

Chapter II

Literature review

II.1 Literature Review

II.1.1 Supply and Demand Theory

Understanding the law of supply and demand is essential for businesses to help the company's decision-making process on the pricing, quantity, and the type of products they should produce. The law of supply and demand is the interaction between the buyers (demand) and the sellers (supply) (Marshall, 1890). This interaction determined the price and the quantity of the products and services in the market. When the demand and the supply curves intersect, it creates an equilibrium point where the amount of products produced in the market equals the consumers' quantity demanded (The Editors of Encyclopaedia Britannica, 2019). There are a lot of factors that caused changes in both supply and demand. The changes can cause movement and shift of the curves. The movement and the shift in supply and demand curves represent different market phenomena (Marshall, 1890).

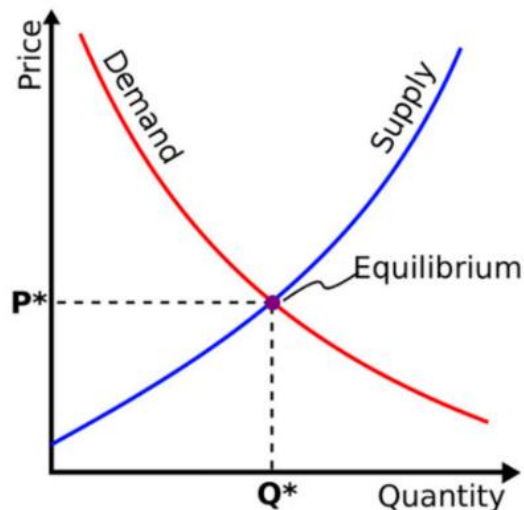


Figure 5 Supply and Demand Curve

Source: Foundation for Economic Education (FEE) (2020)

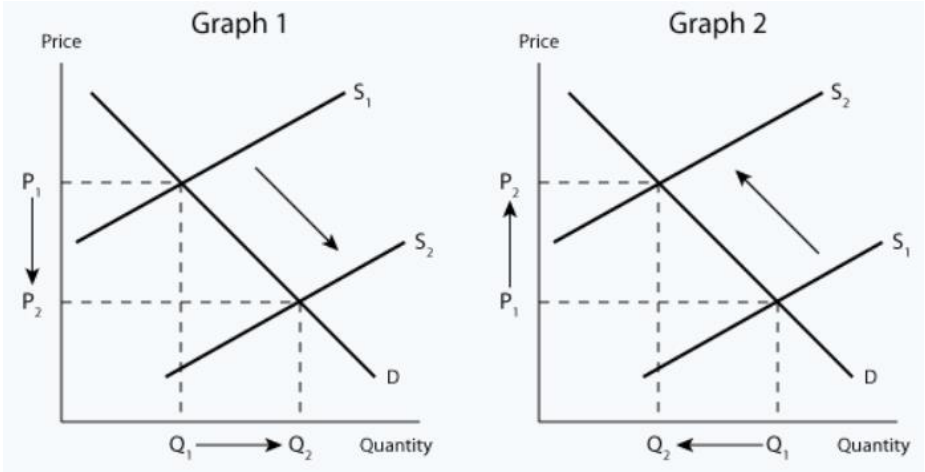


Figure 6 Shift in Supply curves

Source: Econport.org (2021)

