</td>
<td>264</td>
<td>27.3</td>
<td>72.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Televisions</td>
<td>2223</td>
<td>63.0</td>
<td>37</td>
<td>100.0</td>
</tr>
<tr>
<td>Radios</td>
<td>2005</td>
<td>54.9</td>
<td>45.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Golf</td>
<td>50</td>
<td>34.0</td>
<td>66.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Trips Abroad</td>
<td>149</td>
<td>20.8</td>
<td>79.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Taxes</td>
<td>699</td>
<td>28.0</td>
<td>72.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Hotels</td>
<td>119</td>
<td>45.1</td>
<td>54.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Airline</td>
<td>182</td>
<td>22.0</td>
<td>78.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Motorcycle Purchase</td>
<td>128</td>
<td>18.0</td>
<td>82.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Car Purchases</td>
<td>91</td>
<td>17.6</td>
<td>82.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Insurance</td>
<td>435</td>
<td>70.1</td>
<td>29.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Tape Recorders</td>
<td>1998</td>
<td>52.5</td>
<td>47.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Product and Packaging (Figures 13-15 and 16-18)

It may be seen that when the respondents buy a product, the vast majority (94.9%) pay more attention to its contents than to the quality of the packaging. Eye-catching or high-quality packaging is not a significant factor in the decision-to-buy process. However, extreme differences were noted in this respect, depending on area and social group. The reason for this is that respondents did not want to waste money buying products simply because of the quality of their packaging, which was considered to be of no use.

Figure 13. Product Attitudes
Base: All Respondents

- 56.4 percent of respondents preferred to make one bulk purchase rather than making many small ones (43.6%). Why? It may be that these products are cheaper when bought in large quantities. Bulk buying, which can fulfill a consumer's needs for a long period of time in a single shopping expedition, is also more efficient. Although most respondents tended to prefer bulk purchases, in Jakarta, Semarang and Bandung, they were almost evenly split. Among Category B respondents, the figures were 50.7 percent and 49.3 percent in favor of bulk buying. Category A and A+ respondents showed a far more marked preference for buying in bulk.

Figure 14. Product Attitudes by Area
Base: All Respondents

- The charts show the distribution of responses across different areas.
**Price (Figure 19)**

Putting a high price tag on products accompanied by free gifts is a very ineffective method of enticing the consumer to buy. It is far better to offer the product at a cheaper price but with no free gift. Evidence for this is shown in the fact that high-priced products offering free gifts do not attract the majority of buyers (a mere 8.2%). Consumers may even turn to competing brands. This trend holds true of respondents from all areas and socio-economic groups.

**Place (Figure 20 - 22)**

Once again, reduced consumer buying power is reflected in the preference of low price among a large proportion of respondents. 57.5 percent of respondents said they preferred to shop at outlets which offered cheap goods or discounts, such as wholesalers or distributors. 42.5 percent said they still shopped at supermarkets; in Palembang and Banjarmasin this figure was 59.2 percent and 70.5 percent respectively. 60 percent of respondents from socio-economic category B preferred to...
shop in stores offering cheaper prices. Among A and A+ respondents, preferences were divided equally between supermarkets or cheaper stores.

Figure 20. Outlets Attitudes
Base: All Respondents

Figure 21. Outlets Attitudes by Area
Base: All Respondents
Figure 21. Outlets Attitudes by SEC

Base: All Respondents

Monthly expenditure

- Personal Selling (Figure 23 - 25)

Where the promotion of a product influenced the respondents’ decision to buy, they claimed to be more easily swayed by personal selling techniques than persuaded by advertising. 69.9 percent of respondents bought products after listening to the seller’s explanation.

In every area and socio-economic group there was a marked difference between the effectiveness of the two selling techniques, with personal selling achieving considerably more success during the current situation.

- Brand (Figure 26 - 28)

Asked to choose between generic medicines and brand names, 76.6 percent of respondents expressed a preference for the former, with only 23.4 percent opting for the latter. Consumers who choose brand names are forced to pay over the odds, since the cost of the brand name is added to the cost of the product itself. Most respondents therefore went for the cheaper option. However, in Benjamassain, the percentages were reversed: 67.5 percent of respondents there still preferred to buy medicines with recognized brand names. The general preference for generic medicines was observed across the whole socio-economic spectrum.

