

Consumer Behaviour During COVID19 in Azerbaijan

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Abstract

The paper's aim is to understand the changes in choices of customers which are derived from income. Sales of businesses and economic activity depend on how much customers buy and of course how much they earn. Firstly, there is an explanation of the Engel's law and relationship of the share of income spent on food and growth of income. This paper offers results of research which was about giffen products and tries to understand what is more and less important for customers when income changes. Engel's law explains the relationship between income increasing and share of food, whether as income increase people tend to buy more luxury and non-food products. In GDP per capita and food share graph shows clearly the relationship between them. According to this data, in Azerbaijan people spend 35%-40% income on food. Main aim of this study is to understand the consumer choices during pandemic (COVID-19) in case of Giffen goods and additionally understand what do FMCG companies do to keep customers when prices go up. In order to understand it, in research were used open ended question. After collecting the results of the research with 100 people, at the end of the paper, it was commented by the CPO of the one of the FMCG company. Data collected in survey was analyzed by each question. With the official information from The State Statistical Committee of the Republic of Azerbaijan we saw the change of GDP of Azerbaijan and average monthly income during COVID19. It is clear that this pandemic changes many things starting from consumer behavior and choices. Now people are more concerned about their health and it will directly affect income of FMCG firms. Moreover, many companies closed or were merged with big ones. Study findings are: people are going to buy some basics consumption goods (food and hygienic) even when prices increase. As a future recommendation is companies should build customer satisfaction from first the day, so that during hard times customers want to choose them.

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I. Introduction

The effect of income change to the consumer choices was always interesting for marketing and producers. This behaviour affects both sides because marketing spending and communication channels depend on it. The price is so critical point. Customers are so sensitive to it, if they go up, they can easily give up from it and switch to the substitution products. At the same time many people think that if prices are high, it means it is a qualitative product. Furthermore, before launching products always producers should research how much do customers ready to pay for it. Then, here should be found maximum and minimum. However, brand loyalty saves companies during the crisis, and together with correct marketing activities a company can grow also. Engel's law is the best example of explaining the relationship between income and the share of income spent on food. People tend to buy luxury goods, feel rich and that is why more important needs such as food stay stable even when income rises. Actually, all this information is given in this article is related and researched for the developing country Azerbaijan in the 2020 year (Azerbaijan ranks 3rd on Inclusive Development Index of World Economic Forum, 2018).

There is no doubt that it can be totally or partially different in other developed and/or developing countries. As an example, for it is a graph which shows the relationship between GDP per capita and the share of food spending. The online survey (research) was done in Baku in August 2020. The main goal was to understand what is Giffen product for citizens of the capital of Azerbaijan Baku. However, answers were so close to the expected ones. Additionally, in order to complete idea of the article and come to the conclusion CFO commented this research. The conclusion explains that branding,

customer loyalty and satisfaction should be built starting the first day of the company and this is the only thing that will keep company alive and save. Main body of the article consists of 3 parts: Engel's law, Giffen products and research. Engel's law and Giffen products were written because of the direct relationship of them with income. Research was done in August 2020, during pandemic (COVID-19), so that it can refer as a behaviour of the customers during pandemic.

According to The State Statistical Committee of the Republic of Azerbaijan, GDP of Azerbaijan between January and October 2020 was 58 469,5 million AZN. Compared to January-October 2019 it is 96.2 %, which means there is a 3.8% decrease in the economy. According to the data non-oil-gas sector decreased 2.3% and oil-gas sector decreased 6.3%. GDP per capita was 5861.6.

II. Literature Review

Engel was born in 1821 in Dresden. In his first article he discussed the theory of Malthus. This theory says that there will no available land for increasing world population. Engels said that we can balance both growths, demand and production. Malthus stated that the growth of population is geometrical, but food production is arithmetical. According to this theory one day the production will not be able to feed all people. (Mădălin-Ioan & Mircea Constantin, 2017).

Engel's law was established in the mid of 1800s by German economist and statistician Ernst Engel. When people's income change, their spending changes which as well means they begin to consume more or less totally, and also their spending on some special goods increases/falls. As an example, for it, the share of income assigned for food goes down as earning rises. However, the main point is that the amount of money spent can increase, but the proportion of income falls. For example, let's assume that family earns \$50.000 and spends \$10.000 on food, but then they increase to \$100.000 and \$15.000, respectively, whether the contribution of food decreases from 20% to 15%. (Hayes, 2020) However, there is still a need for little discussions on Engel's law.

