FACTORS INFLUENCING THE PURCHASE BEHAVIOURTOWARDS CONSUMER GOODS DURING THE GLOBAL OIL CRISIS IN OMAN

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ABSTRACT

This research has focused on understanding the factors that influence, Omani consumers' purchase behaviour towards consumer goods under the global oil crisis driven scenario. The literature review helped the researcher to identify product, price, place, promotion, socio-cultural factor, value perception and price consciousness as the variables that may affect the consumer purchase behaviour towards consumer goods. The possible influence of these factors on consumer purchase behaviour were tested through nine hypotheses, using structural equation modelling technique, on the data collected through reliability and validity tested questionnaire, among the samples identified through cluster sampling method, within the target population consisted of individuals between 15 to 64 years of age. The research found 'product' to exert major influence on consumers' purchase behaviour towards consumer goods followed by price, place and promotional elements. The study also found socio-cultural factor to play a mediating role on the relationship between price and consumer purchase behaviour, apart from its direct influence on consumer purchase behaviour. Value perception was also found to influence the consumer purchase behaviour, while playing mediatory role on the relationship between consumer purchase behaviour and marketing mix elements price and promotion. This study has also found price consciousness to play moderating role on the relationship between consumer purchase behaviour and marketing mix elements price, place and promotion. This study adds immense value and variety to the existing literature with focused, country specific information, while supporting the business organizations in reviewing and improving their marketing effort. This research findings could also support the retail industry by providing focused information about the factors that influence consumers' purchase behaviour towards consumer goods. This study also extends its contribution towards

policy development by providing useful inputs to the local authorities to understand the factors that influence consumer purchase behaviour and redefine their strategies to improve consumer spending, while guiding future researchers, as these findings could be used as a point of reference for future studies.

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Philosophy

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DECLARATION

I hereby declare that the thesis submitted in fulfilment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and / or exclusion from the award of the degree.

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LIST OF SYMBOLS / ABBREVATIONS

COO	-	Country of Origin
p	-	Value of significance
r	-	Coefficient of Correlation
r^2/ R^2	-	Coefficient of Determination
UAE	-	United Arab Emirates
GCC	-	Gulf Cooperation Council
NCSI	-	National Centre for Statistics and Information

CHAPTER 1

INTRODUCTION

Consumer purchase behaviour refers to the consumer's way of responding to a product or brand. As per the observations of Walter and Paul (1970), "It is the process whereby individuals decide whether, what, where, how and from whom to purchase goods and services". It also focuses on the consumer's emotional, mental and behavioural responses that precede, such purchase decisions. Organizations that market products and services either take the time to study consumers' purchase behaviour themselves or use the research results already available in the public domain. As consumers are the kings of marketplace, understanding their purchase behaviour and the factors that influence such patterns of consumption will definitely help the organization to work towards influencing their purchase decisions.

The purchase behaviour and the factors that influence such behaviour varies greatly among different product groups, communities and regions as well. The type of purchase behaviour displayed when purchasing a consumer product differs in terms of consumers' involvement and value for money. The purchase behaviour towards consumer goods (in terms of involvement and value placed on a product / brand) differ greatly among different communities, regions and countries located within the same geographical location as well. A classic display of such differences in purchase motivations could be witnessed within the Middle East region and even within GCC countries. Though the region is considered to be mostly homogenous in terms of culture, religion and the language spoken within the communities, the consumption patterns show considerable difference between these countries and communities. Consumers within GCC countries, though similar in terms of trade, culture, religion and language spoken, still display stark differences in their purchase

motivations and purchase behaviour.

