

# INTERFACES BETWEEN ECONOMIC AND MARKETING APPROACH TO ADVERTISING AND CONSUMPTION UNDER THE CONDITION OF ECONOMIC CRISIS<sup>1</sup>

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## **Abstract**

*The objective of this paper is two-point view, economic and marketing, on advertising and its potential influence on consumption. Consumption patterns that have been developing in time are now a subject to influence of economic crisis. Economic crisis as well as advertising are some of the factors that can accelerate the development or change the direction of development of consumption patterns. A debate on effects of these factors is carried on in the paper. First, there are underlined approaches to consumption and evolution of consumption patterns. A distinct element from the traditional view is the endogeneity of tastes and preferences, and the process of their creation. The potential influence of advertising, especially on demand increase, will be examined and the essence of the phenomenon will be underlined. This general theme will be specified and examined in more concrete field of interest – economic crisis. Both approaches are aimed at a nowadays problem of economic crisis, i. e. economic-marketing view on the role of advertising under the conditions of present crisis.*

**Keywords:** *economic crisis, advertising, consumer behaviour, consumer decision-making, consumption.*

**JEL codes:** *D8, E21, E32, L15, M37*

## **1. Introduction**

The paper serves as a background for economic-marketing analysis of consumption patterns influenced by advertising under the condition of economic crises. To analyze these effects it is necessary to underline the determinants of evolution of consumption patterns and external shocks as economic crises that affect the evolution.

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Consumption patterns<sup>2</sup> that have been developing in time are determined by many factors among which a marketing tool – advertising on which the contribution focalises its attention. Advertising in its influence on consumption gives a rise to problems as the influence of advertising on consumer information and knowledge, its persuasive power, its ability to create emotions, advertising effects on sovereignty and rationality. The process of forming consumption patterns is a dynamic long lasting and ongoing process that is now influenced suddenly by economic crisis that with its consequences has changed many aspects of consumption. Economic crisis, as well as advertising, are some of the factors that can accelerate the development or change the direction of development of consumption patterns. A debate on effects of these factors is carried on in the paper.

The paper, dealing with the mentioned problems, is organized as follows: first, consumer behaviour, conditions of consumer decision-making and forming of consumption patterns are discussed. Then, a role of advertising in the process of consumption patterns formation and distortions in consumption is debated. Finally, the discussion is carried out in the framework of present economic situation – economic crisis.

## **2. Consumer behaviour, consumption patterns and the role of advertising and economic crisis**

When explaining consumption patterns it is important to present aspects that determine consumption among which institutional framework, its evolution or uncertainty. With these aspects limited information<sup>3</sup> (implying asymmetric information) – that is available and which an individual is able to elaborate – is connected. The latter is fundamental for the phenomenon of advertising that is why it is discussed later more in detail. More, an individual makes use of neither adequate experience nor calculation abilities to elaborate on the information. An individual chooses only from a limited collection of alternatives<sup>4</sup>.

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<sup>2</sup> Consumption patterns are the relation to goods and services that characterize manner of living that reflect households' values and attitudes.

<sup>3</sup> Limited information and its consequences are methodologically examined more in detail in economic theories. They deal with different topics that related to a character of consumer (active – screening, passive – a mere recipient of information; consumer heterogeneity; see Laband, 1986; Bagwell and Ramey, 1992; Grossman and Shapiro, 1984; Spence, 2002) and how he behaves when making use of incomplete information (rules of thumb; see Lavoie, 1992), to a character of goods (search, experience, credence; durables, non-durables; see Nelson, 1974 a, b; Grossman and Shapiro, 1984; Bagwell and Ramey, 1992; Ekelund, Mixon and Ressler, 1995), to a purchase frequency (single, repeat; see Nelson, 1970, 1974 a, b), to time costs, and to price and character of information (see Kaldor, 1950; Laband, 1986).

<sup>4</sup> Paradoxically, also if there is lots of information, Heiner (1983: 777–800) sees some difficulties in decision-making because the consumer is confused; he is not able to elaborate on such a quantity of information.