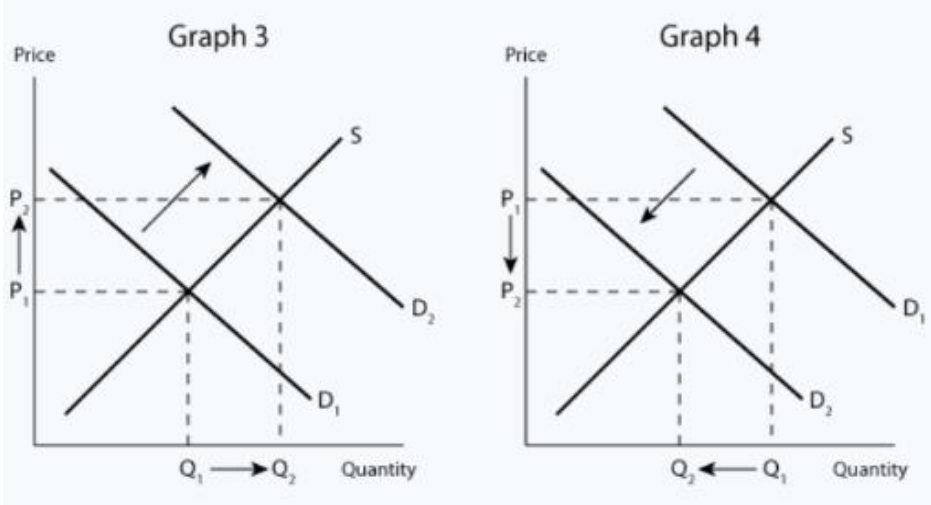


Figure 7 Shift in Demand Curves

Source: Econport.org (2021)

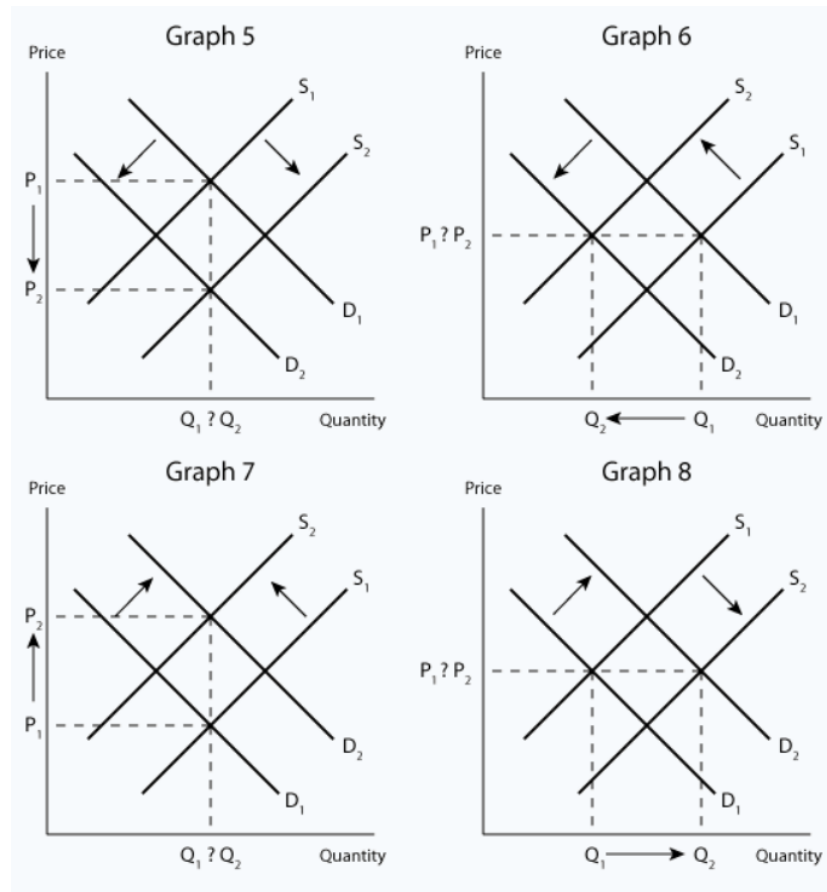


Figure 8 Shift on Both Supply and Demand Curves

Source: Econport.org (2021)

Movement along the demand curve from one point to another point on the curve is due to the product's changes in price and quantity. This change resulted from the change of one variable that affects the other variable with the assumption of only two variables (price and quantity) changed while other variables remain constant (CUNY, 2015). For example, if a product's price increases, the demand for it will

decrease as it is less desirable since it is more expensive, and vice versa (Marshall, 1890). While a shift of supply and demand curves are caused by the changes of the quantity demanded in the market effected by more than one factors. Therefore, a shift of the supply and demand curve occurs. The variation of supply and demand curves are shown above. The shift can occur either on demand or supply curve, but sometimes both curves shift along following the market demand. There are a few factors that affect the changes in quantity demanded of the fashion products, as shown below.