Oman, displays significant differences in consumer sentiments, compared to the rest of the GCC countries. The type of purchase behaviour displayed by Omani consumers differ greatly from the rest of the GCC countries, due to their highly price sensitive nature driven by conservative approach towards purchases. Oman, being one of the countries badly affected by the global oil crises, is in the process of developing strategies to improve consumer spending and bring the economy back on track. Oman's economy used to be relatively stable (Nair, 2016), enjoying higher growth rate and budget surpluses supported primarily by higher oil prices (Fanack, 2018). This oil based financial fortune resulted in the government providing generous subsidies on multiple goods and services (Erlich, 2015). Such subsidies greatly improved the spending power of the final consumer. The disposable income of the consumers was further increased by the higher incentives and bonuses paid by organizations, due to their improved financial performance in the market (Siddhiqui, 2018). This resulted in consumers spending lavishly on a carefree manner on the purchase of products and services (Jones & Ridout, 2015). However, the global oil crisis and the resultant drop in the country's revenue, since 2014, have negatively influenced the economic conditions in the country (Fanack, 2018). This adverse economic environment resulted in the government deciding to restrict welfare spending to around 50% of its original value (Fanack, 2018). The drastic drop in oil prices in the global market, its impact on the country's economic foundations and the corrective actions taken by the government, (such as, austerity measures, cuts in welfare spending and subsidies etc.) seems to have played a huge role in developing a more conservative (Huq, 2017) price conscious mindset, among Omani consumers. The Middle-East Sentiment Survey (MESS) conducted by Mckinsey & Company

(TNS, 2018) has also supported these observations through its findings, which found nearly 78% of the consumers to be displaying conservative purchase approach with nearly 55% being price conscious during their purchases. This price conscious (The Report, 2014; D'auria, 2018; TNS, 2018) and value focused (The Report, 2014) approach has resulted in a market where the household expenditure is vastly dominated by need based spending on consumer products, particularly food, apparel and footwear. As the market for perishable products such as food tends to be stable in Oman, focusing on the clothing and footwear sector, and understanding the factors that influence consumer purchase behaviour towards consumer goods, and using the knowledge gathered to develop effective marketing decisions, could help Oman to achieve its goal of improving consumer spending and driving the economy towards positive and sustainable growth. This requires a detailed study focusing on the factors that influence consumer purchase behaviour towards consumer goods in the global oil crisis driven Oman.

While the studies of this nature can add immeasurable value to the existing literature through the addition of focused region related and country specific information on consumers' purchase behaviour towards consumer goods, they can also help organizations and government to understand the factors that influence Omani consumers' purchase behaviour towards consumer goods and devise strategies accordingly, to improve their market viability.

1.1 Research Background

The Consumer purchase behaviour differs considerably between different product groups. Consumers of the present era, in general, have greatly reduced the importance placed on loyalty-based purchases and focus on many other aspects related to the products and services while making their purchase decisions. This change of

preferences was driven by multiple factors both finance and non-finance related in nature, and needs to be considered seriously by the marketers, while working on their business models.

Product characteristics such as brand and image generally play a vital role in consumer decision making. Customers are proved to be more brand savvy, when motivated towards satisfying hedonic needs, mainly due to the hedonic value placed on the purchase activity and, when managed properly by meeting the diverse needs and treating each customer as a unique personality, these characteristics accrue significant value to their owners. But, it is questionable whether the same could be said with utmost confidence when the consumers are more price conscious with a value for money based approach towards purchases and motivated towards satisfying utilitarian needs, as the purchase orientations differ considerably based on the actual needs. The perception towards risk, the emphasis on subjective and experiential aspects also differs considerably among these consumer groups.

Most consumers go through similar mental processes during the decision-making process, but still end up buying different products or brands due to internal and external influences (Zhang, Aikman & Sun, 2010). The degree of rationality displayed also differ considerably among these consumers. Most products fail in their endeavour to be the most preferred due to the mismatch between supplier expectations and actual consumer purchase behaviour. As such bridging this gap needs a detailed study on the factors driving the purchase behaviour of the final consumer.

Middle East region has remained relatively calm for a long time as far as the competition is concerned, mainly due to certain restrictions and entry barriers imposed by the governing bodies of different countries. The restrictions enforced on

foreign businesses and foreign direct investments have resulted in many organizations looking for more profitable locations to expand their business ventures. But the unexpected drop in oil prices and its impact on the budgets of the respective countries have forced this whole region to rethink its strategy towards diversifying their earning options to improve consumer spending.

