How grocery shoppers spend differently during times economic change

September 23 2021

Credit: CC0 Public Domain

Researchers from the University of Cologne and University of Bremen published a new paper in the *Journal of Marketing* that examines how micro and macro conditions influence grocery shopping behaviors in different ways.

How does grocery shopping change with economic conditions? This new study suggests that micro (i.e., individual income) and macro (i.e., the business cycle) conditions substantially influence grocery shopping behavior, but in very different ways.

Households experience constantly changing economic conditions. These changes may take place at a personal, microeconomic level, such as if the main breadwinner receives a pay raise or a household member loses a job (micro conditions). Alternatively, changes may occur at a macroeconomic level, in terms of the business cycle with its recurring expansions and contractions or in response to global events such as the Great Recession or the Covid-19 pandemic (macro conditions). Scholdra explains that "While changing micro conditions directly affect households' ability to purchase, changing macro conditions, all else being equal, affect only households' willingness to purchase. Accordingly, households' response to changing conditions depends on whether they are affected at a micro or macro level, or both, and may manifest in very different shopping outcomes."

The researchers analyze seven measurable and managerially relevant shopping outcomes reflecting how households allocate their budgets across brand types and store formats—their shopping basket allocation (in terms of private label and national brand spending in discounters and non-discounters)—as well as how much they spend and purchase—their shopping basket value (in terms of total spending, purchase volume, and an index of prices paid). Through the analysis, they uncover and characterize the differential effects of micro and macro conditions on households' shopping behavior by addressing the following research questions:

1. To what extent do micro (i.e., income) and macro conditions (i.e., the business cycle) affect households' CPG (consumer packaged goods) shopping behavior?
2. How do micro and macro conditions differ in terms of their effects on households' shopping basket allocation and shopping basket value?
3. Do asymmetries exist between negative (i.e., income losses/economic contractions) and positive conditions (i.e., income gains/economic expansions) and, if so, do these asymmetries differ between micro and macro conditions?

The study uses detailed data about daily CPG transactions as well as demographic and psychographic information for more than 5,000 households in Germany over a period of eight years including the Great Recession. Based on this, it identifies what and where households shop, how much they purchase, what prices they pay, and how much they spend.

The analyses show that micro and macro conditions both have a substantial impact on households' shopping behavior. Importantly, households adjust their shopping behaviors without a concrete change in their budget constraints. In addition, micro and macro conditions differ substantially in their effects on households' shopping behaviors. Whereas micro conditions primarily have an impact on households' basket value, macro conditions affect households' basket value and also cause shifts in households' basket allocation.

During adverse micro conditions, households buy lower volumes and spend substantially less in total but do not shift spending to other brands or store formats. In contrast, as macro conditions change, households shift spending to private labels (from both discounters and non-discounters) during contractions and to national brands during expansions. In addition, they increase their total spending and purchase volume during contractions. "We argue that the shifts during macro conditions are driven by a greater society-wide acceptance of frugal consumption that does not emerge during changing micro conditions," says Wichmann.

Eisenbeiss explains that "These discrete effects of micro and macro conditions and the proposed underlying mechanisms have distinct managerial implications. For example, to buffer the negative effects of when and where wages are expected to decrease, manufacturers as well as discounters can profit from listing national brands in discounters. Especially hard discounters like Aldi and Lidl, whose overwhelming majority of revenues stem from their own private labels, may profit from this strategy." During economic contractions, retailers can use the opportunity to extend their private label portfolio into higher price tiers and product categories with high involvement and complexity.

"On the other hand, during subsequent expansions, they may narrow their price gap to national brands and strengthen their branding to preemptively counteract households' shifts back to national brands," adds Reinartz, "especially non-discounter private labels may get away with raising prices because they are unaffected by increasing budgetary constraints." In conclusion, even though manufacturers and retailers have little control over economic conditions, knowledge about the associated reactions by households allows them to adapt and navigate the economic ups and downs.

More information: Thomas P. Scholdra et al, EXPRESS: Households under Economic Change: How Micro- and Macroeconomic Conditions Shape Grocery Shopping Behavior, *Journal of Marketing* (2021). DOI: 10.1177/00222429211036882

Provided by American Marketing Association