The Non-durable Consumption Expenditure Decision-making Process: Lessons from the Australian Experience

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In recent years, the Indian economy has undergone a number of reforms, resulting in a more market-oriented economy. These reforms have also seen the emergence of a growing middle class with a high disposable income. This increased prosperity has led to increases in demand for both durable and non-durable consumer items. This paper by Tolar/Hyland, and O'Mara reports upon a study of Australian consumers that is designed to provide manufacturers, retailers, and distributors of non-durable goods and services with an insight into what information influences consumers to purchase these items. In doing so, the paper also reports upon India's developing consumer markets. The results of the survey are then applied to the Indian experience with a view to presenting Indian managers with an insight into what determinants consumers take into consideration when purchasing non-durable goods and services.

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Consumer behaviour in India is related to cultural conditions, location, source of income, and education. Despite a relatively low per capita income, there is in India a vast market for durable goods such as radios, televisions, electronics, and personal transport. At the same time as this market is growing, the market for non-durable goods is growing even more dramatically. The changes in consumer behaviour have been facilitated by government policies aimed at deregulating the economy. The economic reforms which started in 1991 have resulted in the easing of supply constraints and increases in consumer demand. With ongoing market deregulation and economic reforms, more and more foreign companies are entering the market and supplying a new and diverse range of consumer goods. With the increase in choice, Indian consumers are now simply not choosing on the basis of price alone. They are becoming more discriminating in their purchasing behaviour and this has serious implications for Indian manufacturers, suppliers, wholesalers, and retailers. As more foreign brands have entered the market, they have rapidly gained acceptance and increased the need for domestic brands to not only meet consumer needs but to gain and hold consumer's attention. As economic reforms alter the traditional market structures, Indian businesses need to learn from existing markets that have undergone similar patterns of deregulation. Australia, for example, initiated similar economic reforms to those currently being implemented in India during 1984; however, unlike India, the Australian reforms have had time to impact in the consumer market. This paper reports on a study of consumer behaviour in Australia and examines what information consumers use when deciding to purchase non-durable goods and services.

Towards a Market Economy

The 1990s have seen India undergo rapid progress towards a market economy, insofar as its government has taken positive steps to reduce the level of self-

'A good is deemed to be a non-durable "...if its life is less than one year" (Jackson, McIver, and McConnel 1994, p 111). Such items include, for example, food and clothing.
imposed distortions and open its economy to the pressures of international competition. In the previous four decades, India had pursued a policy of self-sufficiency and protected its domestic industry behind substantial tariff barriers which ran as high as 150 per cent. At the beginning of this decade, however, a combination of events forced the government to adopt a policy of radical liberalization. These included the collapse of the Soviet bloc, the Persian Gulf crisis, and an IMP-encouraged austerity programme.

Indian reforms have followed those of other deregulating economies and strong similarities exist at the macro level with the Australian experience. The range of measures pursued by the Australian government in the 1980s included trade and exchange rate reforms, foreign investment reforms, industrial reforms, public sector reforms, tax reforms, banking system reforms, and capital market reforms. Similarly, in India, since June 1991, the government has introduced public sector reform, heavy tariff reductions, a floating of the rupee, and an overhaul of the financial system. All these measures represent a move away from a planned economy by the provision of an infrastructure which supports an efficient market economy.

These changes will impact on all sectors of the Indian economy. Whilst Indian consumers will be the principal beneficiaries, benefiting from a greater range of goods and services, the manufacturing, retail, and wholesale sectors will face substantial challenges. All sectors can expect to face competition from a diverse range of foreign imports in both non-durable and durable goods. Recent tariff reductions have been targeted to boost domestic manufacturing and export capability. In particular, customs duty has been eliminated on machinery acquired with a view to producing for export. In the retail sector, competition among substitute products and the expanding choice available to consumers has encouraged substantial investment in retail outlets. Organizations not normally associated with retailing have been heavy contributors to the growth of 'convenience stores.'

In the different sectors of its economy, the pace of change will vary depending on the impact of regulation, the rate of infrastructure investment, the rate of direct sectoral investment, and foreign competition. In viewing the progress of Australia's liberalization policy, the Hilmer Report (1991) saw the task of reform as urgent and recommended a broad policy approach rather than one which was specifically tailored to each sector. The Indian government also appears to be following an uneven approach to liberalization, particularly in the area of foreign investment. Firms will, therefore, need to keep a close eye on the policy decisions of government at the national and state level.

