

## IMPACT OF COVID-19 ON CONSUMER BEHAVIOR – CASE OF ALBANIA

*Pregledni članak*

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**Abstract:** Covid-19 pandemic had a tremendous impact on everyone life. The governments worldwide declared the state of emergency and took drastic measures to prevent the spread of the virus. These restrictions impacted the overall economy; the lockdown caused many companies to either stop or reduce production of goods. Foreign and domestic investments decreased sharply and the fall of remittances affected consumption as well. Companies worldwide faced hardship in paying their liabilities and loans. The lockdown had also an enormous effect on tax revenues, therefore, affecting government expenditure. The unprecedented changes have affected consumer behavior and the tendency of individuals to save instead of consuming. In this paper, we investigate the impact of Covid 19 on consumer behavior in Albania by using questionnaire analysis methodology.

**Keywords:** consumer, saving, consumer behavior, Covid 19.

### 1. Introduction

Covid-19 pandemic had a tremendous impact on everyone's life. The governments worldwide declared the state of emergency and took drastic measures to prevent the spread of the virus. These restrictions impacted the overall economy; the lockdown caused many companies to either stop or reduce production of goods. Foreign and domestic investments decreased sharply and the fall of remittances affected the consumption as well. Companies worldwide faced hardship in paying their liabilities and loans. The lockdown had also an enormous effect on tax revenues therefore affecting government expenditure. The unprecedented changes have affected consumer behavior and the tendency of individuals to save instead of consuming.

In March 2020, Albania faced a massive shut down forced by the government in collaboration with World Health Organization. As Albania was still suffering the consequences of the 2019 earthquake, the shutdown exacerbated even more the economic situation. Data published by the Albanian Institute of Statistics indicate that because of the shutdown there was a loss of 34,000 jobs and the unemployment rate reached the rate of 12.5% in 2020. The GDP decreased by 6.6% in the first half of 2020 compared to the first half of 2019.

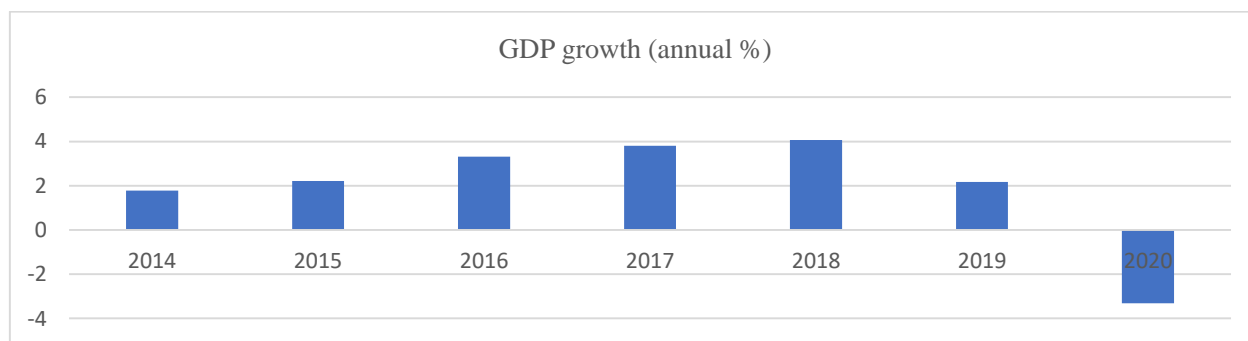


Figure 1–GDP Growth (Source: World Bank)

The industry of tourism, which makes the 20% of Albania’s GDP, because of the lockdown and the closed borders was one of the most affected by the pandemic. According to INSTAT in July 2020, the number of foreign tourists was decreased by 61.5% compared to last year.



Figure 2 – Number of tourists over years (Source: INSTAT)

According to IMF the recession following the Covid-19 pandemic was driven by a contraction in investment, private and public consumption, and a 35% drop in exports.

