The influence of the economic context upon purchasing behavior of young consumers: the case of financial services

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Abstract: Several studies have found that the economic situation influences consumer purchasing behavior. However, few researches have focused on the associated psychological process involving consumer emotions. We therefore ask the question: how does the economic context influence the purchasing behavior of consumers, and more specifically that of young people? We conduct a cross-subjects experiment on a sample of financial services consumers. Our results show that the economic context (contraction/expansion) influences consumers' emotions and then their specific choices of financial services. Our results contribute on the theoretical level by proposing a better explanation of purchasing behavior and also on the managerial level by proposing to professionals new commercial strategies depending on the economic context.

Keywords: economic context; purchasing behavior; consumer emotions

1. Introduction

Business cycles have a profound impact on many companies. Yet little previous research has systematically considered the extent and nature of consumer sensitivity to the economic environment (Dekimpe and Deleersnyder, 2018). In addition, many professionals point to the economic context to explain the business performance of companies, and even more so in the wake of the crisis of covid-19.

2. The economic context approach

1.1. The concept of economic context

The concept of economic context is part of the work of Katona (1963, 1968, 1975) who studied psychological economics or "Economic Psychology" by analyzing the "Economic Behavior". Indeed, the study of economic behavior analyzes both the economic decisions of consumers, their determinants, and their consequences on the economy. Katona (1963) states that the perceived economic environment, and not the objective economic environment, determines economic decisions. Perceptions of economic reality that influence consumers' expectations impact economic decisions, such as the choice between saving or spending (Katona, 1963).

3. The influence of the economic context on consumption behavior

The economic context impacts purchasing behavior (Dekimpe and Deleersnyder, 2018). Specifically, the economic context appears to influence several stages of the consumer decision process.

3.1. The influence of the economic context on spending levels

Du and Kamakura (2008) conducted a study on budget allocation in household consumption. They identified a link between energy prices (gasoline, diesel, fuel oil, gas and coal) and household demand. An increase in energy prices leads to a decrease in consumption, essentially for the most modest households.

3.2. The influence of the economic context on the choice of product categories

Millet, Lamey, and Van den Bergh (2012) showed that consumers are more likely to purchase products or services associated with preventing negative consequences (such as life insurance or retirement savings) during economic contractions. While products associated with positive outcomes (such as gambling) are more popular during economic expansions.

3.3. The influence of the economic environment on the choice of stores

Lamey (2014) studied the relationship between business cycles and the popularity of discount stores, and it appears that consumers gravitate more toward discount stores during periods of economic contraction, and partially away from them during periods of economic expansion.

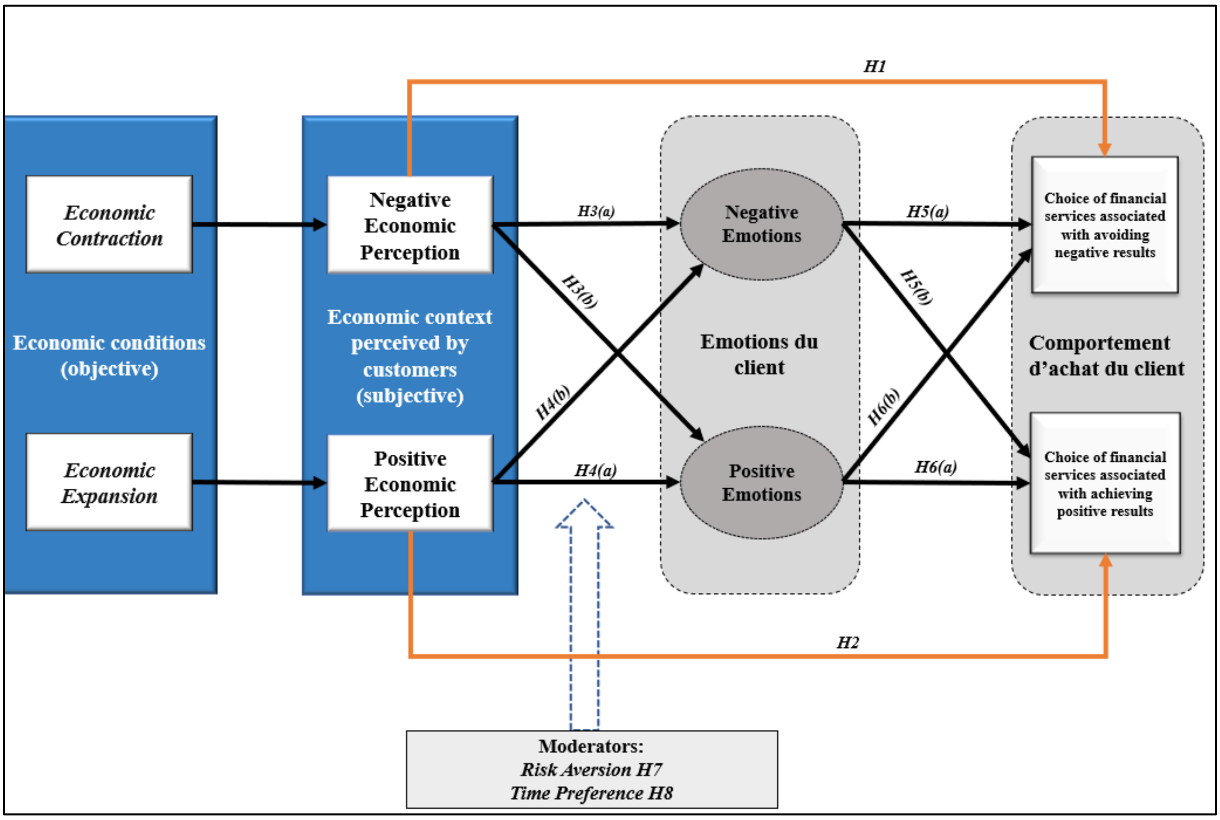
3.4. The influence of the economic context on brand choice