- Payment (Figure 29 - 31)

94.2 percent of respondents preferred to pay cash, with only 5.8 percent favoring credit card payments. The wide gap in percentages was observed in all areas and among all socio-economic groups. Increased demand from traders for cash payments only is probably the main reason for this.
Figure 23. Buying Attitudes
Base: All Respondents

- 30.1% buy products after explanation by the vendor
- 69.9% buy products due to advertising

Figure 24. Buying Attitudes by Area
Base: All Respondents

- 0.0% to 10.0% by products after explanation by the vendor
- 10.0% to 20.0% by products due to advertising
Figure 25. Buying Attitudes by SEC
Base: All Respondents

- buy products after explanation by the vendor
- buy products due to advertising

Figure 26. Brand Attitudes
Base: All Respondents

- choose brand medicines
- choose generic medicines
Figure 29. Payment Attitudes
Base: All Respondents

- Pay by credit: 5.2%
- Pay by cash: 94.8%

Figure 30. Payment Attitudes by Area
Base: All Respondents

- Pay by cash
- Pay by credit
Implication for Marketing Strategy

The changes in consumer behavior as a result of the economic crisis demands corresponding, often fundamental, changes in marketing strategy. The April 8, 1998 edition of the Far Eastern Economic Review reported that changes in market structure and consumer trends caused by the crisis have prompted several Asian companies to take a close look at their marketing strategies.

Many companies, from retailers to hospitals, have begun to restructure their services in an effort to maintain quality and continue to offer competitive prices to the consumer. In order to trim prices in response to the decline in consumer buying power, companies have started to cut logistical and other overhead costs. Companies, especially those producing consumer goods, are also making changes to their product mix, and repackaging their products in smaller sizes. Unilever, for instance, has repackaged its Magnum ice cream to produce a smaller product with a more affordable price.

Meanwhile, many companies in the service industry have started listening closely to consumers through various retention and loyalty programs. The shrinking Asian market has forced many companies to expand their horizons and seek new markets elsewhere. Acer, for instance, is redirecting its efforts towards the Chinese, South Asian and Australian markets. The national sentiment that has intensified throughout Asia as a result of the crisis has also encouraged local companies to exploit this sentiment in order to launch attacks on multinational competitors.
The writer envisions three strategies which can be applied by a company in an attempt to meet the changes in consumer trends and behavior. These strategies are generic in nature, in that they can be applied equally effectively to any kind of manufacturing industry, producing either consumer or industrial goods, or to any service industry.

The first strategy is known as "maintaining the brand", and involves upholding the image and reputation of a product in an effort to maintain its "perceived quality" as the basis for strong customer loyalty.

The second strategy is what is known as "downscaling", or moving down market in an attempt to gain a market share at the lower end of the economic scale while ensuring that brand equity is not undermined.

The third strategy is similar to the previous one, in that it involves moving down market; however, in this case, not by downscaling, but by "other branding", or creating new brands so that the brand equity of existing ones is not adversely affected. These three strategies are implemented as part of an ongoing effort to anticipate the "downscaling the market" phenomenon, whereby the quality-oriented customer tends to "drop a level" to become a value-oriented customer, while the previously value-oriented customer in turn becomes a price-oriented customer.

In discussing the three strategies described above, the writer intends to look at various marketing elements outlined in The Strategic Marketing Plus 2000 Conceptual Framework. In this framework, marketing components are divided into nine elements: segmentation, positioning, targeting, differentiation, selling, marketing mix, brand, process and service. Of these, the first three - segmentation, targeting and positioning - interact with each other and constitute the basic elements of competitive strategy. The next three - differentiation, selling and marketing mix - form the main components of marketing tactics. The last three - brand, process and service - are the key elements of marketing value. Marketing value is the basis of thinking for strategy and marketing tactics. According to The Strategic Marketing Plus 2000 Conceptual Framework, the nine marketing elements mentioned above combine to form the three key elements of positioning (being strategy), differentiation (core tactics), and brand (value indication) which are often referred to as the "strategic business triangle".