The Sultanate of Oman enjoyed a double-digit GDP growth rate before the oil crisis, which made it a very unique regional success story in the GCC. With a modest population of around 4.6 million (as per the 2017 census released by National Centre for Statistics and Information, Oman), the country displayed strong economic resilience through political stability and strong economic growth and stable exchange rate. The higher oil prices and the resultant prosperity has driven the country towards extensive state expenditure in the form of high subsidies and expanded public sector payrolls. But, the trend has taken a nose dive since 2015, where the fast dropping oil prices has sent the revenues plunging down by 30% resulting in a current account deficit of 14% of GDP for the first time in 2016 (Siddhique, 2018, p68). The unexpected situation unfolded in 2015 has made the government of Oman to understand that it is necessary to reshape its piously followed demand driven macroeconomic model to a more relevant austerity focused economic model. This resulted in Oman's state budget for 2017 taking a more austere approach through 11% spending cut on public utilities, around 20% reduction in energy subsidy to power sector, around 20% to 30% rise in fuel prices, job cuts, wage freezes slashed gratuities along with perks and bonuses to individuals being linked to productivity measures (Siddhique, 2018, p77). Despite these austerity measures being implemented, the budget deficit for 2017 remained high at 12% of projected GDP for the year 2017 (Schneider, 2016). This requires the country to adopt a more focused

and diversified approach towards revenue generation while continuing with its proposed measures to reduce its budget deficit (Siddiqui, 2018, p78).

Oman, as one of the countries worst affected by the oil crisis, within the GCC, is now in the process of shedding its traditional oil / gas dependent outlook, and moving into the new world by diversifying its earning options and focusing on the retail industry to enhance consumer spending. As a result of the drastic drop in oil prices and the adverse economic situation that followed, consumers in Oman have also changed their purchase approach towards price sensitiveness and has shifted their focus towards value for money-based purchases (Siddhique, 2018, p69). The adverse macro-economic situation was very much visible in the performance of consumer goods sector in Oman, where the growth has decelerated since 2014 and slumped by 18.2% in 2016. The trend continued in 2017 as well ("Oman's wholesale and retail sales", 2017). The negative economic outlook has resulted in decreased consumer confidence in the economy and hence reduced consumer spending. As the decrease in consumer spending could ultimately push the economy into recession, it is important for the governments and decision makers to find the ways and means to improve consumer spending.

The household income and expenditure survey results released by Oman's National Centre for Statistics and Information (NCSI, 2014) has identified, apparel and footwear sector as attracting the second largest chunk of the consumer spending in Oman; next to food products. As food products are perishable, and need based in nature with a stable demand, focusing on the apparel and footwear sector could be a useful option to improve/ increase consumer spending in Oman.

Only few studies have been carried out to date to capture and understand this change of preference and purchase behaviour in the Middle East region and

especially among GCC countries. But the number of studies done would become even lesser, if the focus is turned towards the consumers in Oman. This lack of research effort has created a huge gap on the availability of region specific and country specific literature related to consumer purchase motivations towards consumer products.

The situation begs for a detailed study of the Omani market, capturing both the consumer buying patterns and their purchase behaviour, especially for consumer goods with the special focus on apparel and footwear sector. A study of this nature will undoubtedly support the researcher in identifying the factors that influence consumers' purchase behaviour and develop focused literature related to the purchase behaviour of consumers in Oman, towards consumer goods and add value to the existing literature. On the other hand, the results would also help governments and the organisations to understand the purchase behaviour of the consumers towards the targeted area and sectors in Oman, along with the factors that influence such behaviour, and develop focused strategies, to improve consumer spending.

1.2   Statement of the Problem

Oman was a high-income economy before the oil crisis set in mid-2014 (Nair, 2016). The population, before the oil crisis, was supported greatly by the subsidies provided by the government and its very generous social spending (Erlich, 2015). The government initiatives related to public welfare, employment opportunities in the sector and unemployment allowance etc (Fromson & Simon, 2019), along with the higher income received by the employees due to higher oil prices, resulted in a worry-free spending approach from the Omani consumers (Jones & Ridout, 2015). However, the unexpected drop in oil prices and the resultant reduction in oil revenues since mid-2014 have exerted severe pressure on Omani economy (OCR, 2020). As