How liberalization policies will impact at the micro level presents uncertainty and opportunity for Indian manufacturers and retailers. Das (1996) has commented that successful firms will have the capabilities to diagnose the signals of deregulation at an early stage and, at the same time, be capable of neutralizing the possibility of any adverse impacts. One way that the managers of firms can interpret the likely impacts of liberalization policies on their firms is to learn from the experience of overseas firms which have faced similar conditions. Rather than ignore what has happened in deregulated economies, smart executives can learn from the experience of others. Additionally, they can benefit from research which has been carried out on the changing nature of business in those economies.

In Australia, as in India, the manufacturing sector benefited most from protectionism and was able to develop despite in-built inefficiencies in many industries. These inefficiencies became exposed by the emerging economies of South-East Asia following deregulation. As a result, the manufacturing sector has received a great deal of attention both in India and Australia within the context of deregulated world trade. But the Indian market is also a huge consumer market and it is in that market that the greatest degree of competition is likely to be encountered. The regime which encouraged self-sufficiency no longer exists and one way for domestic manufacturers and retailers to respond to foreign competition is to form partnerships and relationships rather than pursuing adversarial policies (Short, 1997).

De Boer and Pell (1993) have identified several factors which would allow prospective competitors to succeed in gaining a foothold in India's potentially lucrative consumer market. In particular, they identify the ability to make informed decisions about which products to sell and a sound understanding of market conditions and requirements. The latter include market entry strategies, selection of regions on which to focus, identification of distribution channels, packaging, and being able to resolve issues relating to market entry. For existing Indian-owned firms, these market conditions are well known and a wide array of strategic responses to foreign competition are being pursued. One of the areas of greatest uncertainty, however, lies in the response of consumers to a rapidly expanding choice of non-durable consumer goods and services.
An understanding of the factors affecting consumer purchasing decisions would be invaluable in such a changing environment.

India's Retail Revolution
The traditional kirana still dominates the market place in India for non-durable grocery lines and will continue to do so for the foreseeable future. However, gradual changes are taking place. The first change is the emergence of what Andersen Consulting (1996) calls the clean kiranas. These stores are well-lit, have well organized shelves, and provide shoppers with more opportunities to see and handle merchandise. They are managed by a younger person, usually the son or relative of the original owner, and through better organization, marketing, good visibility, and inventory management provide better sales and returns. Kiranas have lower operating costs than supermarkets; according to Ghosh (1997), kiranas' operating costs are 3-4 per cent of sales whereas those of supermarkets are currently 13-15 per cent of sales. Supermarkets will have difficulty competing with kiranas on price. With the changes that are taking place in the Indian economy, however, consumers no longer shop on the basis of price alone and many consumers are looking for a shopping experience rather than simply buying everyday goods at the local kirana.

The evidence available suggests that India is poised for a retail revolution. According to Kaneja (1996), in the next decade, the retail market will undergo significant changes due in part to increasing per capita income, the availability of a wider range of products, exposure to an international lifestyle and brands of products and the increasing influence of the media which in India as elsewhere is exploding. A CII-McKinsey report, according to Ghosh (1997), maintains that by the year 2005 there will be over 2000 modern restaurant chain outlets and 1000 grocery chain stores throughout India. Although these chain stores will not be as large as supermarkets in Australia and the United States, these small and medium size stores will be able to compete with the kiranas through centralized large scale purchasing, improved procurement systems, and creating new markets.

The changes taking place in retailing have been recognized by many major players in the retail industry. With the increase in economic reform, overseas companies are taking an interest in what is happening. At the small to medium end of the market, companies such as Coca Cola and Shell have entered the convenience store segment of the market. Shell has linked up with Bharat Petroleum and Coca Cola with Indian Oil Corporation to develop convenience stores at petrol stations. At the large end, several joint ventures and partnerships have been established to open supermarket chains throughout India. Banaras IGA South Asia Limited has joined forces with International Grocers Alliance (IGA) to establish India's largest supermarket in Hyderabad and plans to establish a similar store in Lucknow. Similarly, Goetze (India) has opened several supermarkets in India in conjunction with the Nanz Gruppe of Germany and Marsh supermarkets of the United States. Other companies that see a future in supermarkets are Spencer & Co which has entered into an agreement with the Hong Kong based Dairy Farm International to develop a chain of stores called Foodworld. Foodworld intends to establish three outlets in Chennai (Madras) and Bangalore and plans to expand this to 50 outlets. The stores are targeted at middle class households and if successful will expand to Hyderabad and Calcutta.