Costs of obtaining information<sup>5</sup> are another reason for limited information (Thorelli and Thorelli, 1977; Shugan, 1980). Information acquisition is, as said before, time-consuming and costly. This is due to the large number of (continually innovated) marks (Lee, Lee and Schumann, 2002) and their prices, the large number of characteristics on which to evaluate them, the complexity and variety of characteristics (Carlson and Davis, 1998). While consumer learning over time (Petty and Cacioppo, 1982) can deal with some of these problems, he can sample only some of the products and consumer mobility and product innovation render that experience obsolete.

Consumer behaviour is affected by personal characteristics that depend on individual perception and reaction to stimuli and are determined by cultural, social, personal and psychological factors and by the decision-making process *per se*. There are social factors and institutions that significantly contribute to the creation of attitudes, interests and behaviour models. Among these, reference group, family and groups with which an individual is more or less in regular contact can be mentioned. A certain group implies a **social status** with which a certain need is associated. By purchasing luxury or position goods, an individual demonstrates his belonging to a higher social class (demonstrative effect). This tendency may be reinforced by advertising and leads to conspicuous consumption.<sup>6</sup> **Advertising effect** and then consumption are also dependent on consumer age, profession (and so by income), lifestyle (value hierarchy), and so on. The last group includes psychological factors: motivation, perception, learning and attitudes..

As motivation to consumption, needs with a certain minimal intensity that lead to consumer behaviour consisting of the need satisfaction, can be considered. An individual satisfies his needs according to their urgency and he is limited by his income. Consumer behaviour depends on perception of the situation, and so on choice, elaboration and interpretation of information. There is a large amount of **advertising** so it is important which is **selected**, elaborated (that implies distortion) and remembered. This depends on dramatization and the amount of advertising **repeating**. Other factors are learning, experience, conviction and attitudes.

Consumption as well as all other economic outcomes are dependent not only on current conditions but also on the **path** of previous outcomes (path dependence; North, 1990).

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<sup>5</sup> As one of the factors lowering cost of information can be considered advertising (see later informative advertising).

<sup>6</sup> See Veblen (1899), Galbraith (1976).

This implies that consumption patterns have been evolving during the time and are formed by many determinants belonging to following groups (Rotmans *et al.*: 2000): technological innovation, socio-political changes, demographic transition, socio-cultural transformation – resulting in various **consumption patterns** changing in time<sup>7</sup>.

In this paper we focus on two important factors influencing nowadays both immediate consumption and consumption patterns. First, advertising as one of marketing stimuli that has been affecting consumption for some decades and recently becomes more and more intense. Second, the beginning of dramatic change in economic stimuli during the year 2008, i. e. economic crises.

## **2.1 Advertising**

A theory of consumption must account for period of relative stasis in needs (and technology), as well as the times when consumption expanded impelled by new needs. Wilk (1999) recognizes that consumption has diverse causes rather being the product of a single event and that consuming behaviour is always the result of balances between factors that promote, and those which inhibit or restrain perceived needs and wants (push and pull).

As one of pushing factors can be considered advertising on which the paper focuses. Advertising can influence immediate consumption, consumption patterns and so demand. When **elaborating advertising**, an individual completes the already existing schemas in his memory by adding new (mainly unusual and important) information and compares the consistency of the new information with the existing schema. The elaborated information serves to create judgements, evaluation and choice. Goods perception depends on advertising frequency and intensity (related to the life-cycle stadium, market share, competition, etc.), differentiation ability and the ability to grip attention (related to the message content, that should be informative, differentiating and trustable). The influence of advertising on the consumer also depends on timing (anti-seasonal effect), advertising structure (continuity – (un)uniform diffusion in time), and character of advertising (informative – persuasive).

The fact of whether an individual **accepts advertising** or not depends on several aspects (Mooij, 2004: 274–279): the purpose of advertising (persuasive – mainly in individualistic countries, trust creating – in collectivistic countries), general acceptance of advertising as an institution, relation to mass media, specifications and style of advertising design. Klein (1998) extends these aspects including an influence of interactive media. These

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<sup>77</sup> See following comments on persuasive advertising and its role in conspicuous consumption.

have direct effect on pre-purchase information acquisition by lowering its price. It changes the ratio of search, experience and credence characteristics in favour of the first mentioned by providing consumer virtual experience and so it lowers significantly search costs.