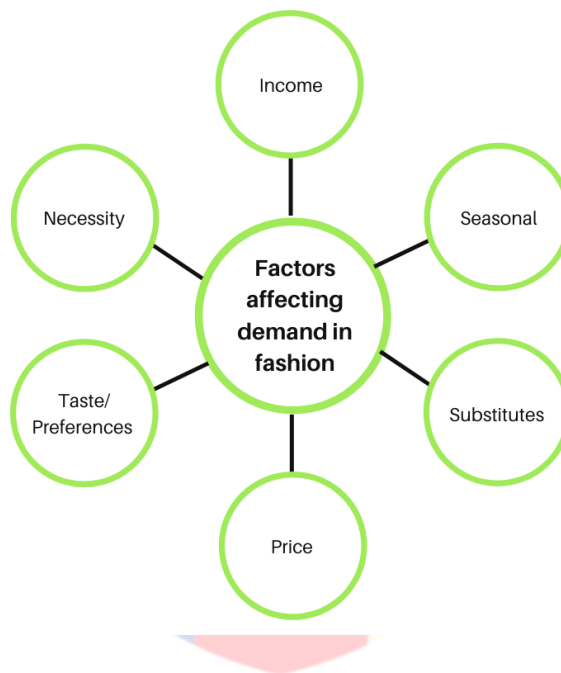
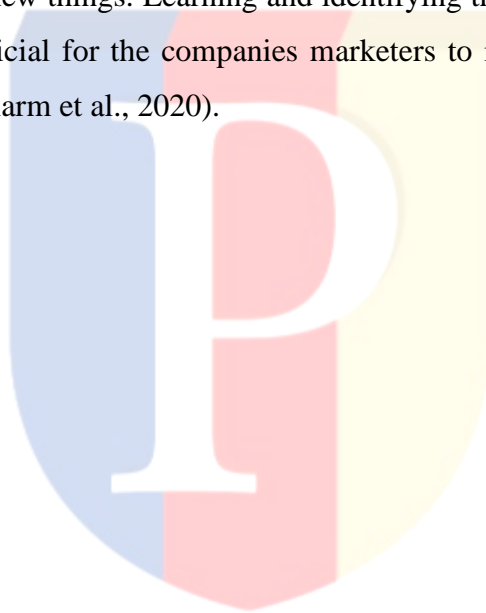


Figure 9 Factors Affecting Demand in Fashion

Source: Author

These factors affecting the demand are the components that determined consumers' behavior and companies' marketing strategies. Consumers' behaviors are affected by factors such as income, price, and taste/preferences. While marketing strategies are constructed by considering the substitute products, consumers' behaviors, seasonal trends, and how to advertise their products effectively. However, consumers' behaviors are continually changing, especially during the COVID-19 pandemic. This pandemic has disrupted people's habits and force them to adapt to new practices. In this new normal situation, consumers' behaviors are rapidly changing to adjust to the new normal. People are more open-minded towards innovation and trying new things. Learning and identifying the behavioral changes of the customers is beneficial for the companies marketers to identify opportunities in the new normal era (Charm et al., 2020).



II.1.2 Consumer Behaviors

Before deciding to purchase any goods and services, buyers will go through a decision-making process. This process allows them to select any goods and services to suits their needs. This train of thought varies depending on the level of complexity of factors that influenced their decision making behavior (Rani, 2014). This behavior is called the consumer's behavior. Consumer behavior is a study of the way people satisfy their needs and wants (American Marketing Association, n.d.), a process to select and dispose of (Hawkins & Mothersbaugh, 2001), and a mental and emotional process during the search of product and services (Kazmi, 2004). In other words, consumer behavior is a complex decision-making process by the buyers that are affected by various variables.