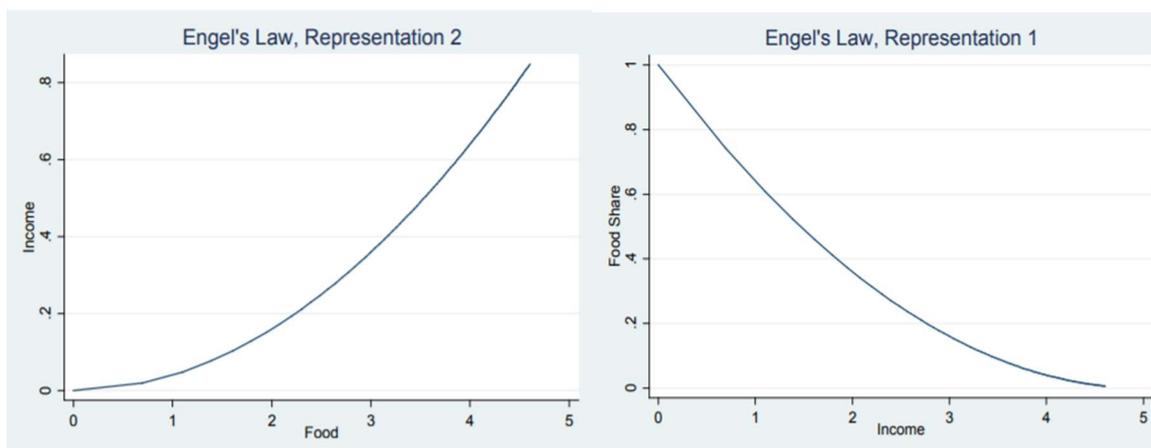


Figure 1 and 2: Engel's law

Source: (Pope, 2012)

Many things regarding Engel's law appear to be questionable. Seminal contributions have been made by article Testing the Engel's law in the consumption pattern of Romanian population. According to the data of authors' own computation based on NIS data, the income of household increases from about 100 lei to approximately 2800 lei between 1997-2016, but the share of food products went up slowly from about 50 lei to 500 lei. (Mădălin-loan & Mircea Constantin, 2017)

III. Research Methodology

The researcher's objective was to find out consumer behaviour during pandemic in Azerbaijan through Giffen goods and research about it. The graphs were taken from original websites and helped to explain the main idea of the article, especially in the case of income and spending. Additionally, in research was used online survey method which included several questions, including open and close ended. The questions of online survey were about gender, age, monthly income where participant could choose and write age. Then, in order to understand clearly thoughts of the participants were used 5 open ended questions such as, if your income increases, the products that you are going to refuse to purchase, which products are you going to purchase even if the price of the products increases, on what condition are you going to purchase them, when was the last time you made an effort to do so, what were those products.

The best way to clarify and understand how Azerbaijani people think about this topic is to do survey and get their opinions. Participants were selected randomly from the

internet mainly focusing to the people above 20 with higher education. They were asked to give clear, short and exact answers. Survey was published in online groups and with estimated 2-3 minutes answering period. Survey was conducted anonymously whether the purpose was to know only gender and age. However, remained questions were prepared with the help of another economic student and some teachers. As data was simple and clear, it was analyzed in Excel and was grouped according to the answers and described in the tables. After analyzing results survey and research continued with interviewing CPO of one FMCG company.

GDP per capita and the share of food

The interesting fact is correlation between GDP per capita and the share of food in expenditure. However, when GDP per capita increases, the contribution of food decreases. Let's discuss according to continents: (World Bank, 2015)

- Africa – all countries have not more than about \$15.000 GDP per capita, except Tunisia and South Africa (20%), other countries have more than 30% share on food.
- Asia – rich countries like Japan, Singapore, Qatar, Kuwait and Hong Kong have high GDP per capita and in all countries the share is below 20%. In contrast, the poor countries, and countries with high population like India and China are higher than 20% and not more than \$12.000 per capita.
- Europe – Western Europe countries have less than 15% spending with \$40.000-\$50.000 per capita. But Central Europe, Balkans and Eastern Europe has from \$10.000 to \$30.000 per capita with 15%-35 share.
- North America – Canada has approximately \$42.000 per capita, and USA has \$10.000 more than it. Additionally, Central America countries have approximately \$15.000 and 20% share. Guatemala has the worst one with more than 40% and less than \$10.000.