Lamey, Deleersnyder, Dekimpe, and Steenkamp (2007), Lamey, Deleersnyder, Steenkamp, and Dekimpe (2012), and Dubé, Hitsch, and Rossi (2018), have shown that the share of private label brands increases during economic contractions. Switching from national brands to private labels allows consumers to reduce their total spending without having to give in on the quantity consumed.

The research previously cited provides evidence of a direct link between the economic environment and consumer purchasing behavior. However, the research does not provide us information concerning the process by which this link is constructed. We therefore ask the question: how does the economic context influence the purchasing behavior of customers? To answer this question, we build our conceptual model and test our hypotheses by choosing financial services as the object of study.

4. Conceptual model and research hypotheses

Figure 1: The conceptual model of the research



Studying the effects of the economic context - of an external environment on a particular behavior - we consider the approach of Mehrabian and Russell (1974) with the "Stimuli-Organism-Response S-O-R" model. According to Mehrabian and Russell (1974), the external environment contains stimuli (S) that affect organisms (consumers: O) and cause individuals to approach gains or avoid losses (R). We also mobilize the framework of Millet, Lamey, and Van den Bergh (2012), which distinguishes motivational orientations by proposing a product/service dichotomy.

Since we chose financial services as our object of study, we incorporate moderators from behavioral finance theories with risk aversion and time preference (Van Raaij, 2016). These personality traits could attenuate or intensify the relationships between the perceived economic context and the emotions of bancassurance customers.

5. Methodology

Following our conceptual model, we wish to test whether objective economic stimuli sequentially impact consumers' economic perceptions, emotional states, and intentions to choose financial services associated with avoiding negative outcomes or achieving positive outcomes. This design involves data on the negative (contraction) as well as the positive (expansion) economic context. For this, it seems necessary to be able to control the economic context in vitro. The experimental method then seems to be the most suitable technique for testing the hypotheses. We then conduct an inter-subject experiment with 2 experimental conditions. We use the Movavi© software to construct economic context stimuli with 8 journalistic videos selected from Youtube®. One group is exposed to stimuli of an economic contraction while the other is exposed to stimuli of an economic expansion. We focus on young consumers between 18 and 25 years old because they do not yet have an extensive portfolio of financial services and could position themselves more freely about the ownership of financial services.

We use the INSEE’s household confidence index questionnaire to measure the perception of the economic context. To measure emotions, we use a single verbal measure after exposure to the stimulus, which allows us to highlight the polarity, intensity, and content of affective reactions (Derbaix and Poncin, 2005). Operationally, we measure emotions based on the work of Cowen and Keltner (2017). We ask respondents about their intentions to hold financial services. With an 11-point probability scale (0-10) for each of the financial services considered.

6. Results

The study was conducted via the Amazon Mturk platform and the research laboratory of the University. We obtained 83 and 41 respondents aged between 18 and 25 years old respectively via these structures. After having analyzed and cleaned the database, we analyze our results with the SPSS 23® software.

First, we perform check manipulations to verify that the stimuli emitted by the videos correspond to the stimuli perceived by the respondents. We conduct an analysis of covariance (ANCOVA) via the univariate general linear model (GLM) and linear regressions to test our hypotheses.

- H1: An economic contraction favors more, financial services that permit to avoid negative outcomes, compared to an economic expansion.
- H2: an economic expansion favors more, financial services that permit to achieve positive outcomes, compared to an economic contraction.

- H3: a negative economic perception influences, (a) positively the negative emotions, and (b) negatively the positive emotions.
- H4: a positive economic perception influences, (a) positively the positive emotions, and (b) negatively the negative emotions.
- H5: negative emotions (a) favor financial services that permit to avoid negative outcomes, and (b) disfavor financial services that permit to achieve positive outcomes.
- H6: positive emotions (a) favor financial services that permit to achieve positive outcomes, and (b) disfavor financial services that permit to avoid negative outcomes.
- H7: the relationship between a negative economic perception and a negative emotional state increases as the degree of risk aversion increases.
- H8: The relationship between negative economic perception and a negative emotional state increases as the degree of time preference increases.