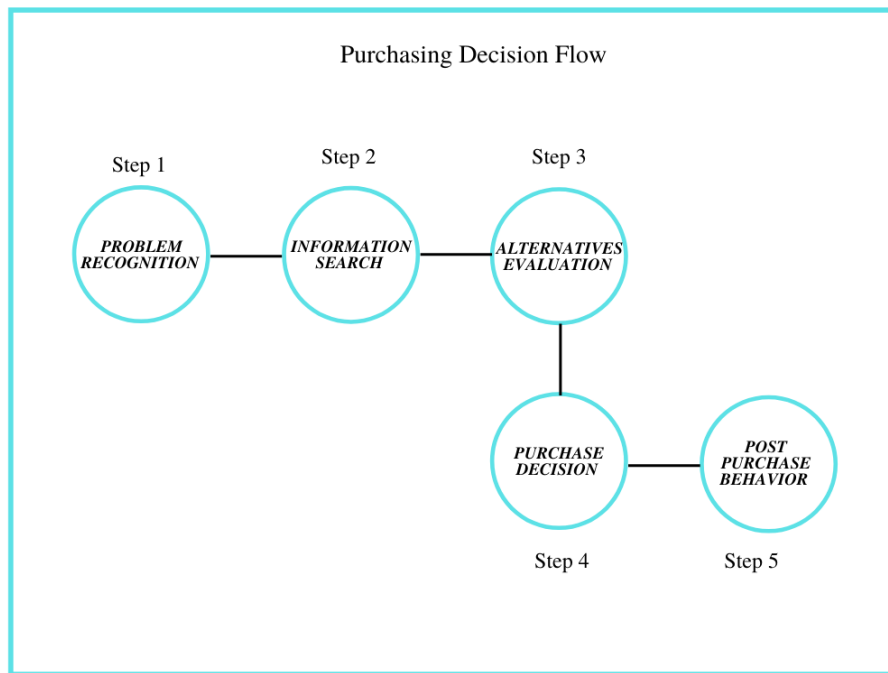


Figure 10 Purchasing Decision Process

Source: Rani (2014)

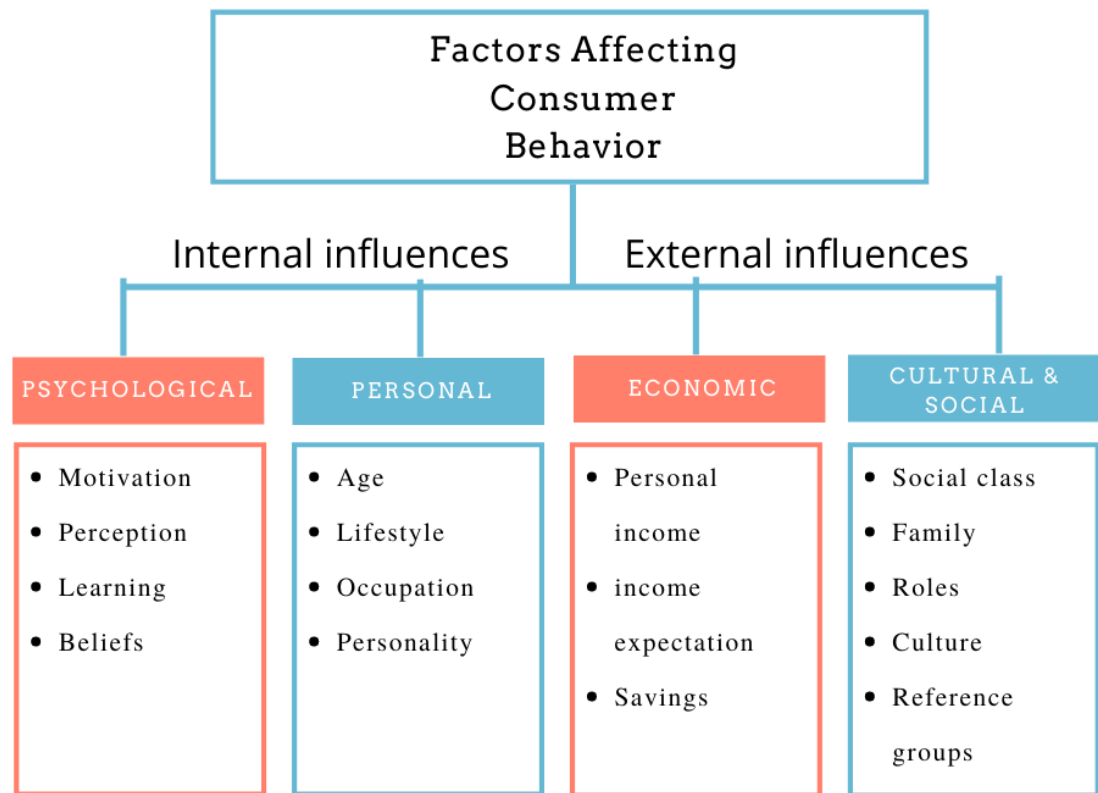


Figure 11 Factors Affecting Consumer Behavior

Source: Rani (2014)

