

# Illinois Business PERSPECTIVES

College of Business at the University of Illinois at Urbana-Champaign

Volume 2, Number 1



**GLOBAL RESEARCH, GLOBAL IMPACT**

*Business Measurement Practices Worldwide*

*Immersive Classes Mean Business*

*Warsaw University and College Collaborate on Executive MBA*



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Madhu Viswanathan received his PhD in business administration from the University of Minnesota in 1990 and joined the College of Business that same year. His teaching program includes courses in marketing research and research methods. The author of several articles on consumer psychology and research methodology, he has published in a variety of journals including the *Journal of Consumer Psychology*, the *Journal of Applied Psychology*, and the *Journal of Marketing Research* and is currently completing a book on measurement and research methodology in the social sciences.



## LITERACY AND THE GLOBAL MARKETPLACE

Estimates of functional illiteracy are sizable in industrialized countries and much higher in other countries: conservative estimates are as high as a fifth of the population in the US. In the information age, how does this very large proportion of consumers around the globe negotiate the environment, make decisions, and cope? Although skills associated with functional literacy carry important implications for buyers and sellers in the global marketplace, research on this topic is almost non-existent. Madhu Viswanathan, associate professor of business administration, has been studying this topic for more than five years. Funded by the National Science Foundation and Illinois CIBER (see related article on page 4), in 2002 he expanded his research program to India.

### How US Consumers Function and Cope

Illiterate consumers in the US have difficulty engaging in thinking that involves abstractions, according to Viswanathan's observations of and interviews with illiterate or low-literate consumers. Consumers are able to perceive one piece of information, such as price, but often have difficulty relating that data to another piece of information, such as package size. This tendency to process single pieces of information without deriving higher-level abstractions such as trade-offs between attributes or between price and size is called *concrete thinking*. US consumers also

*"I am surprised we pay so little attention to these tremendous disparities (in literacy and income), particularly since we espouse an international or global perspective... It is time to spend our sabbaticals studying management practices and problems in one of these [low literacy] countries where 85% of the world's organizations exist."*

Andrew Van De Ven  
2001 Presidential Address: Academy of Management Review

appear to make multiple errors in basic perception such as in reading a price, computing the price of two items, and totaling expenses. They fall back on an intuitive sense of product quality and think in pictures — sometimes viewing brand names and prices as images in a scene rather than symbols to read, and visualizing amounts of products to buy by picturing them rather than using available symbolic information.

Functionally illiterate consumers in the US have a variety of coping mechanisms. Such consumers are very dependent on others and have a network of people they trust to assist them with shopping tasks. They strive to maintain self-esteem in service encounters. Seemingly minor occurrences such as running out of money at the checkout counter can be humiliating, whereas not going over a budget on a large grocery shopping trip can be cause for celebration. They may engage in defensive practices, such as carrying only a certain amount of money, buying small amounts and buying one item at a time from a menu, often paying with all the money they have and hoping for the correct change. Comparison groups of functionally literate, poor consumers and consumers with very low levels of ability in English served to isolate the effects of functional illiteracy from those of poverty, or of difficulties with English and unfamiliarity with the US marketplace.

#### **India's One-on-One Environment**

Viswanathan has expanded his research to India where, in 2002, his research team conducted approximately 60 qualitative interviews of low-income, low-literate buyers and sellers in urban and rural settings in southern India. He characterized his work as a fascinating journey into a marketplace of one-on-one interactions and exchange, rather than the consumer-to-large-organization interaction that characterizes much of the marketplace for higher income segments in India and in the West. The typical low-income, low-literate individual lives in a very small, usually rented, dwelling and spends a high proportion of income on necessities such as food, clothing, and unexpected expenses. The typical individual in these communities has a primary economic relationship with one store, usually a small neighborhood retail store that buys generic products at wholesale rates and sells to the local community, or a wholesaler located farther away. Both retailers and wholesalers are characterized by being very responsive to customer needs and having very detailed knowledge of individual customers, akin to, and in some ways better than, sophisticated databases.

The striking characteristic of this environment is the one-on-one relationship between and among buyers and sellers. Customized service and product returns are the norm. Several services are offered that address community needs, such as resellers going door-to-door to sell products on affordable installment plans, although at astronomical interest rates. Consumers entrust their savings with corner retailer stores, a means of keeping money secure for a fee. Corner retail stores offer credit in times of need, and sometimes charge for this service by pricing products differently. Consumer loyalty is high often because of factors such as help received through credit in time of need, and concern for the livelihood of the seller.

