“Analysis of consumers` innovation efficiency: changes of the consumption patterns in the Ukrainian society over the last 25 years”

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ANALYSIS OF CONSUMERS' INNOVATION EFFICIENCY: CHANGES OF THE CONSUMPTION PATTERNS IN THE UKRAINIAN SOCIETY OVER THE LAST 25 YEARS

Abstract

This paper reviews the transformation of Ukrainian consumption patterns since 1991 and the impact this change had on Ukrainian consumers. The authors research the market forces and the influence those forces had on the consumer behavior. Also, the authors conclude that these market forces resulted in transforming consumer behavior and consumption patterns. In this paper presents a conceptual analysis of the possible choices of market models and the implications of the Ukrainian society. Scientific findings demonstrate that users in Ukraine often play the main role in the creation of new conceptual products. But at the same time, there is a paucity of literature on this problem. The authors report a very high level of novelty by these consumers. The outcomes also reveal that innovating users can be distinguished from some non-innovating ones. Finally, innovation by users can be a significant basis of new product thoughts and ideas for consumer goods companies.

Keywords innovation efficiency, consumption, consumer behavior, Ukrainian consumer, Ukrainian society

JEL Classification M31, O30, O35

INTRODUCTION

The United States and United Kingdom state surveys have recognized that millions of users spend millions of dollars per year in order to develop and improve goods and products for their own use (Hippel, Ogawa, & de Jong, 2011). It is true, as well, those producers spend millions of dollars to create products and goods for sale to users. Spending resources on low – efficiency innovation processes when superior ones are obtainable is wasteful. Producer, user, and innovation processes are identified to function in a different way (Hippel, 2005).

In fields of extensive interest, thousands of service or product users may be innovating together and may make minimum or no effort to manage their development activities. Users satisfy their own needs. From the other hand, producer innovates to sell to the user. Producer development activities are managed with the purpose of efficiently creating products that are normally valued, and that are more attractive than competitors offerings. Innovative product development activities may involve only a small number of developer employees. And one might speculate that user innovators might be a huge deal less efficient than producer innovators in creating generally-valued goods or products.

Clearly, empirical studies in this area are needed to realize these matters better. The author begins this research by analyzing changes in consumption patterns in the Ukrainian society since 1991 (over the last 25 years) and the impact this transformation had on Ukrainian consumers. The author researches the market forces and the influence those market forces had on the consumer behavior. Finally, the author concludes that the market forces present on the Ukrainian market resulted in transforming consumption patterns and consumer behavior. In this scientific research also presents a critical analysis of the implications of the Ukrainian society and the possible choices of market models. Also, the author finds that in this area, users tend to create early, and producers tend to go through later as innovation opportunities get "mined out".

This paper is structured as follows: Section 1 – Literature review; Section 2 – Conceptual Framework; Section 3 – Practical outcomes; and Conclusions.

1. LITERATURE REVIEW

1.1. Consumer behavior

Consumer behavior has been always of huge interest to economists. The understanding of consumer behavior helps the economists to realize how customers select their products and brands; think and feel, also how the consumers are impacted by the economic situation, environment, the reference groups, and family, etc. Consumer's buying behavior is influenced by cultural, social, economic, psychological, and personal factors. Most of these factors are out of control.

The consumer is the study "of the processes involved when individuals or groups select, purchase, use, or order of products, ideas, experiences, or services to satisfy needs and desires" (Solomon, 1995, p. 7).

In the economic context, "consumer" refers to patterns of total buying; post-purchase and pre-purchase activities have implications for repurchase and purchase (Foxall, 1987).

Engel et al. (1986) generated the term "consumer behavior" as "those acts of individuals directly involved in obtaining, using, and disposing of economic goods and services, including the decision processes that precede and determine these acts" (p. 5). Cheung et al. (2005) collected specific literature in order to categorize the contradictory and fragmented studies (published from 1994 until 2002; 351 papers), presenting an integrated framework of the motivating factors of consumer behavior. They thought that five factors clarify consumer behavior: individual characteristics; product or service characteristics; merchant; medium characteristics; and intermediaries characteristics.