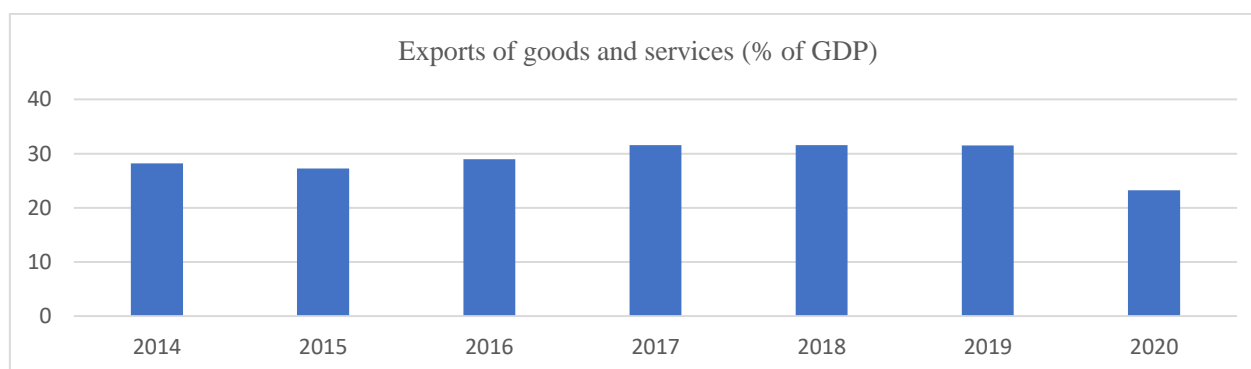


Figure 3 – Exports of goods and services (Source: World Bank)

A new normal was set to place and the population had to adapt with the measures. Our generation had never experienced this kind of situation so we were caught off guard. Due to the Covid-19 pandemic, the retail sector went through a big conceptual change. As the government restrictions took place in our everyday activities, many retail shops had to close down without knowing the opening dates.

Albanian Investment Council has organized a survey study in the framework of Covid -19. This study indicates that during the lock down 47% of the businesses stopped their operations, 42% of them partly reduced their activity and only 11% continued the activity normally.

Another survey conducted by World Bank concludes that 77% of companies operating in Albania has adjusted their operations in response to the crisis but, despite recent strong process in digitalization, moving towards online activity or remote work has been relatively difficult. Meanwhile, 18% percent of companies reported starting or increasing online business activity.

Many retail stores in Albania were not ready to adapt with this new ‘normal’ way of doing business and had to make changes in their everyday operations. Retail stores like Conad, SPAR, Jumbo and so forth, launched their online platforms months after the shut down status. This created an increase of the demand for their products and services.

The Retail industry plays a significant role in the overall gross domestic product (GDP) and is crucial as per the employment rates. This situation caused uncertainty for all the retail industry. Despite the massive change, there was still need for market products. To keep the operations going and to fulfill the customer's request for products, companies had to embrace the technology and launch online shops/apps. The digital transformation encouraged customers to shift from the brick-and-mortar stores and led these stores to gradually shut down and shift to e-commerce due to the change in the customer way of behaving (Verhoef, Kannan, & Inman, 2015). Customer behavior is a psychological part that refers to the customers' personalities and their way of purchasing (Barmola & Srivastava, 2010).

In this study we aim to investigate the impact of Covid-19 on consumer behavior, their perception regarding the future and also how their financial situation has conditioned their consumer behavior during the lockdown.

## 2. Literature Review

Covid -19 pandemic has an enormous impact in every aspect of our life. Since the beginning of the pandemic there are many studies that investigate the impact of Covid -19 in our life. There has been a great interest in studying the impact of Covid-19 on consumer behavior. During the lockdown we have been witnessing of how people were buying goods and food to storage them because they were fearing that due to the situation there will be shortage in the supply of the goods. After the euphoria passed, people were no longer trying to storage food, nevertheless they started to become conscious about the possible financial problems they could face. Moreover, the treatment of Covid-19 was very expensive, thus the uncertainty perception was growing.

Leland (1968) investigates how uncertainty affects savings. The study indicates that saving is a positive function of the uncertainty. Guiso, Jappelli, & Terlizzese (1992) in their study suggest that beside earning uncertainty, other important determinants of wealth accumulation are other risks such as health and mortality. Masayuki (2017) has provided an empirical evidence by using a survey of 10,000 individuals. The findings of the study indicate that individuals that have uncertainty about the future, tend to increase their saving and this effect is even more prominent for low-income individuals.