From a seller's perspective, a fundamental tension exists between the one-to-one interactional context and the need to adhere to general business principles. The seller carefully manages word-of-mouth by adhering to specific pricing strategies, not writing off loans, not discriminating discernibly on price, and managing customer-to-customer communications. The transaction is often fluid, price and quantity are negotiated, installments are not paid for defective products, and prices are adjusted for personal circumstances both to buyer and seller advantages. Community-based service providers balance buyer and seller needs, enforce contracts, and are aware of specific needs and purchasing power. Consumers adapt by making, rather than buying, some food ingredients, using home-made medicine, rationing medicine to save money or to trade off lost income due to illness, and adjusting or reducing meal items.

The development of consumer skills is affected by several factors including formal education level, experience, and income. With any one of these three factors to use as a stepping-stone, individuals are able to develop consumer skills by tapping into a rich, one-on-one interactional experience base. However, when all three factors are low, individuals have very poor coping skills. Verbal counting skills develop through buying or selling experience; thus, people can usually compute totals and change received from transactions. Income is a double-edged sword because constraints and necessity lead to planning, careful purchases, and rationality about the next meal. Higher income not only enables more product trial and evaluation but also ill-advised loans.

*continued on page 24*

*"The ingenuity and positive attitudes displayed by many functionally illiterate consumers are a testament to human resilience and creativity."*

### How Culture Impacts Consumer Learning

Viswanathan's research in the US and in India notes some interesting differences. Consumer skills appear to be generally higher for an individual with a low level of formal education in India when compared to the US. A key factor in India is the rich, one-on-one interactional experience base from which consumers can learn. Dealing with vendors requires developing the ability to judge products and mentally count money. Frequent one-on-one interactions with sellers and other consumers lead to the development of such skills as deciding what to buy, where to buy it, and how to get a bargain. Consumers commonly seek advice from neighbors and people on the street, a sort of perceptual, *off-line* community. Because many generic products are not packaged or presented with nutritional information, consumers have to learn to judge the products for themselves.

In contrast, in the US, consumers typically deal with large chain stores with package information about nutrition and computers to add up bills. Ironically, the US environment — rich in symbolic information and technology — is not necessarily conducive to the development of skills for low-literate consumers. Consumer skills also develop from learning skills as sellers, often the way out economically for many individuals in India in contrast to working for a large organization in a certain clearly defined capacity as is common in the US.

Advanced societies have wrestled in some ways with maintaining one-to-one communications while evolving toward layered organizations. Yet, these consumer communities, where the old and the new rub shoulders, offer some lessons of value, including the essence of marketing and pure exchange.

#### Ideas to Make a Difference

Viswanathan's research in the US will be disseminated in several ways through the Consumer Literacy Project. In the US, this research will be used as a basis to develop educational materials for consumer literacy in adult education. Findings will also be disseminated to businesses. The broad implication of this research for marketers is careful consideration and research of the functionally illiterate segment of their market to enhance all elements of the

marketing mix. Such efforts are likely to result in enduring customer loyalty, thus leading to competitive advantage. Implications extend to various aspects of marketing such as customer service, product design for ease of use and adherence to instructions, and pricing for ease of understanding. This research raises a host of policy issues in the realm of information disclosure and display in promotions, pricing and product design, and deceptive practices.

In India, his research is providing a foundation to develop and disseminate instructional materials and training guidelines for business and consumer literacy for low-literate, low-income buyers and sellers through the Marketplace Literacy Project. Such training can be transformational experiences that open the door to an altogether different existence both as buyers and as sellers or as entrepreneurs. His concept is to develop a training program in marketplace literacy that combines a top-down approach based on generic business education with a bottom-up approach based on grounded research. The challenge here is to glean core business concepts across functional areas and communicate them through innovative pedagogical methods and concrete examples. The educational program is expected to make possible some level of abstract thinking and innovation. Wide dissemination of the results of his research across cultures is expected to offer practical implications for adult educators, businesses, and policy makers. Long-range outcomes include enhanced competitiveness and economic development in these communities in meeting the challenges of globalization.

The ingenuity and positive attitudes displayed by many functionally illiterate consumers are a testament to human resilience and creativity. They challenge the conventional presumptions and assumptions of literate decision-makers in business, government, and education. Moreover, referring to functionally illiterate consumers as a homogeneous group glosses over nuances and variability that is apparent in this research. Creative public policy solutions can enable this group to make more informed choices. And businesses that address the needs of this group of consumers are likely to be rewarded with enduring loyalty. ■