The economists were the primary to dominate model constructing, in the context of buying behavior. Economic theory holds that purchasing decisions are the effect of mostly conscious and "rational" economic calculations.

Thus, every buyer wants to spend the income on those products that will bring the most satisfaction according to his relative prices and tastes. The background of this vision can be traced back to Adam Smith (1776).

Alfred Marshall (1890) generated the classical and neoclassical theory in economics, into a refined theoretical framework. His theoretical work was about simplification assumptions and examination the effects of changes in single variables (e.g., price) holding all additional variables constant. For example, Eva Muller (1954) wrote that only one-fourth of the consumers bought with any significant degree of deliberation. The Marshallian model ignores the main question of how brand and product preferences are created. Quite a few studies have recognized the impacts of price differentials on consumers` brand preferences; changes in product cues on demand variations; changes in price on demand sensitivity; and scarcity on consumer choice behavior amongst many others (Lewis et al., 1995).

Hirschman and Holbrook (1982) advocated that the purchase decision is a very small component in the constellation of proceedings involved in the

consumption experience. Holbrook (1987) suggested that consumer researchers have to expand their view to study "all facets of the value potentially provided when some living organism acquires, uses, or disposes of any product that might achieve a goal, fulfill a need, or satisfy a want" (p. 49).

Overall, it is argued that the scientific study of consumer behavior is rapidly growing as researchers identify and implement innovative transdisciplinary perspectives and techniques to recognize the nature of consumption behavior and purchase. This wider view attempts to research consumer behavior in the light of rapidly evolving values, lifestyles, priorities, and social contexts.

1.2. Innovation by users

Consumer product process is now known to be a most important activity among people acting alone and in joint groups. In recent times, three state surveys of delegate samples of users (over age 18) have discovered the scope and scale of product four originality activities inter users seeking to serve their own needs for modified, new and conceptual consumer goods and products. These national surveys found that millions of users jointly spend millions of dollars yearly modifying and developing consumer goods and products. In the United Kingdom, 6.1% of the population (2.9 million people) spend $5.2 billion per year on this activity. And in the United States, 5.2% of the US population (16 million people) spend $20.2 billion. For example, in Japan, 3.7% of the population (4.7 million people) spend $5.8 billion to modify and create user goods and products for their own use (Hippel et al., 2012). It is interesting fact that Franke and Shah (2003) found 32% of members of 4 specific sporting clubs in 4 'extreme' sports had created innovations for individual use. Related results in other sporting fields were illustrated by Lüthje et al. (2005) – mountain biking; Franke et al. (2006) and Tietz et al. (2005) – kitesurfing; and Raasch et al. (2008) – 'moth' boat sailing.

2. CONCEPTUAL FRAMEWORK

Changes in the consumption patterns in the Ukrainian society. Evaluation of economic indicators in Ukraine since 1991, demonstrate a nation performing well lower its potential. After the difficult transition of the 1990-s, it was an economic boom in the early 2000-s with growth rates of more than 7% (The National Bank of Ukraine, 2016). The shock of the 2008 global financial crisis showed the vulnerability of the economic model. GDP in Ukraine contracted by nearly 15% in 2009 (Figure 1 and Figure 2), for example, the OECD countries average was 3.7% (Figure 3) and was followed by a sluggish recovery (The State Statistics Service of Ukraine, 2016). The economy of Ukraine is very delicate and dependent on external support.

Since 1991 the market of consumer goods has undergone significant changes. Since the economy was gradually transforming from mostly planned to more market-driven model, the supply eventually became in equilibrium with the demand, in some sectors as a result of increasing the import of consumer goods.

Source: The World Bank (2016).