Xiaotong, et al., (2021) investigate whether public health emergencies affects the consumers' willingness of saving instead of spending, in China. The authors find that there are three factors that affects the consumer willingness for saving. First, the severity of emergencies has a significant positive impact on consumer willingness to save. Second, risk perception has a reconciling role between severity of emergencies and willingness to save. Last, materialism has a diminishing role between risk perception and willingness to save. Their findings suggest that spending behavior during public health emergencies can be stimulated by reducing risk perception and by increasing materialism.

Belbag (2021) has investigated the consumer behavior in Turkey during the pandemic by analyzing the data of a survey. The author concludes that the external factors that have mostly impacted the consumer behavior are economic downturn, partial lockdown regulations, restrictions on some services, and social media messages. Those factors have stimulated feeling such as fear and boredom, and the level of perceived risk, which have a direct impact on consumer behavior. Also, Moretti, et al., (2021) suggest that consumers are different from each other regarding the perceived risk, the role of beliefs and consequently they demonstrate different consumer behavior.

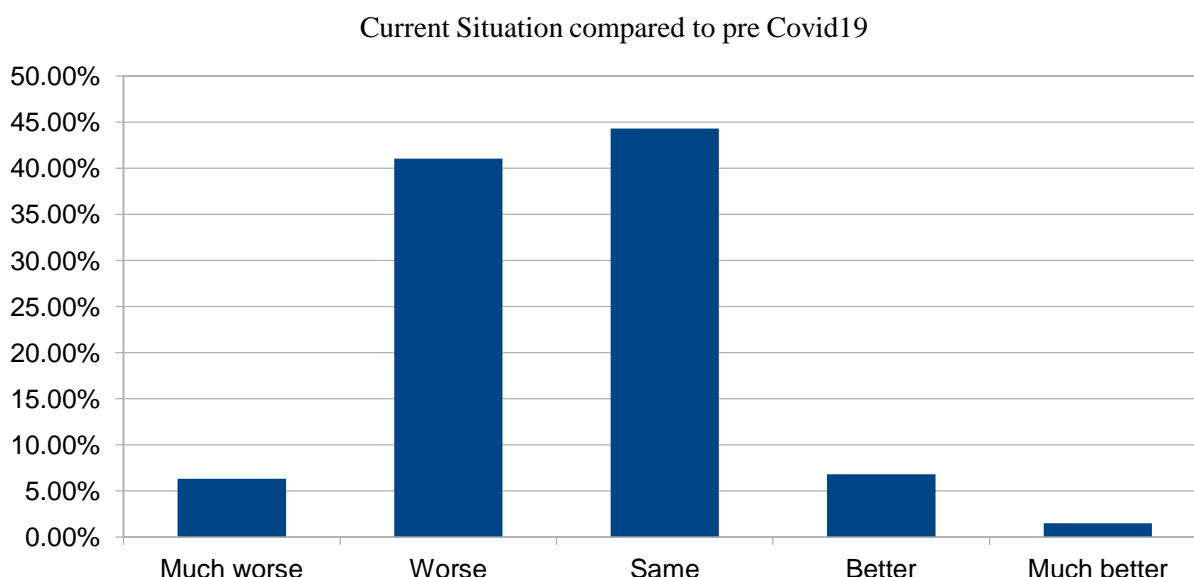
(Vazquez, et al., (2021) have conducted a very comprehensive study by including 55 countries to investigate the impact of Covid -19 on consumer purchasing motivation and behavior. The findings of their study indicate that because of the pandemic many changes took place in consumer behavior, and most of the changes were motivated by consumer perception of the crisis than the crisis effects. Monitor Deloitte has conducted a very significant study regarding the impact of Covid-19 on short and medium term consumer behavior in Germany. The study suggests that there are five main directions in which Covid -19 has impacted consumer behavior. First, increasing trend of online and digital shopping; second, increasing demand for local goods, services and accommodation; third, movement from out of home consumption to in home consumption by impacting industries such as events and sports; forth, increasing usage of delivery services and the fifth, consumers are not ready to give up privacy to fully use digital services.