- Oceania – New Zealand and Australia have \$36.000 and \$44.000, 15% and 10%, respectively.
- South America – many countries between 15% and 25%, with different GDP per capita.

The following graph (countries of the same regions and level are not included) shows the simplest version of previous data:

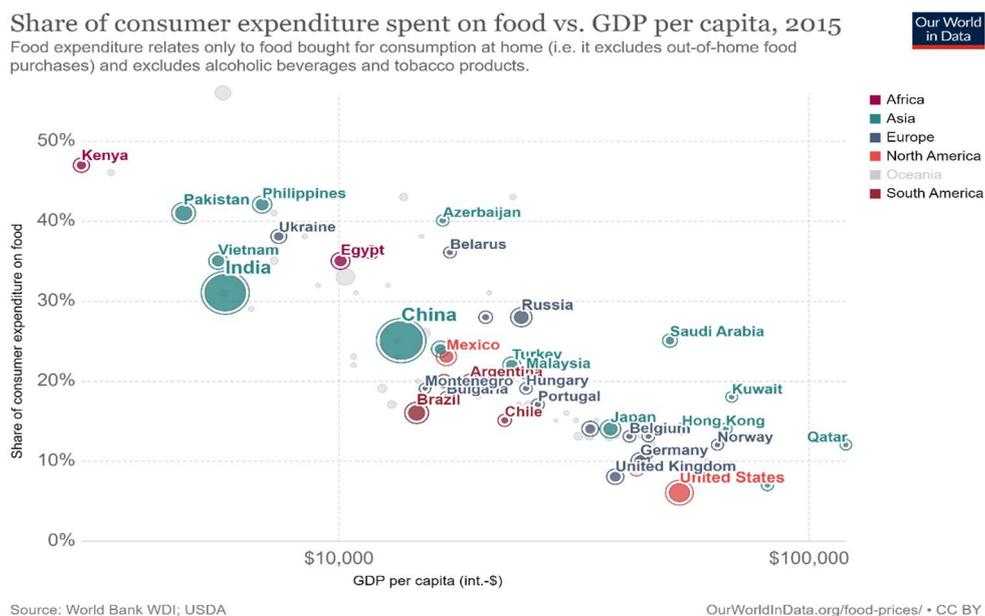


Figure 3. GDP per capita and food share

Source: www.ourworldindata.org

In other words, in graph it is clearly illustrated that the developed countries have high GDP per capita and additionally in those countries the percentage of food spending is low.

When we pay attention to the Maslow's Hierarchy of Needs, we can see that they are mainly related with the indispensable internal environment and feelings. They are from bottom to up of the pyramid: Physiological needs, Safety needs, Love and Belonging, Esteem and at the top Self-actualization. In case of Engel's law, the proportion of major needs increases slightly, but those needs which are not related with survival increase tremendously. It is the difference. The more our income booms, the more we spend money to luxury goods. (Wen, 2017) In case of Engel's law it is same. People with low income spend more money to the basic needs, but rich people spend money to increase the quality of their living standards. As an example, poor will buy more bread to get same calories to meet same calories when rich buy meat.

However, the answer for the question why people buy much luxury products depends on people, but generally it is mostly related with high quality, status and self-satisfaction. For example, in one research participants used 2 fake painkillers which cost \$2.50 and \$0.10, whether the expensive one decreased pain more than another one. Additionally, people believe that new luxury products bring them happiness, but it lasts not so long. (Wen, 2017) This means that what people create or feel such as happiness and self-satisfaction, they are within their brain, not outside.

There is a strong link between household income and share of expenditure on food. According to the *Ourworldindata* website except Africa, we can get information for the year of 2015 about share of consumer expenditure on food. However, developed countries such as USA, Canada and Australia spend 5%-10% for food and then Western Europe 10%-15%. In Asia, big countries such as China, Iran, Saudi Arabia and Turkey spend between 20%-25%. Azerbaijan data (40%) is in the same range as Jordan and Turkmenistan with 35%-40%. (Share of consumer expenditure spent on food, 2015)

Giffen goods

As it was mentioned before, as income rises, people tend to buy more luxury goods. In contrast, giffen goods are non-luxury products whether demand rises when prices increase and demand decreases when prices fall. For example, bread, wheat and rice are considered as giffen goods. Furthermore, it is against the law of demand which indicates decline of demand when price goes up. Additionally, it should be mentioned that all giffen goods are inferior, but not all inferior goods are giffen. This means that when income increases, demand for giffen goods decrease. There are 2 conditions that giffen products require:

1. They must be a main product of poor society with few alternatives.
2. The households are so poor that they consume only staple goods (Bloomenthal, 2020).

