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# The price of the crisis

How to deal with increased price sensitivity of consumers  
 during economic downturns

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*“When written in Chinese, the word ‘**crisis**’ is composed of two characters - one represents **danger** and one represents **opportunity**.”*

*John F. Kennedy, 35<sup>th</sup> president USA*

危機

Danger Opportunity



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# Summary

Background and recommendations







## Why are economic crises ‘game changers’?

- › During economic crises budgets are under pressure, because:
  - ✓ Consumers become insecure, save more, and become more price sensitive.
  - ✓ Companies see their sales decrease and save on marketing investments.
- › Crises are a serious threat for organizations, but also offer chances, depending on how the companies deal with the changed circumstances.
- › This is for example shown in our research into price- and advertising sensitivity in the long period 1993-2010.





# What do economic crises exactly mean?

- › Recession (= economic downturn)

Two consecutive quarters with a decrease of the Gross Domestic Product. This is a popular term in the media, but the definition is not used that much anymore in academic research.

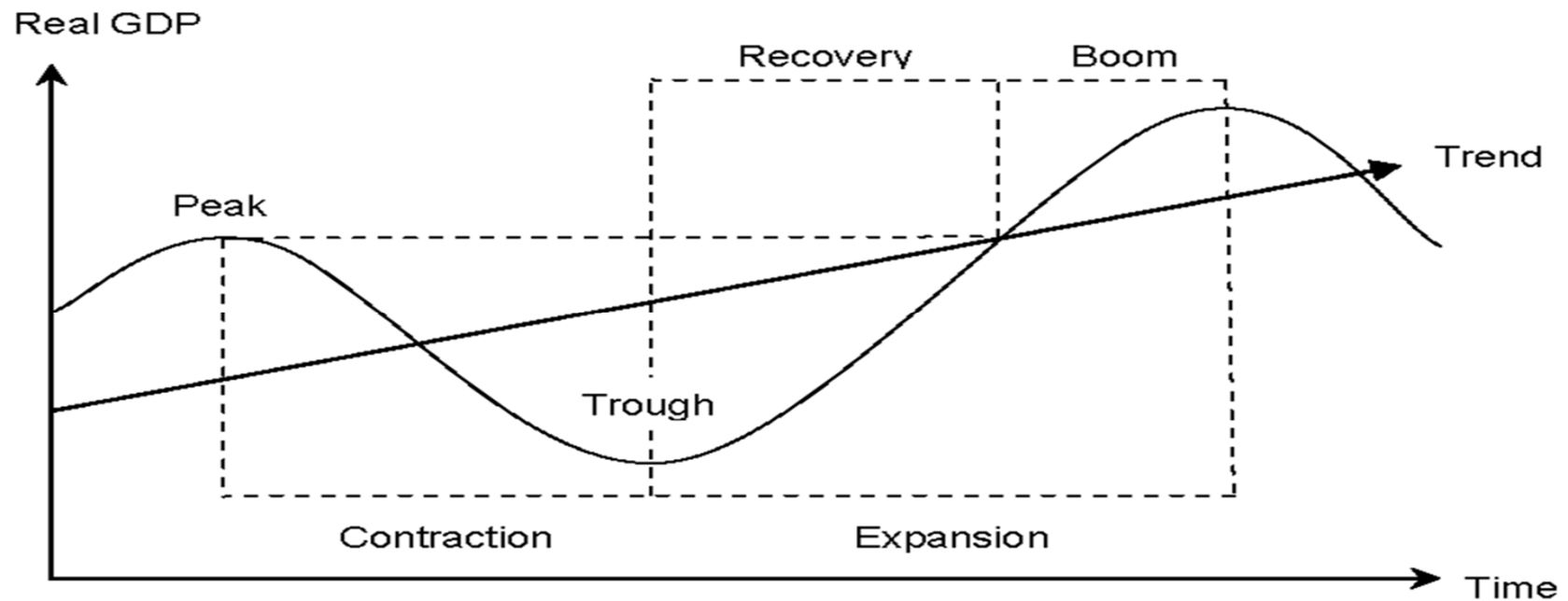
- › Contraction (= the opposite of expansion)

The Gross Domestic Product consists of a long-term upward *trend*, with a short-term fluctuation, the economic cycle. Increase in that cycle = *Expansion*. Decrease in that cycle = *Contraction*. Here a recession is an extreme contraction.

*The second definition shows the refined reflection of the reality.*



# What do economic crises exactly mean?





# What do economic crises do with marketing managers and scientists?

- › Marketing managers feel the pressure to undertake action during economic crises. Research by McKinsey showed that 96% of the 1400 managers adjusted their marketing strategy and –investments as a results of the financial crisis. In 2009, when the crisis was at its lowest point, 11% less was spent on advertising compared to 2008 worldwide.
- › Scientists change their research priorities and display more and more knowledge in good journals. Research priorities of the Marketing Science Institute included:
  - Insights in returns on marketing investments (2008-2010).
  - Identifying chances during economic crises (2010-2012).
  - Optimal allocation of marketing budgets for the different instruments (2010-2012).





# How does your company beat the crisis?

- Realize that the price becomes more important for customers.
- Stay competitive on price, but do not give away too much margin, so that the continuity of the company remains guaranteed.
- Do not compensate for lower volumes in a difficult market by increasing prices.
- (Re-)allocate investments in advertising, because advertising can create a buffer against increased price sensitivity as it also drives customer preferences.
- Create a low-cost alternative value proposition with another brand name.
- Focus on innovation and launch new products/services when the economy recovers.



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# Influences of economic crises

How do companies and consumers experience economic crises and how are they changing their behavior?