Ford *et al* (1990) analyze on the basis of the classification scepticism about advertising. Consumer scepticism is lower for search goods whose quality he can easily verify by himself, and *vice versa* the highest scepticism is related to the goods that are burden by high uncertainty of quality information. Including uncertainty both economists and marketers bring the theory nearer to the real economy. Consumer is able to elaborate only a part of imperfect information he disposes. A relevance of information depends on a level of uncertainty. The greater the uncertainty (we move in the spectrum from search to experience goods) the larger is the propensity to gain relevant information (also by means of advertising), hence a potential loss is significant (Guseman, 1981; Murray, 1991).

Information evaluation depends on how it is perceived by consumer. Economics of information considers scepticism of consumer to be a mean that protects him from correct evaluation of (deceptive) advertising (Calfee, 1997). This can, however, leads to limited possibility of information acquisition. Positive aspect of non accepting deceptive advertising can evolve into a total negative informative impact of advertising.<sup>8</sup>

Once accepted advertising (as above mentioned) an effect of advertising depends also on its structure and character. Advertising structure can affect forming of consumption patterns. It can be classified as continual or impulsive (occasional) with the influence on consumption patterns. When continual it can steadily influence consumption and contribute to its formation. It can continually emphasize certain behaviour as desired and so regulate it. It can be seen in increasing consumption of goods supporting healthy life-style which is also often advertised. While impulsive (occasional) advertising can cause an immediate distortion in consumption that need not respect long-run goals, consumption patterns and habits.

The nature of information spread by advertising is often derived from consumer ignorance about product quality. The effect, however, depends on the character of advertising which can be classified as either informative or persuasive one (Chamberlin, 1933).

First, informative advertising helps to quicker adoption and diffusion of new products among consumers by breaking or modifying existing consumption routines. **Informative** advertising provides information about commodities and it is used mainly in order to present

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<sup>8</sup> For more detailed discussion on the relationship product-efficient advertising, see Assael (1987).

new products and services. It can inform about price change and a way of use, but can also be used to correct a consumer's incorrect perception. Decisive role of advertising can be then seen when introducing new products at the market. Absence of advertising would imply a delay in consumption, hence advertising accelerates familiarization with the product and creates a habit behaviour (Brink and Kelley, 1963: 300). Informative advertising improve consumer imperfect information or information that obsolesces when new products or innovation emerges. Transmitting information advertising extends choice set, supports competition, and implies in better allocation of resources. Fast **evolution** shorten product life cycle and in absence of communication consumer would hardly actualize his information capital (Campbell, 1969; Mahajan, Muller and Bass, 1990).

Lee, Lee and Schumann (2002) emphasize the importance of particular means of communication classifying them into written and conversational ones. They consider the latter as more persuasive, especially when a consumer is not enough motivated to learn (Petty and Cacioppo, 1982). Hirschman (1980), respectively Rogers (1995) add that other key factors that determine adoption of innovation are, respectively, individual predisposition and new product characteristics.

Marketing literature describes many ways how information is spread in particular segments of population. A model that has become a basis for other marketing models of information diffusion and search is two-step flow model of communication by Katz and Lazarsfeld (1955) that considers mass-media to spread information to attitude leaders (innovators) that consequently influence less active individuals (imitators).

Search information literature (for example Lee and Hogarth, 2000, 2001) identifies various sources of communication (producer, agent-advertiser, interpersonal communication, etc.) that become fundamental for studies dealing with diffusion of information. One of the seminal theories in this field of study is media richness theory (Daft and Lengel, 1984, 1986; Carlson and Davis, 1998). Central idea is that different means of communication transmit differently rich information. Media richness theory represents communication strategy based on contingency model (Keller, 1994) according to which a mean of communication must be derived from richness of transmitted information. Harmony between a message and way of communication significantly affects perceived utility of the information (Maltz, 2000). When introducing new products requiring new complex information it is necessary to use rich media. The choice of media then influences essentially **adoption of new products**.