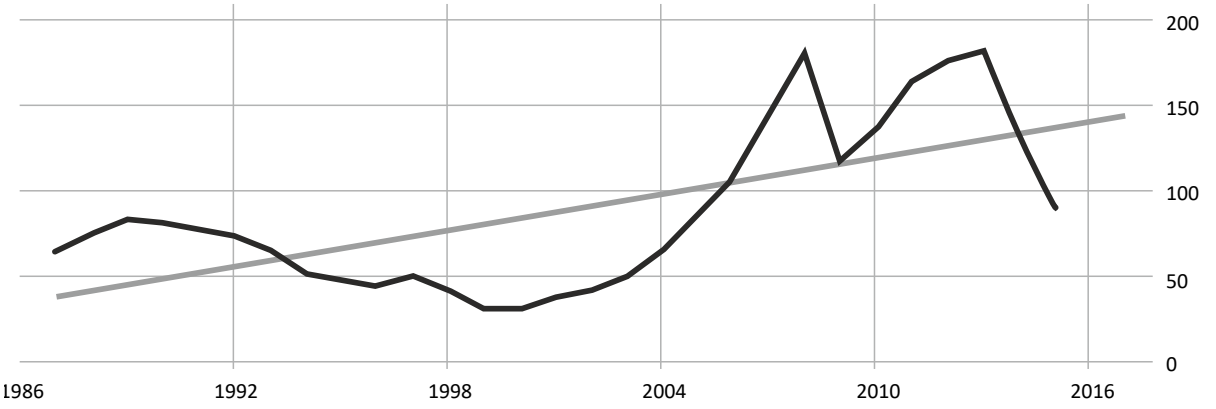

Figure 1. Ukraine's GDP, USD Billion

Source: The World Bank (2016).

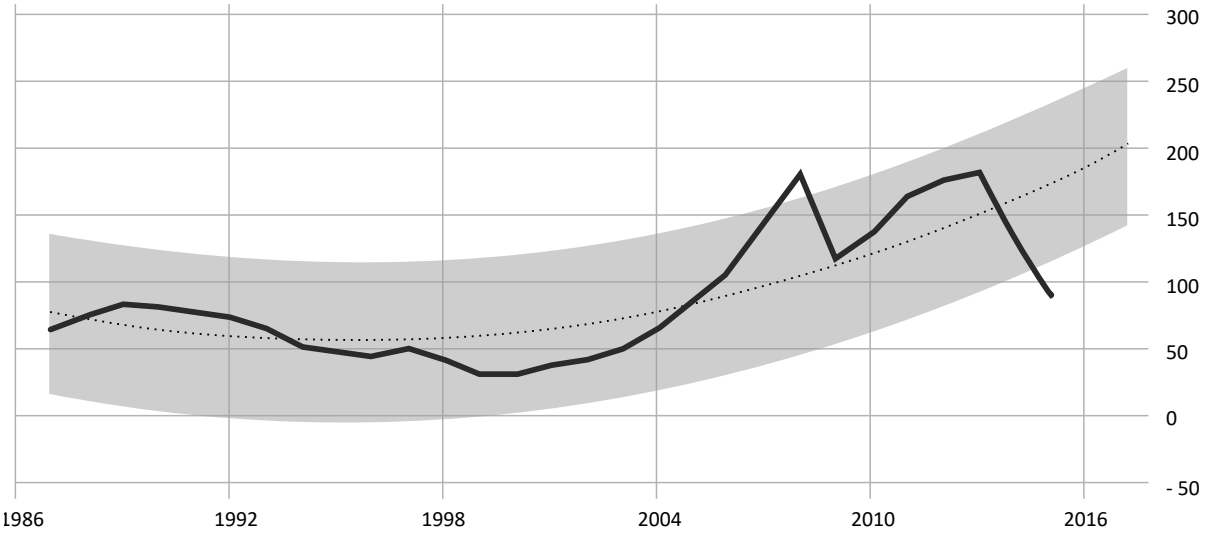

Figure 2. Ukraine's GDP (forecast), USD Billion

The market forces that influenced consumer behavior in the last 25 years were: increase in product choices increased consumers' feelings of happiness and satisfaction; when prices of the products started reflecting market forces, consumers became more efficient; high inflation rates correlated with the increase in consumption; development of market economy restructured social stratification.