Consumers' behaviors are affected by internal and external influences, and they are divided into four major factors: Psychological, Personal, Economic, and Cultural & Social. Further explanations of each element are as follows:

Psychological

1. Motivation

Motivation is a person's supporting system, initiative actions, and willingness to support a specific belief that drives them to purchase goods and services.

2. Perception

Perception is when the consumers are organizing, selecting, and interpreting the information available into something meaningful and making sense before deciding to purchase something.

3. Learning

New information and experiences are learned through the consumer's action. The decision to buy a product is based on the latest news they get from their personal experience. Therefore, consumers who have more positive experiences and satisfaction tend to buy more of the products.

4. Beliefs

Consumers' beliefs system is something the buyer hold onto and becomes their principle when viewing a product. This belief is acquired by their personal experiences and other influences such as family, friends, advertising, etc.

Personal

1. Age

The different age groups of people have different needs and spending style. Therefore, age differences resulted in different purchasing behavior. For example, people above 30 are more likely to be planned buyers, while those below 30 are usually more impulsive buyers.

2. Lifestyle

The way customers live their lives, starting from their daily activities, interests, and opinions, affects their buying behavior since the goods they purchase must reflect or be useful for their lifestyle.

3. Occupation

The type of occupation a person has, create a significant impact on the type of goods and services they choose to buy. For example, a company manager will buy the newest phone model, while the regular office workers will buy a more affordable phone in price.

4. Personalities

A person's character or personality differ from individual to individual and can change from time to time. These changes will have a significant impact on the purchasing conduct of the buyers. Qualities such as predominance, forcefulness, self-assurance can help the buyer to decide their behavior for a specific item.

Economic

1. Personal Income

Income plays a big part in consumer behavior because income determined the items and quantity of the products the buyers can afford.

2. Income Expectation

Income expectation helps people to plan for their future expenditure. The higher their income expectation, the more likely it is for them to plan their spending on higher price products or in more significant quantity.

3. Savings

Some people are reducing their spending in various ways to increase their savings. Thus, people are less likely to purchase new items or an item that is not considered necessary.

Cultural & Social

1. Social Class

In the social hierarchy, each rank has its values, lifestyle, interest, and behavior similar to each individual from the same class. Therefore, we can assume that people from the same social level purchased the same needs and wants.

2. Family

It is often found that the family holds the same beliefs and values that have become the most influential factors in shaping the individual's behaviors. The marketer must find the roles of husband, wife, and children in the family to target specific roles in their advertisement.

3. Roles

A role is an individual's expected attitudes and activities according to their social class, profession, gender, etc. For example, a CEO of a company bought an expensive car to fulfill his role so that he can be taken seriously by his business partner.

4. Culture

Cultural trends or Bandwagon impact are characterized as patterns generally followed by individuals because of their popularity and social pressure. As a result, more people follow the trends, and they will eventually create a habit.

5. Reference Groups

Humans are social creatures who live in a group and often pick up their groups' behaviors since they want to feel they belong to the group. In this modern world, people's social groups are related to their work, age, gender, hobbies, etc. The impact of these groups differs on the type of products.

II.1.3 Development of New Behavior in Crisis

During the outbreak of the Corona Virus, the purchasing behavior of the consumer has been changing. These changes are caused by the changes in the lifestyle, occupation, personal income, perception, and social culture after the implementation of Large-scale Social Restriction (PSBB). The restriction has reshaped people’s behavior to an extreme measure in a short period. People are not prepared for these changes, resulting in shutting down businesses and increasing unemployment. Prior research did by McKinsey & Company during 21 – 30 September 2020 on the consumers’ behaviors, income, spending, and expectation (Mckinsey & Company, 2020). The study shows 50% increase in the household spending and more than 60% decrease in income and savings.