Second, also **persuasion** by means of advertising can affect consumption patterns. Persuasive advertising can serve to reinforce consumption routines by underlying driving factors such as status, image and positive emotions. Persuasive advertising is mainly used in the stadium of growth and maturance<sup>9</sup> when competition pressures become stronger and the goal of advertising is to persuade the consumer to a purchase. It is aimed to change consumer preferences and behaviour. Suggestive advertising remembers the urgency of purchase and purchase place and it tries to keep notion of the goods in the consumer's memory. It may become comparative advertising, especially in the maturance stadium.

One of implications of persuasive advertising is conspicuous consumption (Galbraith (1976: 127-128) and concentration of society on material values. Modern society is, in fact, criticized for materialism, desire for purchase and possession. Among individuals, there is often competition about who possesses more. This feature differs according to nationality. However, Mooij (2004) complements the conspicuous consumption theory by the idea that, after reaching a certain level of affluence, emphasis on materialism weakens and the consumer returns to higher level needs where post-materialistic values (life quality) are important.<sup>10</sup>

In developed countries both international integration of markets and internet technology can be considered as crucial factors influencing (evolution of) consumption patterns. Since Internet was diffused it has been easy to obtain information about consumption possibilities (both domestic and foreign) but also about consumption in other countries. Acquired information often origins from advertising. Influenced by these factors consumption behaviour (expenditure shares of household consumption) in industrial countries have been converging. Effect of advertising (both informative and persuasive) can be then seen as one of factors participating in process of convergence/divergence in consumption (patterns) among developed countries.

## **2.2 Economic crisis**

A significant omnipresent factor influencing consumption, consumption pattern and advertising possibilities is current economic crisis. Present crisis causes a break producing a new economic order whose structure and parameters are only superficially understood (Kitching *et al.*, 2009: 21).

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<sup>9</sup> It is on the contrary to informative advertising which is used in the introductive stadium.

<sup>10</sup> See later the effect of economic crises on conspicuous consumption.

The **trigger** of present global crisis was the economic crisis accompanied by a number of factors among which we can mention: limited regulatory framework (new products evading regulatory requirements or limited regulatory framework of banks to evaluate their risks); the failure of auditors and credit rating agencies when evaluating risks and value of financial assets; asset and housing bubbles encouraging economic subjects indebtedness; facilitating of lending (low interest rates and availability of funds to Western capital markets) implying high levels of indebtedness; emergence of lending institutions without regulatory of lending and borrowing (often risk-taking, relying on government intervention in the case of instability); possibility of conversion of debts into tradeable securities and global trading with these securities.

**Recession causes** simultaneous **antagonistic forces** (Kitching *et al.*, 2009: 9): (i) falling GDP affects consumer expenditures and confidence but also (ii) prices of assets (downwards going and so enabling resource acquisition) influencing consequently economic performance, (iii) declining demand forces (especially new) firms out of the market enabling larger market shares to the survival firms.

### 3. Discussion

Since the consequences of present crisis are going to persist for some time, they will definitely influence consumption and consumption patterns directing them toward more savings connected with restructuring of expenses. According to CBI/PWC Financial Services Survey low demand is considered to be the main reason that prevents business expansion.

The demand can be encouraged with advertising. However, it is supposed that **global advertising expenditures** growth slows by 2-2.5% (Lam, 2008) but at the same time it is necessary to reorganize advertising expenditures to restore confidence among consumers, hence consumer confidence weakens and they are learning to save for worse times. Naturally first good groups where to save are luxury goods and entertainment. The global crisis accelerates a trend in among consumers described by Mooij (2004) in adopting **minimalism** in consumption and in rejection of conspicuous consumption. “People had already been looking for something more meaningful than just chasing cash and buying things that look flashy” and “after the last decades of conspicuous consumption” they are entering “an era of the new seriousness” (Bergin, 2008: 1-2).