The Activity System

Maintaining The Brand

This is a strategy most suitable for products which already enjoy relatively high brand equity; such products are usually found at premium markets and appeal to the quality-oriented segment. These products run grave risks if they are redefined to target a lower economic group. Their quality will decline, and consumer perception regarding their reputation and quality may easily suffer. It is far safer if, in a time of crisis, such products redouble their efforts to maintain current perceptions of quality and concentrate on targeting only quality-oriented consumers. The hardest task here is thus choosing a mar-

Figure 32. Activity System
Marketing strategy aimed at preserving a product's hard-earned equity—especially its "perceived" quality—so that it is in no way compromised.

Choosing this strategy is extremely difficult and presents us with a dilemma, since we know that in a crisis such as we have at present there is a general tendency for "upscale" consumers to lose their quality-oriented focus owing to their decreased buying power. Nevertheless, this does not mean that quality-oriented consumers disappear completely. The writer is convinced that there will still be a market for such consumers, albeit a smaller one than previously, however bad the economic situation becomes. In the case of Indonesia, consumers who are used to buying high-quality products from earlier "boom" times when the economy was in full swing will stick to old habits, and actively resist switching to products of inferior quality.

Efforts to formulate a suitable positioning strategy should incorporate a policy of "romancing the brand," or convincing the consumer that one's product will not lose even the slightest fraction of its quality in the time of crisis. Under this policy, the perceived quality of a product should be constantly preserved or even improved upon. This can be achieved by improving "the context" of a product by providing facilities such as (in a hotel, for instance) free breakfast or late check-out, or a candlelight dinner (in the case of a restaurant).

The perceived quality of the product in the eyes of the consumer must be steadfastly upheld. The product should be targeted at the upscale, quality-oriented segment of the market. Although this segment will become smaller, as seen in above of our discussion, it will produce very loyal consumers provided that it is managed well. Targeting should be done with care, bearing in mind the four key criteria of market size, market growth, your competitive advantages among competitors and, equally important, competitive setting.

In terms of marketing tactics, selling should focus on providing solutions. If we look closely at our findings in above, we can conclude that, generally speaking, consumers tend to become more rational, critical and demanding in times of crisis. This is understandable, given their limited resources. Offering them a premium product using a "benefit selling" or "feature selling" approach is no longer enough to get their attention. Using the "maintaining the brand" strategy means that, like it or not, the product must be able to provide solutions to the problems and needs of the consumer.

In the current recession it is extremely difficult to prevent prices from rising, since the cost of producing components is continuously rising. However, this price increase should not cause product differentiation to suffer, but rather serve to highlight this differentiation. It is important to stress this, because, according to The Strategic Marketing Plus 2000 Conceptual Framework, differentiation is the most important element in marketing tactics. It is done by maintaining the components that constitute differentiation, namely, "content" (product performance, quality, reliability, delivery time, etc.), and "context" (packaging, outlet, image, etc.), or even strengthening them during the crisis. Efforts to maintain and strengthen differentiation might focus on the product itself, service, people or image. Only if we preserve or improve upon content and context will the consumer continue to respect the product and thereby ensure that its perceived quality remains high.

The last component included in marketing tactics is marketing mix; that is, product, price, place and promotion. From
the descriptions in the "Consumer Behavior in the Crisis" above, we can clearly see that consumers are becoming more concerned with the content of a product, and are tending to disregard its packaging. Nevertheless, through our "maintaining the brand" strategy, like it or not, we must have the courage to swim against the tide and offer an "extra package" with our product. This is a necessary part of our pricing strategy, which will ensure that the price we offer to the consumer reflects its good value. Since production costs are on the increase, we can—and we may—raise our prices, but this price hike must be accompanied by assurances that we are giving the consumer a better value product. As far as promotion is concerned, customer loyalty programs will form the backbone of our bid to ensure that our customers do not run to competitors targeting lower segments of the market. GSM-X1, for example, actively pursued such a tactic when it formed its GSM-X Club some time ago. This was in spite of the fact that cellular phones are usually one of the first casualties in a economic crisis. As for place, we need to rely on, and to optimize, existing distribution and marketing channels.