It is also crucial to mention that those goods which demand of them increase with increasing income are normal goods. As an example for it can be brand tea company, in contrast at that time inferior good can be unknown (less popular) ketchup brand.

IV. Review Azerbaijan market in case of customer choices

In order to understand the situation in Azerbaijan, especially about giffen products and customer choices I have done online survey with several question. Question were focused to the choices of customers, whether what they might buy, what they might do and so on. Additionally, survey was anonim with 8 questions.

Questions were:

1. *Gender:* Answers: Male or Female
2. *Age:* (open question)
3. *Monthly income:* Answer: less than 500 AZN, between 500-1000 AZN, between 1000-1500 AZN, between 1500-2000 AZN and more than 2000 AZN (multiple choice)
4. *If your income increases, the products that you are going to refuse to purchase:* (open question)
5. *Which products are you going to purchase even if the price of the products increases:* (open question)
6. *On what condition are you going to purchase them:* (open question)
7. *When was the last time you made an effort to do so:* (open question)
8. *What were those products:* (open question)

Survey results:

- In survey participated 100 people out of which 24 men and 76 women.

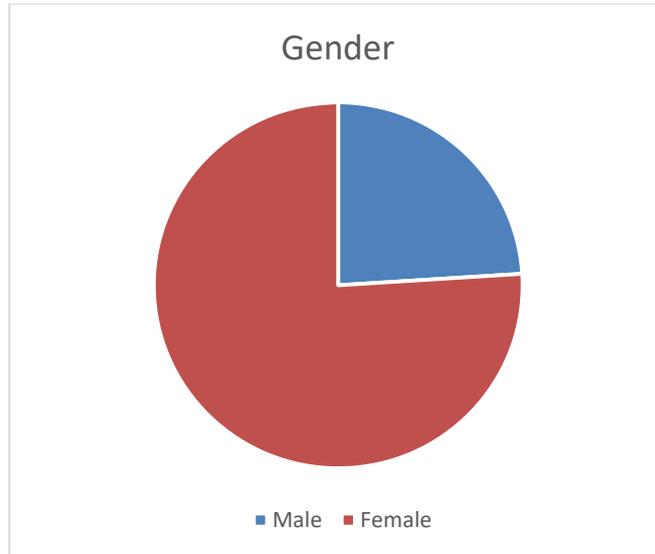


Figure 4. Gender

- Age was between 18 and 60. Average age of participants was 24.
- There was 5 possible choices of monthly income. The following chart shows how many times these answers were given:

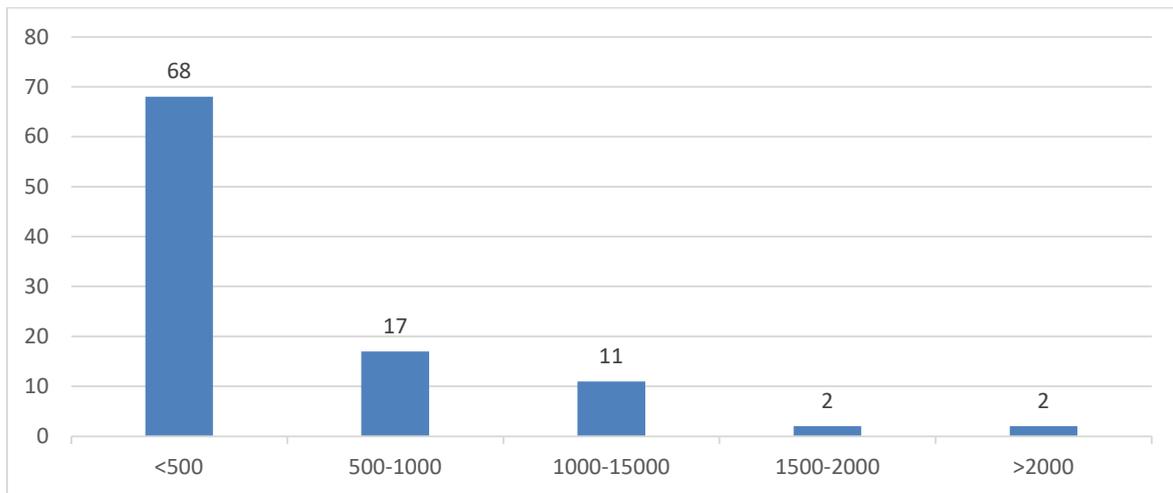


Figure 5. Monthly income

- When your income increases, the products that people are going to refuse to purchase. The following chart shows how many times these answers were given:

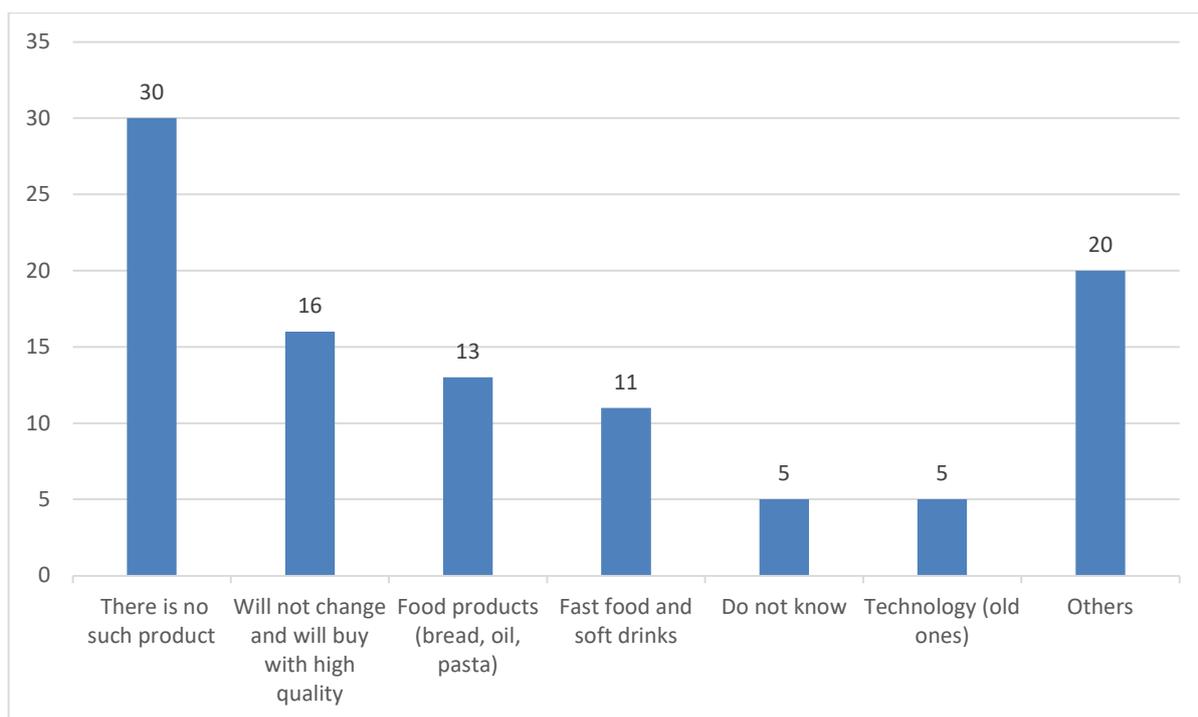


Figure 6. Answers for products which people are going to refuse

- Which products are people going to purchase even if the price of the products increases. The following chart shows how many times these answers were given:

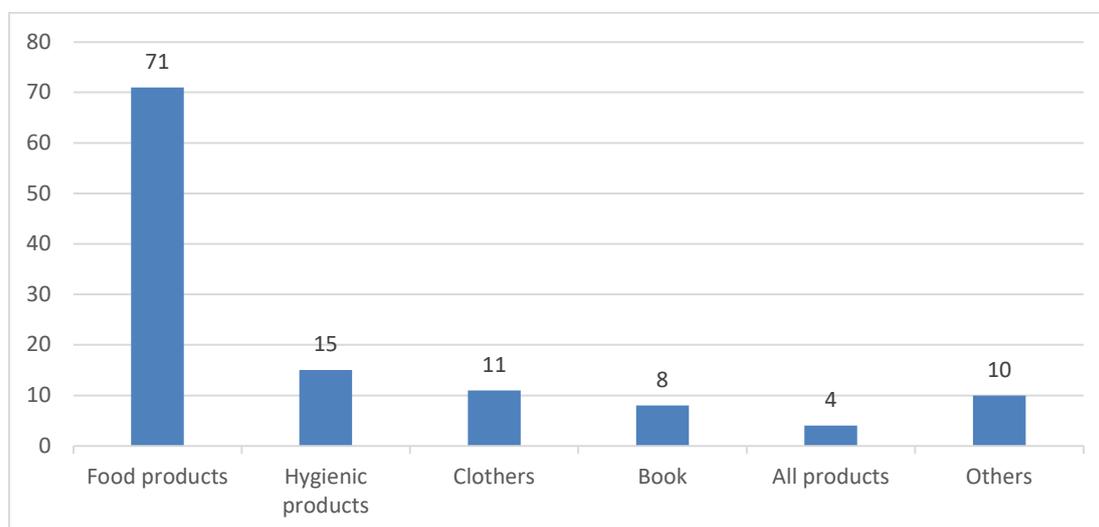
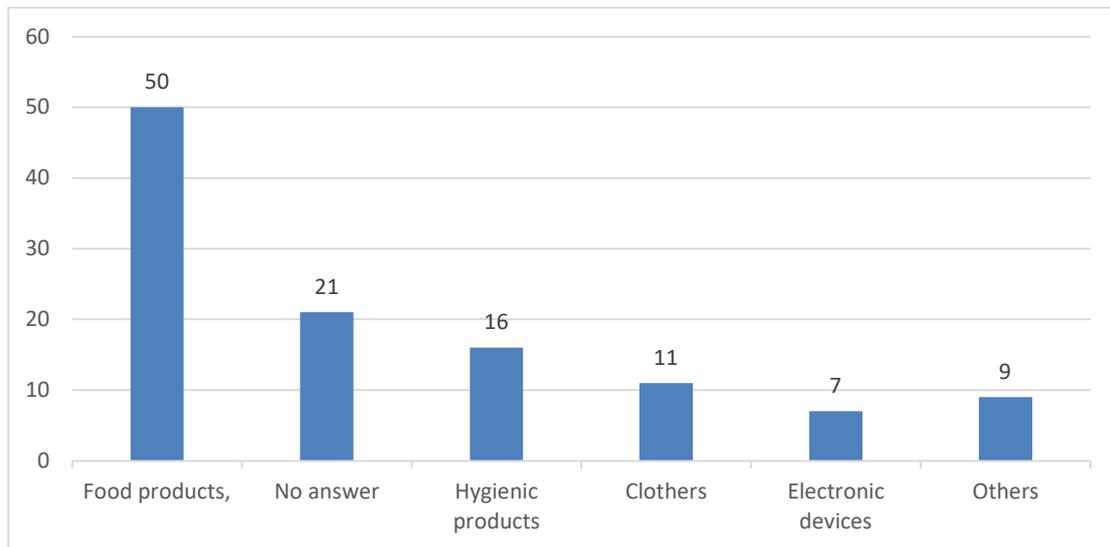


Figure 7. Products which people are going to purchase

- The answers for the question in what situation people answered same. Majority of people answered in all situations and/or always.
- The answers for the question last time you made an effort to do so were so different. But when we summarise approximately half of participant answered

with specific time (like during last one month or 2 July) and others did not answered/did not remember.

- What were those products? The following chart shows how many times these answers were given:



.Figure 8. Products

Analysis

According to the age data, participants belong to the generation Millennials or Generation Y (1980-late 1990s). All giffen products are inferior, which means that when income rises, deman for them decrease. This was covered in the 4th question. From the survey it comes clear than 30% people will not refuse to purchase. Additionally, 16% of people will buy same products will high quality and 13% will refuse to buy some food products. One interesting about fast food and soft drinks, 11 people gave this answers. There is no doubt that, it is related with their income and for lunch for example they buy it, but in case of soft drink people might buy just water too which is more cheaper than them.