### 3. Methodology

We use primary data collected by surveys to investigate the impact of Covid-19 on consumer behavior and their perception about the future financial situation. The whole methodology is based on quantitative and qualitative analysis of the surveys. The survey contains 10 questions and it is shared online through Google Forms.

Respondents are households in Tirana. The sample is 381 surveys while according to Institute of Statistics the number of households in Tirana is 691,869. Respondents were asked about their financial situation, the expectation about their financial situation in the future, the uncertainty because of Covid-19, the consumption, investment decisions, the business line they are working and so forth.

We start our analysis by showing a distribution of how the participants responded to the main question “How do you compare your current situation to pre Covid-19”?



*Figure 4 - How the participants compare current situation to pre Covid-19*

Then we double-click on each of the above categories and look in four other dimensions:

- How do the participants envision the future (going from much worse to much better)?

- How did they survive Covid-19 financially (No loans, took loans, dipped into savings)?
- Main expenses during Covid-19 pandemic times
- Which line of business the family “bread winner” is employed

We start with the first category, the participants that were more negatively impacted by the pandemic (category “Much Worse” on table 1).

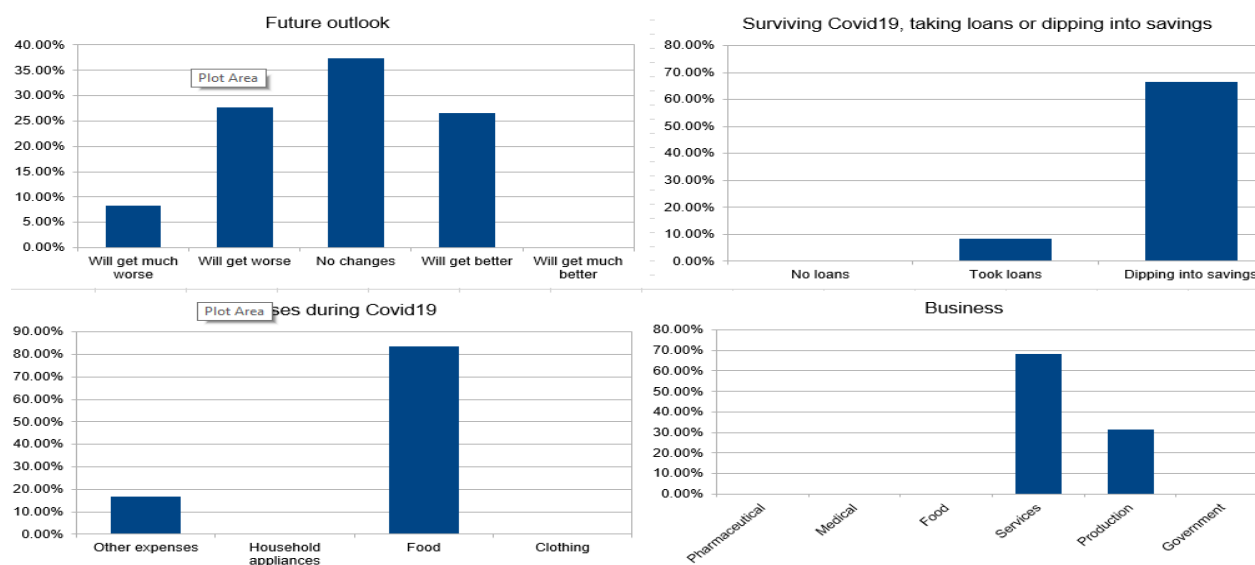


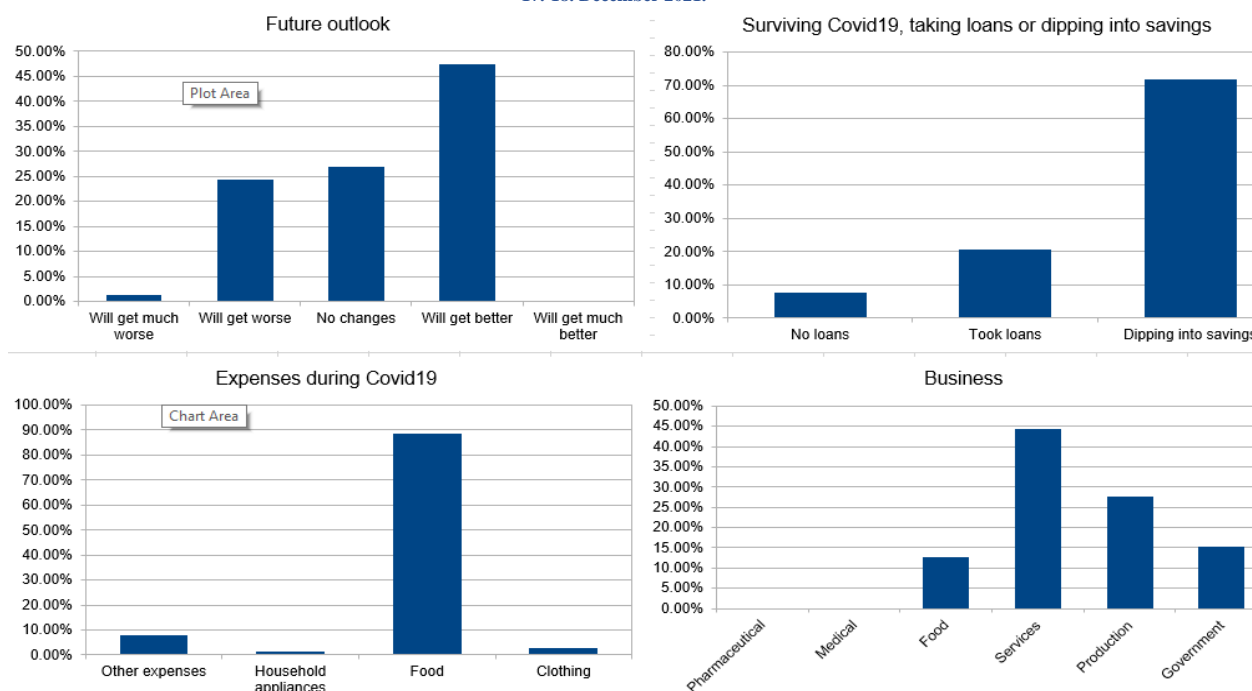
Figure 5 - Participants from “Much Worse” category views

Things that stand out in this category are the following:

- There is still a large percentage of this group that believes things can go worse.
- They had to dip into their savings or taking loans to survive.
- They mainly spent their money on food.
- The categories more negatively impacted were services and production.

Then we continue with the second category, the participants that were somewhat negatively impacted by the pandemic (category “Worse” on table 1).





*Figure 6 - Participants from “Worse” category views*

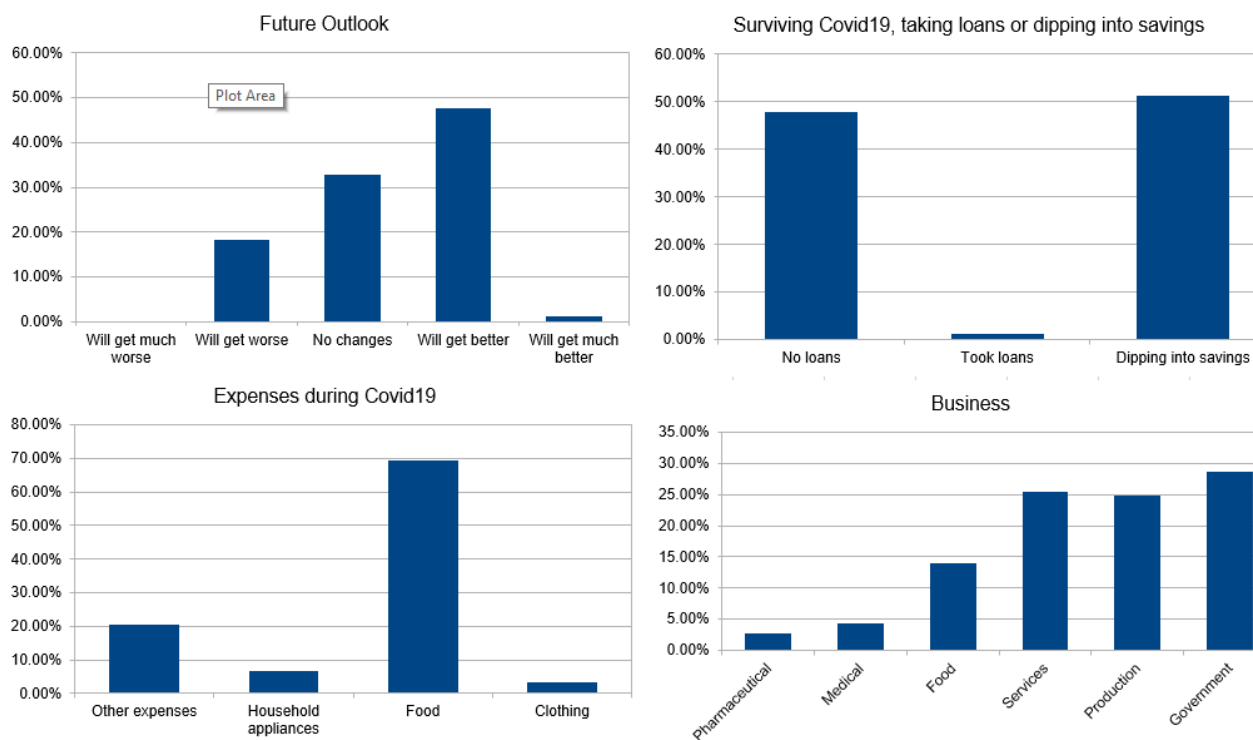
Things that stand out in this category are the following:

- There is more optimism that things will get better in the future.
- They had to dip into their savings or taking loans to survive but still some did not.
- They mainly spent their money on food.
- The categories more negatively impacted were services and production but to some degree food and government.

Then we continue with the third category, the participants that were not impacted by the pandemic (category “No Changes” on table 1).

Things that stand out in this category are the following:

- There is more optimism that things will get better in the future.
- Around half of the participants had to dip into their savings but no loans.
- They mainly spent their money on food.
- We see that all the business categories were part of this group.

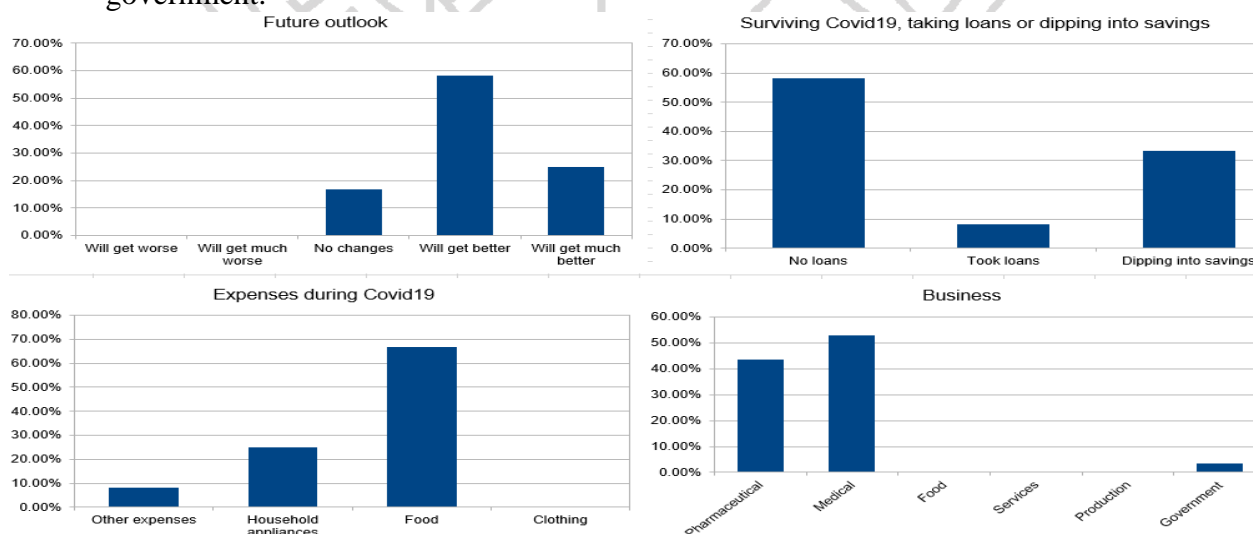


*Figure 7 - Participants from “No Change” category views*

Then we continue with the fourth category, the participants that were somewhat positively impacted by the pandemic (category “Better” on table 1).