One of India’s biggest private sector business groups, Tata Industries, has, according to McDonald (1996), formed a strategic alliance with the Singaporean based Jardine Matheson. Jardine Matheson has moved its operations from Hong Kong and is looking for opportunities for expansion in other parts of Asia. The alliance of Jardines and Tata is looking at infrastructure development such as townships, airports, and supermarkets. They are also looking at opportunities to integrate their supermarkets with manufacturing and distribution networks. For other players to remain competitive in a market that could be dominated by these larger alliances, they need to gain a competitive advantage. Executives need to gain an insight into what customers needs will be in the future and how they can best market their products. To understand their customers' needs and expectations, they must be aware of what information customers use in deciding how much and why they will purchase non-durable commodities.

Methodology
Prior to providing an overview of the methodology that was employed in this study, it is imperative that we clarify what we mean by a non-durable good. As defined above, a good is non-durable "...if its life is less than one year" (Jackson, McIver, and McConnell, 1994). In practice, however, the distinction between a durable and a non-durable good is not so apparent. In particular, clothing and footwear present a problem, in that clothing is durable enough to be worn for more than one season and hence more than one year. If consumers allow fashion to dictate, then clothing and

That is for more than one summer or winter.
footwear can be rendered obsolete prior to the arrival of the next season, thus depicting them as non-durable in nature. The reality of the situation may lie somewhere between the two extremes. Following Bernanke (1985) and Gan and Soon (1994), we classify consumption expenditure on clothing and footwear as non-durable purchase.

To understand what information consumers employ in deciding how much of their total income is to be spent on non-durable goods, we conducted a survey that presents respondents with a number of fixed alternatives (as suggested by the literature as being important considerations). (A copy of the questionnaire is available from the authors on request.) In total, the respondents were presented with 13 variables: total income; after tax income; expected after tax income; after tax income less financial obligations (Net Inc.-Fin. Ob.); inflation rate; unemployment rate; interest rates; the level of economic activity; expectations of future economic conditions (Expect.); available credit (Credit); availability of jobs; expected salary bonuses, tax refunds or other winnings, and previous purchases (Prev. Pchs.). Each respondent was permitted to choose and nominate multiple variables they considered to be important considerations when deciding to purchase non-durables. In addition to the aforementioned variables, the respondents were provided with the opportunity to suggest additional variables they considered as important. Some of the additional variables nominated by the respondents included: need, price, quality, value for money (Value), country of origin (C of O), and brand.

The questionnaire was primarily designed to determine what economic and non-economic information is utilized by consumers when deciding to purchase non-durable goods. The survey results also provide us with an indication as to what are the major sources of this information.

Prior to its implementation, the questionnaire was pilot-tested. The pilot study was based upon a number of informal interviews that allowed respondents to have any difficulties explained, while simultaneously suggesting improvements that would allow for easier administration of the survey. Following Zikmund (1994), a sample size of 100 respondents was chosen. The questionnaire was then administered over a three week period. These respondents were chosen using a systematic sampling technique.

The Australian Evidence

In order to maximize sales and increase market share, it is imperative that manufacturers understand what information is employed by consumers when deciding to purchase goods and services and more importantly, what information has influenced consumers not to purchase a good or service. It is only from possessing such an understanding of the non-durable expenditure decision-making process that manufacturers and retailers will be in a position to influence these expenditure decisions. The results from our survey of Australian consumers are presented below.

Initially our respondents were presented with four macroeconomic variables which have been suggested by the literature to influence the level of expenditure on non-durables (see Keynes, 1936, Tolar, 1995). In short, it is argued that the level of GDP, interest rates, unemployment, and inflation have either a direct or indirect effect upon the level of disposable household income and hence the level of expenditure upon non-durables (Figure 1).

![Figure 1: Number of Respondents that Considered the CPI, Unemployment, Interest Rates, and the Level of GDP when Purchasing Non-durables](image)

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Figure 1 reveals that despite the importance economists place upon these four variables as determinants of expenditure on non-durable goods and services, our respondents have largely ignored these variables when deciding to purchase non-durables. This then raises the question: What information do consumers employ when buying non-durables?

The results presented in Figure 2 suggest that Australian consumers most frequently consider what they had purchased previously when deciding to spend on non-durables. This occurrence has two possible explanations. First, the respondents take stock of what non-durables they have currently in their possession prior to purchasing more. Second, consumers follow established patterns of habit when making non-durable purchases (see Veblen, 1972; Lavoie, 1992 and 1994; Tolar, 1995).

Further analysis of the results appears to suggest that the variable 'brand' corresponds very closely to that of 'previous purchases.' That is, in forming non-durable purchases based upon habitual behaviour, consumers search for products or items that they are familiar with. One way to identify products whose qualities are known to the consumer is via brand recognition. Under such decision-making conditions it becomes imperative for manufacturer and retailer to establish recognizable and reputable brand names or outlets.