After the crisis that started in 2013 the market forces were influenced by the decline of most economic indicators, such as the decrease in overall consumption as a response to political instability. As a result of the increasing variety and availability of products on the market, the adjusting processes in consumer behavior patterns continue to transform the Ukrainian consumer. Some of the responses and adjustments that consumers made during the last 25 years were: changing consumption basket; becoming more brand loyal; participating in the private economy; doing more comparative shopping; taking fewer risks; buying less; becoming more price conscious; increase in consumerism; consumerism correlates with the increase in supply and growing national output.

Ukraine wants to move further towards economic integration because it is the path to modernization. From the one hand, the early years of adaptation to deep and comprehensive free trade area could be complicated in a quite a few areas. This is not surprising because systemic transformations all the time lead to short-term losses for some. From the other hand, domestic con-

Source: World Development Indicators.

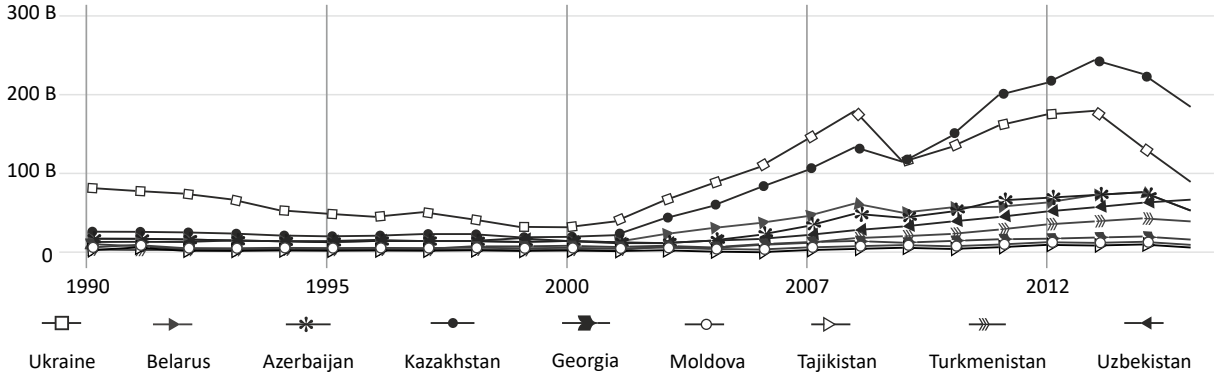

Figure 3. GDP of some countries, USD

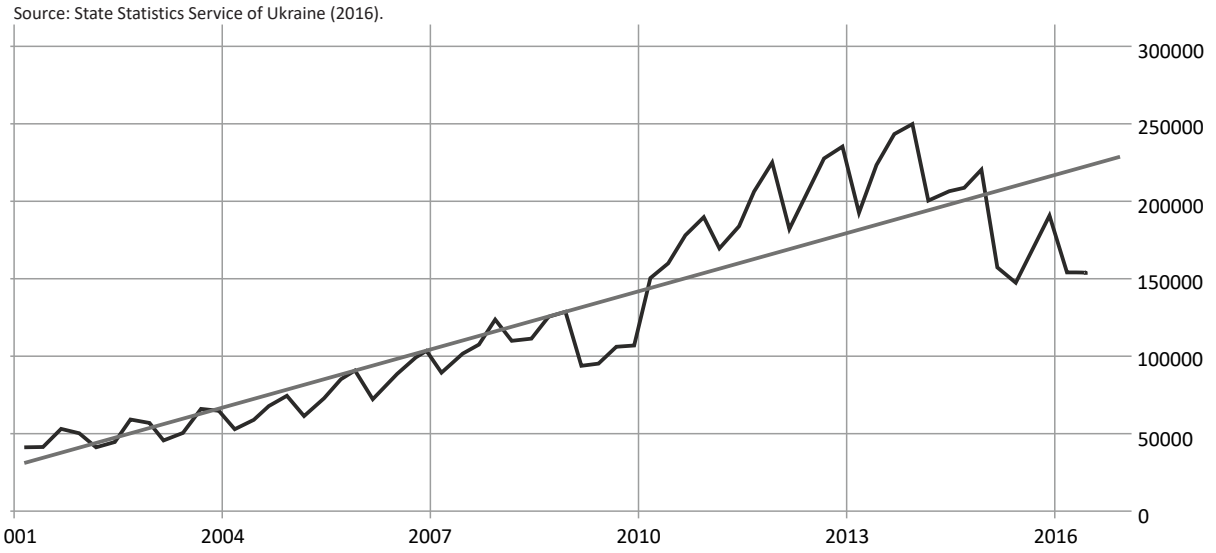

Figure 4. Ukraine Consumer Spending, UAH/million (2001–2016)