Next, we come to marketing value, covering: brand, process and value. As far as service is concerned, because we are operating in the premium segment, we have no choice but to improve the service we give to the customer. Here we have three alternatives. The first is to improve service and raise prices simultaneously (a “more-for-more” tactic). The second is to improve service while keeping the price constant (a “more-for-the-same” tactic). The third— and the most difficult to implement—is to improve service and simultaneously reduce the price (a “more-for-less” tactic). As for process, we should continue to focus on quality. In connection with this, efforts at reengineering, merging internally or externally, innovations or even strategic alliances with competitors, if necessary, need to be considered as possible ways of achieving a strategic process whereby the company is able to maintain the quality of its products. As for brand, one of our prime objectives will be continually to safeguard the perceived quality and brand image of our products.

Downscaling

A downscaling strategy is aimed at serving the market segment which according to the results of the survey described in above forms the dominant segment during the present crisis: the value-oriented consumers, or to borrow a popular phrase, the "smart consumers". This type of consumer displays some rather interesting characteristics. Owing to reduced buying power, the value-oriented consumer group has been joined by those who used to be quality-oriented, but have fallen victim to the "downscaling-the-market" phenomenon. However, it is not at the case that all previously value-oriented consumers have now dropped to the price-oriented category. The value-oriented segment tends to stick to more retail outlets, since it generally comprises highly critical consumers who appreciate the importance of quality, but who are mindful of the need to search for competitive prices. Generally speaking, this segment is not motivated by low prices unless they are accompanied by high quality. In a crisis situation, this segment will tend to absorb the overflow from the quality-oriented segment, while at the same time not losing many of its members to the price-oriented segment. The writer therefore maintains that the value-oriented segment is the most inter-
<table>
<thead>
<tr>
<th>Table 3: Three Generic Strategies for Facing the Crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on the MaxPlan 2000.</td>
</tr>
<tr>
<td><strong>Segmentation</strong></td>
</tr>
<tr>
<td><strong>Positioning</strong></td>
</tr>
<tr>
<td><strong>Targeting</strong></td>
</tr>
<tr>
<td><strong>Differentiation</strong></td>
</tr>
<tr>
<td><strong>Offering</strong></td>
</tr>
<tr>
<td><strong>Selling</strong></td>
</tr>
<tr>
<td><strong>Marketing Mix</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand</th>
<th><strong>Process</strong></th>
<th><strong>Service</strong></th>
<th><strong>Psychographic</strong></th>
<th><strong>Psychographic</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Maitaining</strong></td>
<td><strong>Quality-focus</strong></td>
<td><strong>More for more</strong></td>
<td><strong>More for less</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Down-scaling</strong></td>
<td><strong>Delivery-focus</strong></td>
<td><strong>Same for less</strong></td>
<td><strong>Less for less</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Other branding</strong></td>
<td><strong>Cost-focus</strong></td>
<td><strong>Less for less</strong></td>
<td><strong>Less for less</strong></td>
</tr>
</tbody>
</table>

*Note: The table provides a strategic framework for businesses to adapt to economic crises. Each strategy involves different focus areas for marketing and positioning.*

1. A detailed description of the negative effects of a downscaling strategy on brand equity may be found in Aaker (1996) and Aaker (1997).
As far as marketing tactics are concerned, we need to start with the "core tactic": differentiation. In a downsizing situation, the "content" of our product may be maintained or reduced, but we need to remember not to attempt to lessen product quality by reducing product size; by introducing "mini", or single-use packages, for example. Let us use a good illustration of this. The company recently brought out a 30-gallon soup bar to replace their old 100-gallon bar naturally at a reduced price, so that its customers could still afford to buy and use the "soup of the stars". This only reduces the overall content, hence, as we have seen from the results of our survey, during the present crisis more and more customers are rejecting good packaging ideas or prestige-oriented in favour of product content. An example of content reduction can be seen in the case of mineral water. The cost of packaging mineral water could be reduced by reducing the quality of the bottle, or perhaps implementing a refill system for large bottles, without in the least bit lessening the quality of the water inside. As we know, packaging costs for mineral water are usually very high—even higher than the cost of the water itself.