Consequently advertising less and less emphasizes luxury which is substituted with relaxation, with the accent on needs (not wants) satisfaction. Probably it has been finishing

the period of pure persuasive advertising simply because it is not in fashion to demonstrate obsolescence. **Expenses on** (mainly traditional) **advertising decreased** and products have been given additional value without an increase in prices. In this sense the crisis could be beneficial for consumers because it forces **firms** to be **more efficient** (both in production and in communication). Firms do their best to improve the quality and services and/to preserve their loyal customers.<sup>11</sup>

Because of the need of augmenting efficiency in communication the condition of economic crises brings an elevated use of internet. It is because of quite low costs and easiness of advertising, better possibilities of targeting, but also because of a tendency of using this technology by more and more economic subjects, among which consumers. The situation of crisis requires more precise and efficient targeting to a particular segment, i. e. increased level of better **targeting** in advertising using various advertising stimuli that activate common knowledge between members of a segment, which Internet advertising enables.

While on traditional media it is been spending in decelerating manner (but still high amounts of money), expenses into **internet advertising** are growing by 23% a year and its global market share is increasing. It is because under the critical conditions new sources of information and advertising better meet consumers' demand. In such economic conditions marketing becomes more difficult to realize. Differentiation, however, is still essential in securing greater market share. **More efficient channels** of communication are chosen to reach a particular consumer. Internet can be currently considered to be such a media<sup>12</sup> because it offers possibilities of interactive communication, it enables a feedback from consumer and so better respects demand.

Adding to necessity of efficiency (in production and communication) following authors recommend maintaining marketing activity as advertising to demonstrate a strong position (also later in recovery period) and to take advantage from possibilities in recession. Marketing expenses serve to understand consumers' changing behaviour in period of recession (Quelch and Jocz, 2009), to win new customers (Burgers, 2009), to develop new products corresponding better to the new situation (Makioka *et al.*, 2009), to maintain the competitiveness of advertised brand (Jan-Benedict *et al.*, 2009), etc. The latter finds that the

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<sup>11</sup> As before now suggested Kotler (1990) a firm must recognize the consumer's wants and offer to him such a product that fulfils the wants in the best way.

<sup>12</sup> For example traditional medium as TV is decreasing in its efficiency. TV rates have been dropping all over the world and TV viewers are less influenced by TV advertising (Pavilenene, 2008).

firms that maintain marketing expenditures have better performance, hence flexibility and responsiveness are seen key factors under the condition of rapid changing environment (crisis). Kitching *et al.* (2009) add the necessity of reduction and restructuring costs and assets eked out with marketing projects to expand sales and market shares being a partial solution to the present situation.

#### **4. Conclusion**

The aim of the paper was to underline the role of advertising in consumer decision-making and in the process of evolution of consumption patterns under the condition of economic crisis. Consumption patterns have been forming in time and are typically determined by advertising. Both are now subjects to influence of economic crisis, a shock that can accelerate the development or change the direction of development of consumption patterns. A debate on effects of these factors is carried on in the paper.

As for advertising, it influences both immediate consumption when being impulsive and/or persuasive, and consumption patterns when being continual, both persuasive and informative. The first reinforces consumption routines by underlying driving factors such as status, image and positive emotions. The latter enables, for example, quicker adoption of new or innovated products. As economic conditions have changed (since circa second half of 2008) consumption has been influenced by economic crisis (i) directly, directing consumption patterns towards restructuring expenses and more savings eliminating luxury goods and aiming at minimalism in consumption; and (ii) indirectly by the change of advertising expenditures under the condition of present crisis. The latter must be reorganized with the emphasis on efficiency (more efficient media, lower costs, etc.) complemented by better targeting and respecting demand. It is still necessary to maintain expenses on advertising (i) to alter decreased confidence of consumers, (ii) to observe consumer behaviour evolution during the crisis and to react to their changing wants, (iii) to win new customers, (iv) to demonstrate firm's power, and (v) to maintain the competitiveness.

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