sumers, in turn, will have access to high-quality goods in Ukraine at lower prices. Furthermore, safety and better health standards will benefit Ukrainian consumers as they will be guaranteed of the hygiene and quality of the products on sale and reduce the risk of harm to all.

An additional impediment is that the political situation has to be taken into account. Ukraine became independent when the Soviet Union collapsed in 1991; it remained for the most part dependent on Russia in the ensuing decades. The "Orange Revolution" in 2004 promised new beginnings. However, the post-revolutionary government finally succumbed to scandals and infighting. Pro-Western protests turned into the "Maidan Revolution" in February, 2014.

Economic and political turbulence has exacerbated the economic concerns of the majority consumers and influenced them to keep on cutting back on their spending. The political changes correlated with changes towards developing market economy. These changes resulted in high inflation rates, increase in unemployment, decrease in social spending (Figure 4 and Figure 5). Increase in consumption (Figure 6 and Figure 7) up until 2013, and decrease until now.

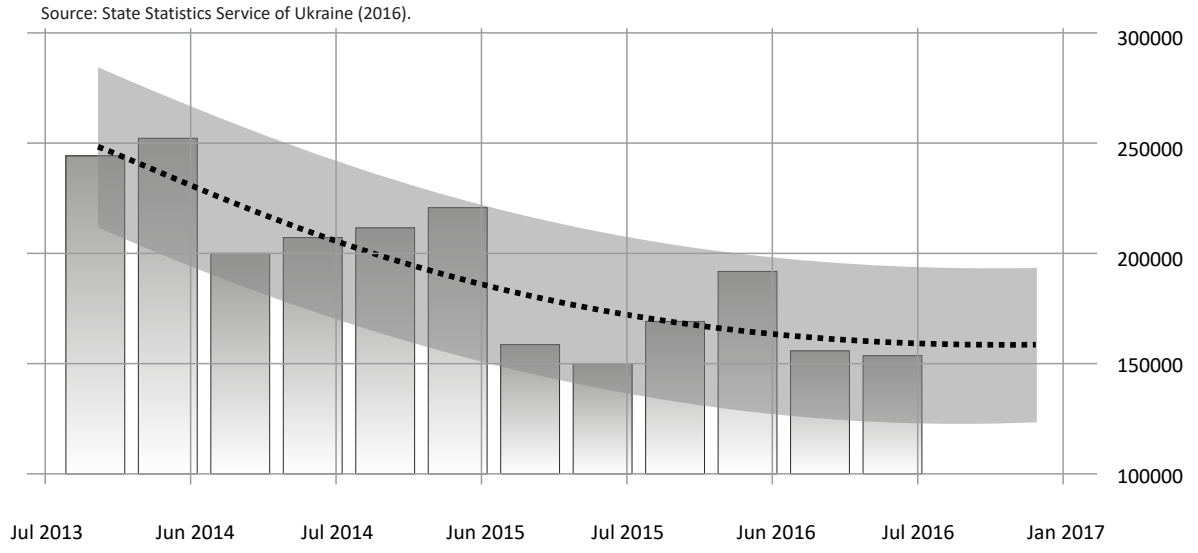

Figure 5. Ukraine Consumer Spending, UAH/million (2013–2016)

Source: State Statistics Service of Ukraine (2016).