More than 60% of Indonesians have seen reductions in income and savings, yet around 50% have increades spending (September 21-30)

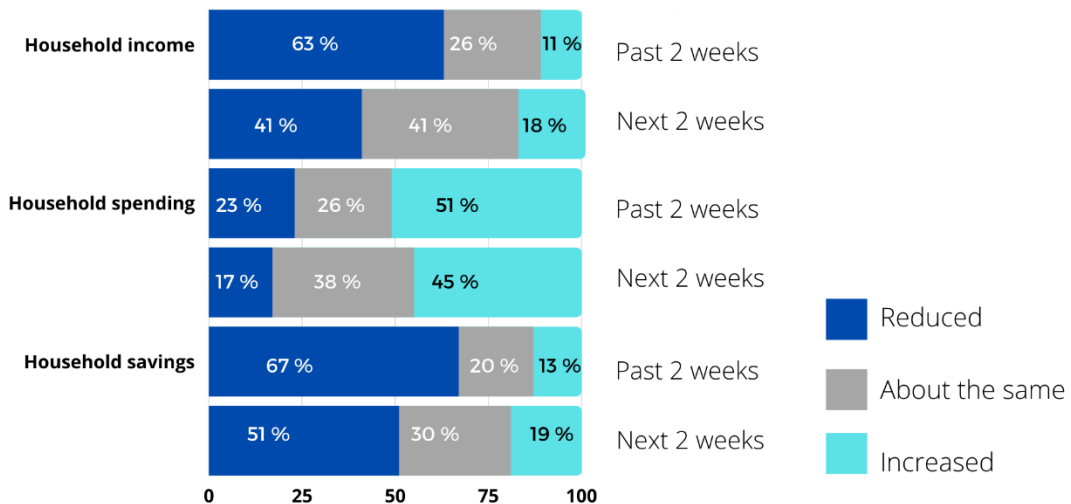


Figure 12 Household Income, Spending, and Savings

Source: McKinsey & Company (2020)

The decline in household incomes and increase in health consciousness has been the major contributors on the changes in consumer's behavior (Accenture, 2020). People has become more aware on their expenses and focus more on their primary needs (food, water, electricity). Beside the changes in products there are also changes in the way people shop. This situation has been proven by another study by McKinsey & Company that show a shift in consumer behavior. The study has shown that there are 40% increase in essentials shopping, 60% increase in online shopping, and 92% increase in the willingness to try new brands and products.

II.1.4 Relevance of Income in Purchasing Behavior during Crisis

Income can shape a person purchasing behavior and influenced how much a person spends. Higher-income people will have higher purchasing power because they have higher disposable income to spend on expensive or luxury goods and services. While having a lower income means that people will have lesser money to spend and weaker purchasing power and are forced to work with the resources they have for their daily needs (BBC, n.d.). In this crisis, people are experiencing a significant loss of income, and 74.3 percent of the Indonesian households earn less than in January 2020. A survey done by UNICEF stated that 12.6 percent of families are struggling to meet their primary needs. They lack financial resources to buy enough food, let alone be able to have disposable income to purchase other goods and services considered as secondary and tertiary needs, such as clothing. During the crisis, consumers have less disposable income, which caused them to minimize impulse buying and planned their purchases (Hampson & McGoldrick, 2013)

II.1.5 Relevance of Price Sensitivity in Purchasing Behavior During Crisis

According to Hampson and McGoldrick, the purchasing behavior of a person during a recession is influenced by the price of the product and services due to the uncertainty of jobs and unstable economic environment (Hampson & McGoldrick, 2013). A study on consumer behavior of meat during a crisis by Kosicka-Gebska and Gebeski during the financial crisis in 2008 found out that the consumers' price sensitivity increased, and people purchased meat in smaller quantities because of the decreased income (Gebska et al, 2013). Referring to this study, it is safe to conclude that people are more sensitive towards the price of the products because people focus more on receiving the value of money. Price sensitivity can be defined as the reaction of demand when the price of a product or service changes and varies depending on the type and the importance of the product they are buying. People are more likely to have lower sensitivity on price when they value the quality of the product. On the other hand, people will be more sensitive towards a product with many substitutes in the market that provide them with lower prices and the same quality as the expensive product (Kagan, 2020)