The second most frequently considered variable by respondents when purchasing non-durables was 'need.' (This occurrence adds empirical evidence to Drakopoulos' [1990] and Lavoie's [1992, 1994] assertion that need is an important determinant in the non-durable consumption expenditure decision-making process.) Once this outcome is coupled with the most frequently considered variable (previous purchases), it would appear that consumers employ some form of inventory stock model when deciding upon which non-durables to purchase. That is, after taking into consideration what has been previously purchased (and consumed over the subsequent period), the respondents are then in a position to determine what non-durables are required to be replaced or are needed. When employed this way the variable 'need' represents not only a measure of what variables are required to be purchased (on a stock flow basis) but also appears to act as an additional source of information in the decision-making process.

From a manufacturing and retail perspective, our results may appear on the surface to be somewhat pessimistic, in the sense that it may take some time for advertising and marketing campaigns to influence the non-durable decision-making process. Examination of Figure 3 reveals that, of the respondents who nominated previous purchases as an important consideration when spending on non-durables, over 70 per cent of respondents considered a timeframe of a fortnight and over 80 per cent of respondents had a one month timeframe in mind. From informal suggestions by the respondents, it would appear that these timeframes are closely associated with the frequency of receipt of salary.

Our results, therefore, suggest that, even with the most effective advertising and marketing campaigns, there will be some lag before expenditure upon advertising and marketing results in increased sales.

It is also important for manufacturers and retailers to be aware that a consumer's need for a product is not just the result of an item they no longer possess. Need or demand for goods and services can be created,
Figure 3: Period of Time Considered by Respondents who Nominated Previous Purchases as Important when Buying Non-durables

The responses obtained from our survey indicate that consumers consider brand recognition and reputation when purchasing non-durables. This, in turn, appears to suggest that brand loyalty plays a part in determining which non-durables are purchased. This then raises the question: How is brand loyalty established? From Figure 2, we note that 'price,' 'quality/ and Value for money' are all important influences upon a consumer's expenditure decision. It would appear that manufacturers and retailers who are capable of consistently supplying products that are price competitive and of an acceptable quality will be on the path to establishing brand loyalty.

It would also appear from our results that an important strategy for manufacturers and retailers is to establish the correct balance between quality and price. Although both variables are important, they should combine to produce a product or service that offers the consumer Value for money. That is, it would appear that consumers wish to obtain the highest quality non-durables they can, while paying as little a premium for the additional quality as possible.

The establishment of brand loyalty or reputation has another side, in that a good reputation is just as important a determinant for consumers as a poor reputation is in deciding which non-durables to purchase. It is more difficult to overturn a reputation of providing poor quality goods and services than it is to establish a good reputation.

The third most frequently considered variable by our respondents was 'disposable income.' Without the means to purchase goods or services, irrespective of how much a product is needed, the purchase cannot be made. That is, unless a line of credit is made available. From a policy perspective, it is imperative that if the expansion in the demand for non-durables is to be maintained and even expanded, the government must implement policies that will result in the continued increase in the disposable income received by the country's population. This expansion in demand for non-durables can be further enlarged if government also institutes capital markets capable of providing credit facilities. This in turn can be further supplemented through the provision of store credit accounts, cards, and facilities. By way of comment, it would appear that Australian consumers' manner of expenditure on non-durables is determined by past behaviour given a number of constraints imposed by current financial factors.

Closely related to the variable current disposable income is expected future income. The expectations of future income will be largely influenced by both current and expected future macroeconomic conditions, which should translate directly into the individual consumer's job and income security. The better these expectations are, the higher the likelihood that consumers will allocate more of their current income on non-durables or purchase these items with credit, knowing they have the ability to repay the debt.

Figure 2 also reveals that a small proportion of
respondents nominated a product's 'country of origin' as an important consideration in the non-durable decision-making process. There are two possible explanations as to why consumers may consider this variable. The first is that, in choosing a product that is made domestically, consumers believe that they are supporting the local manufacturing industry, which in turn increases domestic aggregate demand, employment opportunities, and improves a nation's trade balance. This way of thinking is quite common in developed nations (such as Australia) where governments and business organizations have spent considerable sums of money in promoting local products through advertising campaigns. Second, consumers purchase domestic items (or avoid some countries' produce) because their quality standards are unknown or perceived to be inferior to the local product. This argument is raised quite often in relation to food products, where consumers are concerned about the hygiene standards imposed by some countries during the manufacturing process. Likewise, a product may be chosen on the basis that it is manufactured in a country that has a reputation for producing goods of the highest quality. There is also a perception that goods that are foreign are more exotic than the domestic product and hence are also more desirable.