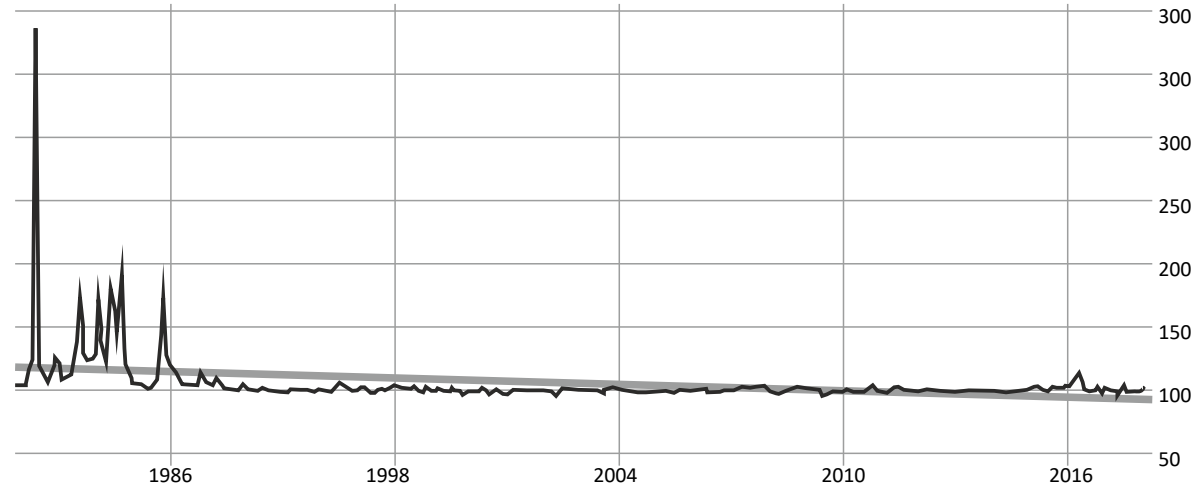

Figure 6. Ukraine Consumer Price Index (CPI), Index points (1991–2015)

The authors concluded that market forces that influenced consumer behavior: Product choice increases consumers feelings of happiness and satisfaction; When prices of the products started reflecting market forces, consumers became more efficient; High inflation rates correlated with increase in consumption; Consumer behavior reflects Maslow's hierarchy (Abraham Maslow, 1943) of needs; Development of market economy restructured social stratification; Market forces in 2004–2013; Further social stratification; Consumer behavior reflects Maslow's hierarchy of needs; Further Increase in product choices increases materialism and consumerism.

Also, the researchers identified market forces in 2013–2016: decrease in consumption as a response to political instability; further increase in materialism and consumerism; further growth of product choices.

3. PRACTICAL OWUTCOMES

Implications for society. Every day Ukrainian people reproduce, perform, and recreate numerous different practices. These important innovations are overlooked by the majority efficiency policy. Little issues are more vital to the suc-

Source: State Statistics Service of Ukraine (2016).