II.2 Hypotheses Development

As explained above, there are a lot of factors influencing the changed in consumers' behaviour. However, this study will be focusing more on the financial/economic side of it. The literature shows that people experience a significant decrease in their disposable income during a crisis, which caused them to spend less and put priority on a particular type of goods and services they purchased. However, despite the decrease in their disposable income, the shopping frequency during the pandemic has increased. This phenomenon caused an increase in consumers' price sensitivity that caused them to shop in small quantities and higher

frequency. The objectives of this research are to find the effect of income and price sensitivity towards consumer's buying behaviour. When looking into the effect of income to the buying behaviour it is expected that income has a quite significant effect on the purchasing behaviour such as the number of items, intensity, and many others. This leads to the creation of the first hypothesis as the following:

H1: There is a **positive** relationship between income level on the changed consumers' purchasing behaviour of loungewear.

As stated in the introductory chapter, the fashion industry is experiencing changes in the prices of products due to changes in consumers' purchasing behaviour. They are more driven to purchase a product if it fulfils the value of money given. This indicates that the consumers are more sensitive towards price, which affects their purchasing behaviour. This situation leads to the creation of the second hypothesis as the following:

H2: There is a **positive** relationship between price sensitivity on the changed consumers' purchasing behaviour of loungewear.

To prove these hypotheses, a survey is conducted to find out what impact does income and price sensitivity brings on the consumers' purchasing behaviour of loungewear. This hypothesis will then be used to explain the phenomenon of increase in sales of loungewear despite the decreasing purchasing power. The survey will be discussed in chapter 3.

II.3 Conceptual Map

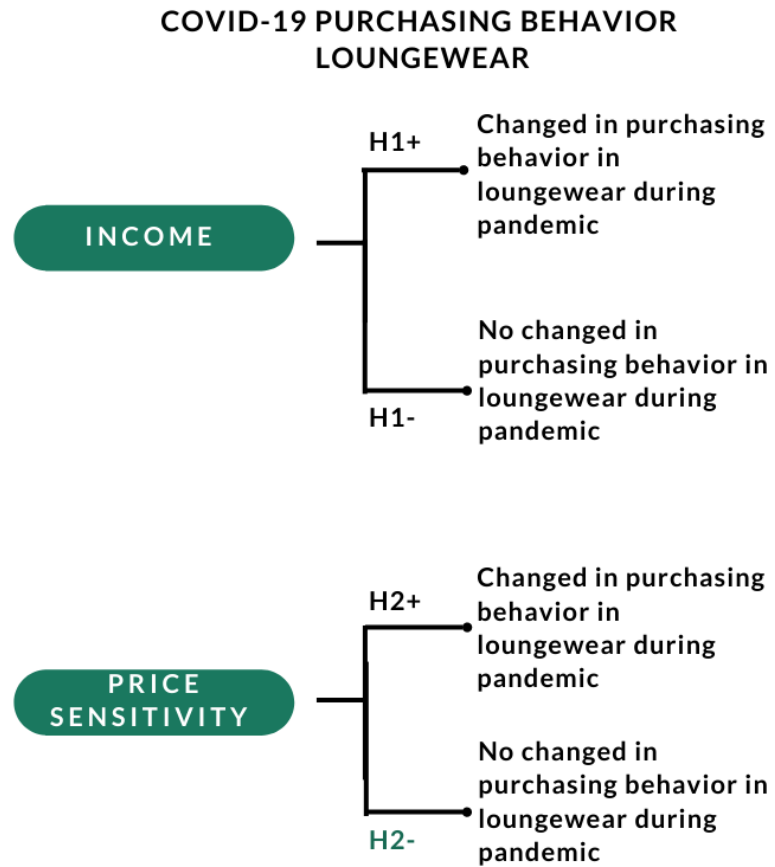


Figure 13 Thinking Frame

Source: Author