The question which was directly related with giffen goods was 5. From the answers to the survey it comes clear that people are going to buy food products (71 times), hygienic products (15 times) and clothers (11 times) mostly. This research was done during the pandemic COVID 19 (August 2020), which means probably from that reason some people answered book also. From the survey it is clear that participants

answered same to the last question. So, they bought also food products, hygienic products and clothes in the last time when they were supposed to do. (COVID-19, n.d.)

However, according to the official data the average monthly income in Azerbaijan in August 2020 was 720 AZN. But 68% of the participants answered that their income is less than that 500 AZN. Additionally, the minimum salary in Azerbaijan is 250 AZN (147 USD). But for 5th question even people who earn more than 500 answered food products. Hygienic and at the same time cosmetic products answers were given mainly by women.

Answers of men for 5 and 8 questions were so close in some cases. So, many male participants answered to the *Which products are people going to purchase even if the price of the products increases?* with clothes and electronics. This means that men are going to dress well if even prices will increase. Additionally, answers of technology products were so frequently given.

Mean, median, mode and standard deviation for the age was calculated. There were 100 participants in the survey. Minimum age among participants was 18 and maximum was 60.

Mean: 24.5; Median: 22; Mode: 20; Range: 42; Standard Deviation: 7.65

Azerbaijan market and customers

From the survey we see that when prices will increase people will go and buy food products. The idea is that, prices increase, demand stays stable or increase and what do companies can do to stay in the market and increase market share?

This question was given to the CPO (Chief Product Officer) of AzGranata MMC Rovshan Nadirov. AzGranata is juice and wine making facility which was founded in 2011. As a representative of the FMCG sector Mr. Rovshan shared his opinion about the result of the research and added ideas and suggestions.

According to his opinion, companies should not compete only in prices, price is so crucial, especially in FMCG. When company increases prices, at the same time should observe or research competitors as well. Competing only in prices can end with bankruptcy. What is important here is branding. If company does not trust to its branding, results can be so different than expected ones. When prices go up, company should do it step by step. As an example, first increase so less and check the reaction from customers, and if everything is ok, continue.

He also added that increase prices and expect from sales to be stable and increase is impossible. This means that before its company should invest in branding. There are 2 types of customers in FMCG:

- Markets who buy and sell to the final customers, which are our main customers.
- Final customer who consume product.

In case of 1st one, they should be loyal and even in case of price increases, should not give up from them. If the profit which market gets from them decreases, market might focus to the competitors. In case of 2nd customer, company should keep them with some campaigns like buy 10 product and additional 1 is free. In traditional markets sales managers in market can easily influence to customer and sell very quick, which means that relationship between retailer and producer should be good. Furthermore, if customer will know that even in case of price increases, he/she will get benefit from the product, they will continue buy.

From the answer of the CPO we can understand that the main thing is to build trust, good relationship with customers. In the following situations like price increase or hard economic situation it is the only thing that will increase your sales.

It is unquestionable that to survive for companies in 2020 is so hard. Each day in mass media we see news about bankrupted companies. Generally, small companies cannot survive, medium companies either survive (depends on sector) or are bought by big ones. For example, because of the pandemic crisis and financial problems Korean Air buys Asiana Airlines in November 2020. (Korean Air, 2020)

FMCG sector is changing, and nothing will be the same again. In case of shopping customers are more likely to continue to shop online and avoid physical contact in markets. During pandemic period in first and second wave (April and summer 2020) most of new companies were either logistic/delivery or some only food selling companies. As people stayed more at home, they began to eat healthier, which means this trend will continue in future also. People spent most time in social media and importance of influencers increased also. Even FMCG companies spent up 30% to 50% marketing budget to influencers.

V. Conclusion

Changing in prices has great effect to peoples' behaviour. That is key point to study for companies and researchers. The conclusion of this study can be these following ideas: as we know in the year (2020) all world is suffering from the pandemic COVID-19 and it has directly impact people's behaviour in all places including markets. The way how people think, choose, like and order change. Now, customers are more stressful, flexible in shopping, which means even small change in prices can be the reason to give up from brands. From company view, starting from today all companies should focus on customer satisfaction and be more careful. So, customer's bargaining power is more and more high than ever. Limitations of the article is that this research was done during pandemic and answers can be directly related with it. This article recommended for marketing students and researchers who are interested in the customer decisions, behaviour, Engel's law and for those who research about the effects of price changes on customers' choices.

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