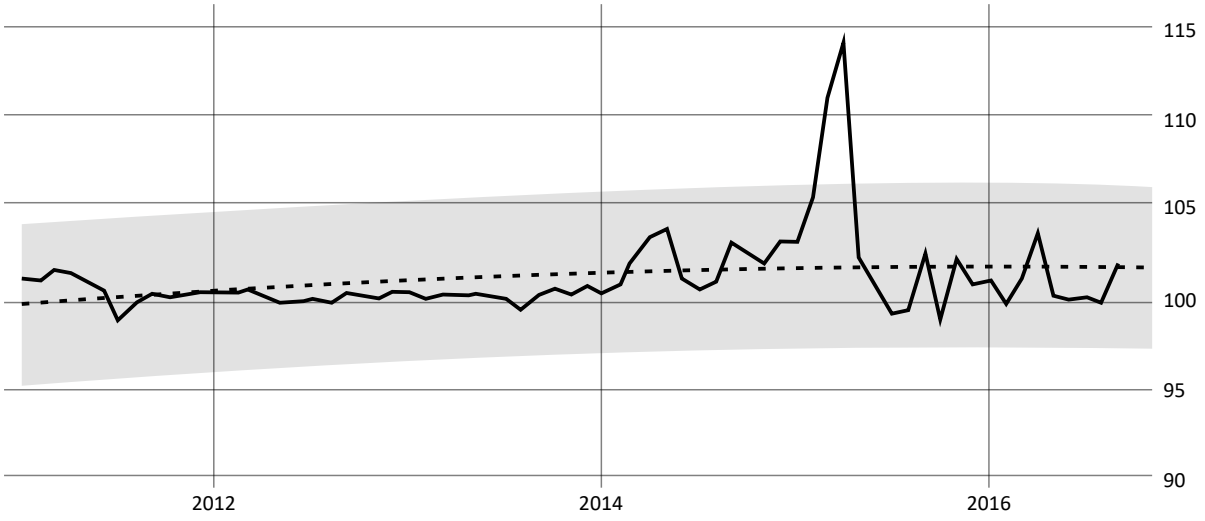

Figure 7. Ukraine Consumer Price Index (CPI), Index points (2011–2016)

cess of a firm than the expansion of innovative new conceptual products. Understanding the processes and situation and direct to the innovations has long been a center of marketing research.

An overall increase of product choices leads to the continuous growth of consumerism and materialism: the consumer's behavior correlates with Hierarchy of needs; the consumer behavior also reflects the correlates with the society individualism vs.

Table 1. Favorable factors

Effects on the society Increase in consumption continues to influence various segments of Ukrainian society. In this article we discuss five aspects of the changes in consumption. We argue that the increase in consumption affected economic, social, cultural, environmental spheres and that it fostered the Ukraine's progress of embracing globalization.	**Social sphere. Restructuring social stratification** The class boundaries are no longer centered around the relations to the means of production, but the consumption patterns and capacities create a new way of defining class differences. Spatial marginalization of the working class contributes and compliments the processes of economic marginalization (Ryabchuck, A., & Onyshchenko, N., 2012).
Globalization Increase in variety of the consumed goods correlates with increased exposure to globalization. Globalization has formed the ability to buy life changing products for consumers. It has provided the ability of having a lot of consumption alternatives at sensible prices. It has created changes in cultures and societies across the world.	**Cultural** The productive system of the modern capitalism is geared towards creating, stimulating and multiplying consumer needs. The maximum satisfaction of wants in the market became accepted as the highest social good. Mass consumption, mass production and Homogeneity of tastes and patterns of consumption. Consumer credit stimulates consumerism ("Conspicuous consumption" is extremely elastic). Contrary to Alfred Marshall's Marginal Utility theory, wants for goods and services are not confined to utility, according to "Conspicuous consumption" theory by Thorstein Veblen, consumption can be "conspicuous" or meant to acquire a certain status through its conspicuous display. The demand in this case will become extremely elastic. Increase in brand loyalty as a result of advertising and importance of image-based difference which has to be manufactured along with the product in order to be competitive. The utility of the product based on its use or differentiation becomes secondary to its brand association.
Economic Sociocultural visibility of consumer expenditures correlates with cross-product elasticities. Income elasticities correlate positively with product visibility. Consumers ' needs and desire of new products shortens products life span and becomes a driver of economic growth. Research and development becomes a tool to achieve innovations that satisfy customers' needs in new ways and create new wants. A set of EU policies for consumer protection includes safety policy and legislation, consumer law to combat unfair commercial practice, unfair contract terms and misleading advertising, both in domestic and international purchases. To create new products companies directly engage with customers through social media and digital technologies to collect customers feedback on their products. According to recent research, 30% of the developed market consumers provide more online feedback to companies about their products and services. And 65% of the developed market consumers use the internet more to research products and services (Accentuate, 2012).	**Social media** creates platforms for the companies that can be used at every stage of original product development: idea generation, strategy development, product development, testing and commercializations. As more and more consumers prefer to buy from the companies that use sustainable practices, it becomes essential that companies develop sustainable innovation strategies. The companies that have capacity to readjust their innovation strategies gain a better understanding of end-user needs and thus have bigger potential in the long run. For example, Proctor & Gamble Connect and Develop Innovation model (C+D) have been successful for over a decade. Consumers are willing to participate in idea generation stage of product development through practices such as crowdsourcing and lead user innovation. Such practices allow the companies to combine internal research and innovation with external sources and ideas from customers. Practices such as crowdsourcing satisfy consumers needs of creativity, impulsiveness, problem solving and affiliation. Two major approaches in co-creation process at this stage are random sampling and more knowledgeable users. Companies also try to empower customers and change the existing concept of consumer involvement at every stage of product development, including testing and launch, when customers help companies to diffuse the innovation and overcome the barriers to it.
Impact on culture Some of the most negative impacts of consumerism are mass production, standardization and deterioration of individualism and critical thinking. Essentially the same products are offered to everyone by the standardized production (Arato, 1982). This is referred to as pseudo-individualization phenomenon.	**Environmental** Postmodernism as a cultural logic of late capitalism (Jameson). Another important aspect of increase in consumption is the need to enforce a set of ethical principles and rules that will allow to turn the consumer markets and economy into a system that benefits all the members of the Ukrainian society. In the West a similar idea is referred to as ethical capitalism. In ideal scenario ethical capitalism correlates with ethical consumerism, which can also be viewed as a dominant culture mode where consumers are thoughtful about their purchases and certain things are protected in the procedure of customer decision making. The primary concerns would be environment, people's health and conditions of labor (Cole, 2006).