What about the three elements of marketing tactics, that constitute marketing mix? Our product must adopt a "bundle" technique, for instance, by introducing cross-subsidies or "three for the price of two"-type options. Bundling contains smaller risks than offering discounts, because discounts generally tend to have an adverse effect on a product's image, and thus endanger its brand equity. Unilever in Switzerland put this technique to good use with their Lys soap product, offering a five-bar soap with every six purchased. Since the value-oriented segment has become more sensitive to price concerns, pricing policy and strategy needs to be implemented with care. The price that we fix for our products should reflect, as far as possible, the quality offered by the product. The price we decide on should give the consumer the best possible value. With regard to promotion, "below-the-line activity" will be the most suitable promotion technique for the value-oriented segment. Meanwhile, "place" must, like it or not, involve a widening of the marketing channel. We must also start to display our products in discretion stores or "category-killers", since, as we have seen from the results of the survey, consumers tend to buy products from outlets offering the lowest price.

The last category that concerns us is marketing value, which comprises brand, service and process. As explained above, the hardest job in the downsizing process is to maintain the perceived quality of a product despite the fact that it is now being sold among the lower-economic groups. It must be remembered that price tends to act as a "positioning cost" (Oliver, 1995)—the cheaper the product, the more likely it is to be viewed as a lower-class product. Thus the challenge is to avoid this perception in the minds of the consumer. With regard to service, we have a choice of strategies, to give same-for-less service, or less-for-less service. Of course, these two strategies will have no effect on existing levels of demand equitably. Finally, regarding process, we need to focus on the possibility of reengineering, or even strategies alliances, both of which are highly relevant to our efforts to improve delivery.

2 Category-killer structures which often only one product. Since they specialize in this product, they are better able to maintain existing prices.
Other Branding

The main objective of other branding strategy is to penetrate the price-oriented, or economy, market segment. This is achieved by a process known as "economizing the brand," whereby the decrease in product price is accompanied by a corresponding decrease in product quality. Price-oriented consumers (whom the writer prefers to refer to as "dumb" consumers) represent an alternative target market, which is becoming increasingly attractive in the present crisis situation by virtue of its size and growth as a consequence of reduced buying power. This strategy is implemented via the creation of an entirely new product or range of products. This has the effect of reducing the risk to perceived quality mentioned above, as a consequence of downscaling. There is no connection between the image of the original product and the new product, and therefore the image of the original brand remains unaffected. However, this strategy has the major drawback of requiring large resources to create a completely new brand image.

Under this strategy, positioning aims to plant the message in the mind of the consumer that the product is of superior quality but still carries an affordable price tag. Although this is essentially a cheap product, it nevertheless offers great value to the consumer. An examination of segmentation variables shows that the price-oriented segment can be best determined from a study of geographic and demographic segmentation.

As for differentiation, since we are focusing here on low price, whether we like it or not, the content and context of our product must be reduced. This results in low quality and a low level of perceived quality in the eyes of the consumer. However, since we are using completely new brands, this reduction will have no effect on the perceived quality of the original product. With regard to selling, "feature selling," involving product offers, is insufficient for the price-oriented consumer, since this type of consumer is generally underselling. The most important aspect of marketing mix will of course be pricing. As we are catering to a consumer segment which has no consideration other than pricing, our pricing strategy should be aimed at ensuring and maintaining the lowest possible price for our product. As for process, we need to focus on simplifying the distribution chain, cutting logistical costs by adopting a "just-in-time" policy, or perhaps using the internet as a marketing channel. On the promotion side, one alternative which could be used is to exploit the power of word of mouth as a way of cutting promotion costs. Finally, from the service aspect, any reduction in customer services provided will naturally help to keep costs to a minimum.

References


_________ (1996), Building Strong Brand, Free Press.


ISBN: 087196-380-6