Things that stand out in this category are the following:

- There is more optimism that things will get better in the future.
- More than half of the participants did not take any loans.
- They mainly spent was more diversified.
- There are three business categories: pharmaceutical, medical and to a lesser degree government.



*Figure 8 - Participants from “Better” category views*

Our last category includes the participants that were positively impacted by the pandemic (category “Much Better” on table 1).

Things that stand out in this category are the following:

- There is more optimism that things will get better in the future.
- More than 90% of the participants did not take any loans.
- Their mainly expense was more diversified; food was a small component
- The only categories benefiting from Covid-19 are pharmaceutical and medical

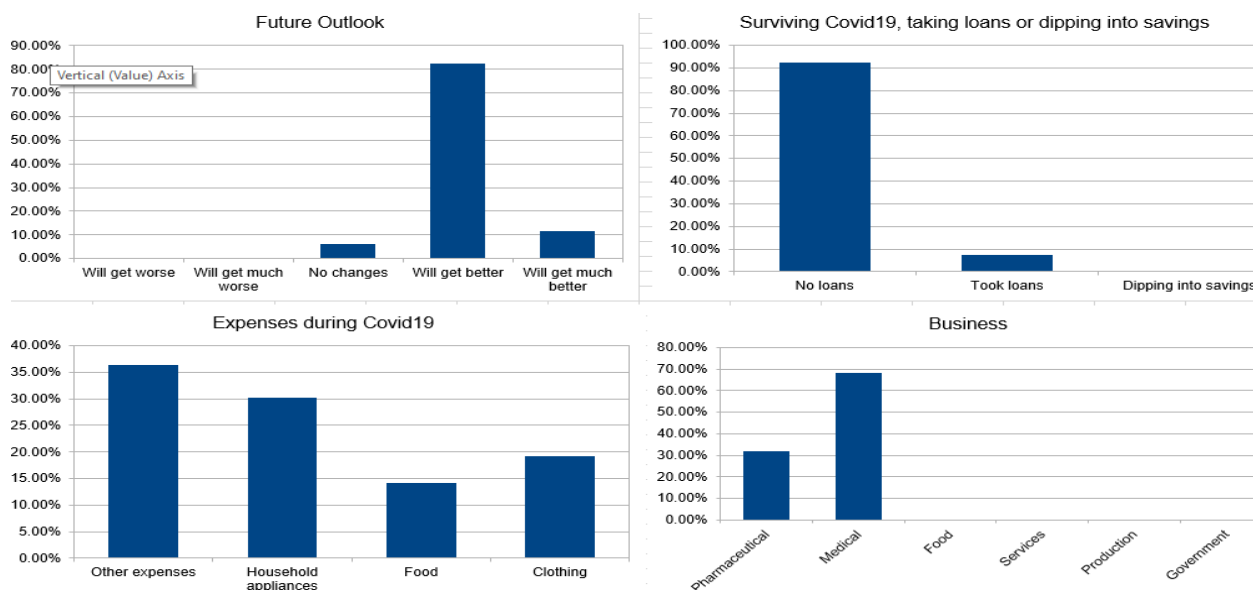


Figure 9 - Participants from “Much Better” category views

## Conclusions

First and foremost, the chief factor on the Covid-19 impact in Albania is the business category in which the 'bread winner' of the household was employed. In addition, the impact of Covid-19 on Albanian consumers is demonstrated on how they have spent their money during the pandemic times, people being negatively impacted spent it more on food just for survival while the positively impacted were able to diversify their spending. Another effect was also on the amount of people who took loans or dug deep in their savings to "storm the weather". Last but not least, the consumers that were the most negatively impacted by Covid-19 are the ones that see the future very gloomy while the positively impacted are more confident, optimistic and see a bright future ahead of them. We were able to demonstrate through the analysis of the survey data that all the behavior during the pandemic (impact of bank accounts, pending) and future outlook is directly related to the industry in which the 'bread winner' of the household was employed; the best sectors were pharmaceutical and medical while the ones that suffered the most were the services and production.

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