collectivism. The change in consumption patterns from decision making motivated by symbolic and experiential needs which correlate with collectivism to consumer behavior based more on own preferences, needs, personal goals – features indicative of individualistic society (Kim, Song & Yuan, 2011).

Materialism is widely measured by 18 item scale. It distinguishes three dimensions: the centrality of possessions, happiness through possessions, success symbolized by possessions. Materialism is defined as a set of centrally held believes about the significance of possessions in life (Richins & Dawson, 1992).

It is also defined as the extent to which individuals allow the pursuit of material possessions and goods to assume the main place in their life (Belk, 1994; Richins & Dawson, 1992).

Materialism correlates with reduced well-being because it promotes the lifestyle that undermines the ability to meet the basic psychological needs (Deci & Ryan, 2000; Kasser, 2002).

The material acquisition that is guided by extrinsically controlled reasons reduces well-being (Dittmar et al., 2014). It lowers psychological adjustability and social productivity (Kasser & Ryan, 1994).

There are different reasons why people become materialistic: The amount of importance placed on materialistic values by parents (Csikszentmihalyi & Rochberg-Halton, 1981), Economic insecurity, A lack of physical integrity and safety, Insecurity in caregiver relationships, Rejection by others, Mechanistic thinking underlies an adherence to materialistic goals and values (Gare, 1996), Greater self-doubt, Environmental factors, such as media influence, Lower satisfaction with life correlates with materialism, Low self esteem.

Materialistic goals and values can be viewed as means to deal with insecurities and low self esteem. Crisis and similar factors can act as an antidote to materialism (Kasser et al., 2014). Another factor that contributes to materialism is how individuals reify extrinsic.

Superior levels of materialism are connected with higher self-enhancement motives (wealth, authority, power) (Table 1).

CONCLUSION

As the consumption continues growing and Ukrainian economy enforces more market driven structures, it is important to choose the model of free market that is beneficial for both Ukrainian economy and Ukrainian society: Classical liberal capitalism, Neoliberal capitalism, Social liberalism, Ordoliberalism. Classical liberal capitalism supports private property rights, complete freedom of trade, manufacturing and labor contracting. Markets work with minimal government intervention in terms of restrictions. Neoliberal capitalism emphasizes private property rights, open markets with complete economic freedom, deregulation and privatization, a very limited government role in the economic sphere. Social liberalism as a reaction against classical laissez-fair aligns with the political position of social democracy and proposes balancing individual freedom and social justice. Ordoliberalism strong presence of the state to ensure that free market produces results close to its theoretical potential. However, there are many practical challenges in making a step-change to choose the best model for Ukrainian economy. The authors believe that a stronger political will is needed to execute basics in this area.

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