a direct result, Oman has experienced severe budget deficits that is equal to 21% of GDP in 2016, 12% of GDP in 2017, 8% in 2019 (OCR, 2020) reaching to around 20% of GDP in 2020 (FR, 2020). The low oil prices, reduced revenues and resultant budgetary constraints have forced Omani government to take remedial action in the form of austerity measures (Erlich, 2015). The oil crisis and resulted austerity measures in terms of reduction in subsidies, welfare spending and other incentives have greatly reduced the financial freedom enjoyed by the Omani consumers (OCR, 2020) and made them to alter their purchase approach. This has resulted in Omani consumers becoming more conservative in their purchase approach, thereby displaying a more price conscious (The Report, 2014; D'auria, 2018; TNS, 2018) and value focused (The Report, 2014) purchase behaviour. This makes it important to have detailed understanding of the factors that drive Omani consumers' purchase behaviour towards consumer goods in the current scenario.

1.3   Rationale of the Research

The economic situation in oil-dependent countries, especially the Middle East region, is going through a rough ride. Adverse terms of trade and unexpected drop in oil prices have substantially reduced oil-producing states' earnings and has compelled some of the 'once strong' economies to focus on austerity measures to overcome the situation. This issue has also forced many of these countries to decide on whether to wait for another boom in oil prices or venture into new avenues so that the nation could develop a sustainable economic platform without depending totally on their now volatile, prime product, oil.

Gulf Cooperation Council (GCC) states hold nearly 30% of the worlds proven oil reserves. These economics are still dependent on the hydrocarbon (Petroleum) sector as the major source of income, and hence, any drop in crude and gas prices

affects these countries very dearly. The impact of this unexpected situation was greatly felt in the GCC countries, where the growth is expected to remain weak and quite restrained, for a considerable period (IMF, 2016).

Oman along with Bahrain, is severely affected by the drop in oil prices, compared to the rest of GCC countries, due to their over dependence on hydrocarbons, and higher production cost of oil products. ("Oman's wholesale", 2017). The Sultanate of Oman has been affected even badly, due to its widest current account gaps. The situation has created a very bleak outlook for the near future with the growth rates moving in the negative direction. The outlook for Oman, is further aggravated by the lack of vast financial buffers, which could have supported the country to manage the situation for a sustained period of lower oil prices. Lack of strong macroeconomic fundamentals (such as diversification, solid financial buffers etc.) have made Oman highly vulnerable (Cornock, 2015) to the external shocks and forced the country to be more innovative in their business strategies, by reducing its dependence on one core product and focus on other sectors to generate the revenue required.

With this identified goal in mind, Oman is now focusing on diversifying its earning options to reduce its dependence on oil revenue, while focusing on rising the confidence, and powering the domestic demand by strong retail sales. Oman has identified consumer goods industry as one of the possible targets, along with hospitality industry to improve retail sales and increase customer spending (The Report, 2014). As mentioned earlier, apparel and footwear sector, within the consumer goods industry, attracts the second highest portion of the household expenditure on retail products, next to food products (NCSI, 2014). As food products are generally need based with a relatively stable demand, focusing on the factors that

influences consumer purchase behaviour towards apparel and footwear sector will help the organizations and the local authorities to work towards focusing on those factors to increase retail sales and improve consumer spending related to consumer goods. As such, this research focuses on gathering useful insights related to the purchase behaviour of consumers in Oman towards consumer goods, by focusing on apparel and footwear sector.

1.4 Justification for Research Focus

The consumer market in Oman differs greatly from the markets of the neighbouring GCC countries. Omani consumers are very much price sensitive and highly value driven compared to the rest of GCC population (Cornock, 2015). This point is also acknowledged by the household expenditure and income survey report, released in 2014 by the National Centre for Statistics and Information (NCSI, 2014), which identified apparel and footwear sector to be attracting the second highest household spending next to food products. As the market for perishable goods such as food, tends to be stable in Oman, growth in other consumer products could indicate real economic growth (Kotagama, 2016). As apparel and footwear sector, attracts the second largest share of purse, next to food, within the consumer goods category, focusing on this sector and identifying the factors that could influence the purchase behaviour of the consumers towards consumer goods, could provide immense support to both business organizations and local administrators in decision making and strategy development.

1.5 Research Question

This research attempts to answer the following questions.

a) What are the factors influencing the consumer purchase behaviour towards consumer goods, in Oman?