Before concluding, it is worth noting the sources of information employed by the respondents when deciding to purchase non-durables. From Figure 4 we can see that most of the information used by the respondents was a result of occurrences they had observed. Although this variable appears difficult to quantify, it seems that when deciding to purchase non-durables, the respondents relied heavily upon information that had been collected through the experience of purchasing non-durables. That is, as a consequence of purchasing goods and services, consumers have learned what information was important to them and what information could be ignored when attempting to purchase. In addition to this very subjective source of information, it would appear that consumers rely equally upon government announcements (which are reported in the media) and the media for the other main sources of information.

These results suggest that Australian consumers largely ignore macroeconomic data when making the decision to purchase non-durable goods and services, preferring to rely upon past purchasing behaviour within current financial constraints. As consumers become wealthier and better educated, they no longer choose products on the basis of price alone, insisting that their purchases also deliver value for money.

**Lessons for India**

As the Indian economy develops and expands, more players will enter the market and threaten the viability of existing domestic manufacturers and retailers. The effect of this increased competition will mean that for existing businesses to survive they must develop strategies and tactics that enable them to meet consumers' needs. To do this they must understand how consumers make purchasing decisions. Consumers cannot be treated as a single homogenous group, particularly in a market the size of India's, which is increasingly being segmented on the basis of different levels of disposable household income. In particular, India's middle class is rapidly developing characteristics that are similar to the Australian market, which over time will produce consumers who will have similar although not identical spending patterns to many Australian consumers. Over the last three

![Figure 4: Most Frequently Consulted Sources of Information](image)
decades, Australians have abandoned the comer store in favour of the supermarket which eventually offered cheaper prices, longer shopping hours, and a vast choice of products. Like Australia, India has started the journey towards retailing that will see supermarkets become the outlet of choice over traditional kiranas.

As the Indian market matures, so will the techniques employed by Indian consumers when deciding what non-durable goods and services to purchase. In order for Indian manufacturers and suppliers to maintain and expand their domestic market share they will be required to acquire an understanding as to how consumers make these decisions and what are the key influences in decision-making. Suppliers who are complacent and fail to adapt to these changing market conditions will find their products replaced by those produced by more aggressive multinational companies.

Recent overseas entrants into the Indian market are at present increasing their advertising in an effort to attract more consumers. Indian companies need to realize that marketing campaigns are essential in attracting and maintaining consumers' interest and brand loyalty. As consumers' disposable incomes increase and they gain greater access to credit facilities, they will become less price sensitive and purchase non-durable commodities on the basis of perceived value for money. The strategies which have proven effective in developed economies such as Australia include the promotion of brand recognition and the use of "Australian made" as a marketing tool. Both of these strategies require extensive advertising campaigns in the media that ensure that the products are easily and regularly identified by consumers so that purchasing them becomes a habit. In order to gain a high level of brand recognition amongst consumers, suppliers must be prepared to invest heavily in advertising in a wide range of media including print, radio, and television. Initially, these costs will have to be borne by suppliers; however, consumers (over time) will become both willing and capable of bearing the additional costs associated with consuming branded products.

Successful Australian brands such as Uncle Toby's, Arnotts, Rosella and Fosters serve as excellent examples for Indian suppliers who want to compete with overseas manufacturers on the basis of an established brand name with a reputation of offering their customers a product that represents both quality and value for money. If Indian suppliers choose to emulate successful strategies employed by these Australian suppliers, they will need to adopt similar marketing strategies. One such strategy would be to develop brand recognition of non-durable goods manufactured in India using a logo that clearly identifies products that are produced in India. In a competitive market, consumers can be convinced to purchase locally made goods if they are of a quality that is equivalent to the imported equivalent. For a "Made in India" marketing strategy to succeed, Indian manufacturers need to be seen by consumers as producing quality products that meet customers' needs and price requirements. Once these conditions are satisfied, manufacturers in partnership with the emerging new retail sector will need to develop brand recognition and then maintain that brand in consumers' minds. By undertaking extensive media and marketing campaigns, manufacturers and retailers will ensure that consumers develop the habit of purchasing high profile, quality brands made in India.

From a manufacturing and retailing perspective, it would appear that a repetitive demand or need for products can be created by producing goods and services that are high in quality and competitively priced. This approach can be complemented by devising an advertising campaign designed to create a perceived need for the product or service being presented. As the Indian economy further develops and educational standards increase, it is anticipated that similar trends will emerge, resulting in a growing demand for high quality non-durable goods and services that are competitively priced. References