To reduce the size of the paper, we present below an example of how we tested the hypotheses.

Example of hypothesis testing H3(a,b). We want to test the influence of a negative economic perception on customers' negative and positive emotions. We use test, by multiple linear regression, the influence of a negative economic perception (*Negative_Economic_Perception*) on negative (*Negative_Emotions*) and positive (*Positive_Emotions*) emotions under the control of age (*Age*), gender (*Gender*) and income of consumers (*Income*) We therefore model two multiple linear regression models of the form:

$$Y_i = \alpha_0 + \beta_1 X_i^1 + \beta_2 X_i^2 + \cdots + \beta_p X_i^P + \varepsilon_i \,; \quad \text{i} = 1, 2, \ldots ;$$

with: α_0 : the model constant; X_i^p : the model predictors; p=1, …, P (the number of predictors); β_p : the coefficients associated with the predictors X_i^p ; ε_i : the error term.

In order to test the hypotheses H3(a,b), we formulate the following equations:

$$\begin{aligned} Negative\_Emotions \\ &= \alpha_0 + \beta_1 Negative\_Economic\_Perception + \beta_2\, Age + \beta_3 Gender \\ &+ \beta_4 Income \\ Positive\_Emotions \\ &= \alpha_0 + \beta_1 Negative\_Economic\_Perception + \beta_2\, Age + \beta_3 Gender \\ &+ \beta_4 Income \end{aligned}$$

We check the usual conditions for this parametric test. The models are significant with *F=15.530 (p<0.01) and F=20.569 (p<0.01)*. We observe that the influence of a negative economic perception on negative and positive emotions is significant with $Negative\_Economic\_Perception_{\ Negative\_Emotions} = 0.589\ (p<0.001)$ and $Negative\_Economic\_Perception_{\ Positive\_Emotions} = -0.589\ (p<0.001)$ which is the opposite result of the former. Negative economic perception changes consumers' negative and positive emotions by 58.9%. This allows us to validate hypothesis H3: a negative economic perception influences, (a) positively the negative emotions, and (b) negatively the positive emotions.

7. Discussion

Our results aim to contribute to the marketing literature by demonstrating the process by which the economic context influences the customer purchasing behavior. As proposed by our hypotheses, it seems that economic situations (contraction and expansion) impact customers' perceptions. These perceptions will then generate emotional states (negative or positive) that will determine the choice of financial services (avoiding negative outcomes or achieving positive outcomes).

When consumers perceive the economy in a negative way, this puts them in a negative emotional state that will encourage them to protect and conserve themselves (Arrondel and Calvo Pardo, 2008) by subscribing to financial services that avoid negative outcomes. On the contrary, when consumers perceive the economy in a positive way, they would be in a positive emotional state that will prompt them to profit (Lamey, Deleersnyder, Steenkamp and Dekimpe, 2012) by spending more on consumption, or to invest, by subscribing to financial services that allow positive outcomes.

Professionals could benefit from adapting their products and/or their communication according to the economic context perceived by their young customers.

More specifically Bancassurance companies would benefit from these results by considering the economic context perceived by young customers in their commercial relationship management strategies. With a better understanding of their customers' attitudes, managers will then be able to offer financial services that are more likely to be purchased based on the perceived economic situation. And, by encouraging clients to maintain the financial services most likely to be terminated.

Table 1: Business strategies based on the economic environment for bancassurance

	Type of financial services	
Customer Economic perception	*Financial services to avoid negative results*	*Financial services to achieve positive results*
Economic context perceived as unfavorable	Encourage underwriting	Encourage retention and limit termination
Economic context perceived as favorable	Encourage retention and limit termination	Encourage underwriting

8. Limitations and future research

Beyond its contributions, this research work presents certain theoretical limits that we envisage as future avenues of research. We would have appreciated having more respondents for our experiment, which stopped on the eve of the COVID-19 crisis. Continuing the experiment would have incorporated a significant situational bias because the situation was exceptional. It would be appropriate to redo the experiment by controlling the bias on a larger and more representative sample of the population.

In addition, in our videos we used economic stimuli without controlling for their strength in the minds of the respondents. It would be useful to have a measure of the weight of the different economic stimuli in order to strengthen the internal validity of the study.

The results of the study are also limited by its anchoring in the French frame of reference. The external validity of the research should be verified by replicating the study on foreign data. At the methodological level, we tested our hypotheses sequentially, it would be possible to build a global model of linear regressions by the Hayes method or to carry out a modeling by structural equations.

Despite the limitations mentioned, our research allows for a deeper understanding of the effects of the economic context on consumer purchasing behavior.

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