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INCOME, SOCIAL CLASS AND CONSUMER BEHAVIOUR: A FOCUS ON DEVELOPING NATIONS

Mohammad Ekhlaque Ahmed, Marium Mateen Khan*
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Abstract: *This paper aims to introduce readers to the fundamental concepts of income and social class and how they influence consumers' buying decisions and marketing strategies. It attempts to provide an understanding of the theoretical framework used for social classification and the practical implications of these classifications in the marketplace, with particular reference to developing and emerging economies. The paper also allows readers to gain familiarity with the tools and processes currently used by marketing professionals for analysing market opportunities in terms of income and social class, and help develop a customer-centric marketing approach based on attractiveness of social class as opposed to transaction-oriented marketing focussing on income only.*

Keywords: *Income, social class, consumer behaviour, developing economies*

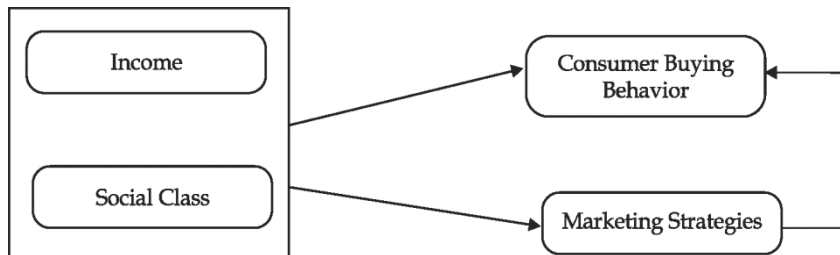
1. INTRODUCTION

Income is defined as money received for work or through investment on a regular basis. It is the sum of all wages, salaries, profits, interest payments, rents and other forms of earnings. There is a positive relationship between income and spending. Social class refers to the position of members of society in a hierarchy of distinct status classes. It is not a new concept, as social class has existed for a long time, but the application of social class theory to consumer behaviour is relatively new. The basic conceptual framework (Figure 1) visualizes the impact of an individual's income and social class on consumer's buying behaviour. The frame also points out that the marketing strategies employed by the organization are also a means to influence consumer buying behaviour.

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Figure 1. Main Conceptual Framework

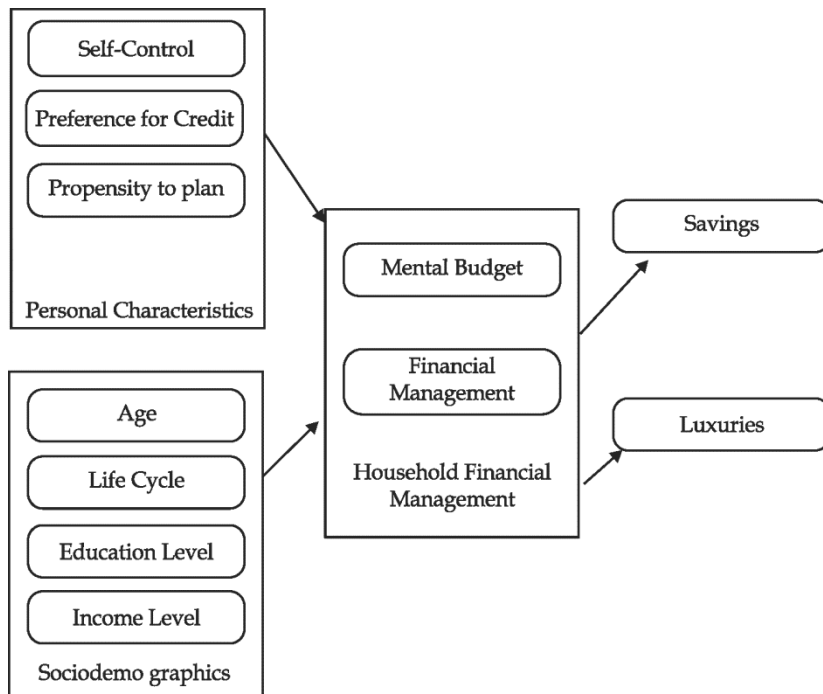


2. CONNECTION OF CONSUMER'S PERSONAL CHARACTERISTICS AND SOCIO-DEMOGRAPHICS INFLUENCING BUYING BEHAVIOUR

When it comes to making a buying decision an individual goes through mental budgeting and financial management process to manage ones income, and contemplates whether to spent the income on luxuries or opt for savings. This process is visually represented in the Figure 2.

Consumer's buying decision has roots in his/her personal characteristics and socio-demographics. Those features of an individual are shown and explained as under:

Figure 2. Connection of Consumer's Personal Characteristics and Socio-Demographics Influencing Buying Behaviour



Self-Control: Self-control is a major factor in financial decision making it is commonly known as consumer spending self-control (CSSC). Due to poor self-control over spending people can face consequences of falling in debt, bankruptcy, poor credit, accumulating items that they do not require, wasting personal and national resources. Other than financial issues lack of spending self-control also leads to psychological problems (stress, guilt, anxiety) and social consequences (strained relationships family/spouse, divorce).

Preference for Credit: Preference for credit is somewhat linked to an individual's social class and desire to live like a certain perception set in the mind of the consumer by any of the societal factors of peer pressure, fashion, culture, even ones own perception of self-image can lead an individual to prefer credit and fulfil the aspirations and desires of luxuries.

Propensity to Plan: Propensity to plan spending to be done is done differently by different consumers depending on their self-control and inclination towards credit based on their social class and eagerness to portray themselves in a particular image set in their minds. Some consumers like spending all of what they earn without considering any critical event in mind, while on the other hand some consumers plan ahead and try to remain prepared for any critical event that may arise at any time in life. People who like spending a lot also plan ahead to save an amount which they want to use to buy some luxury they want.

Age: Age is one of the most important factor in consumer buying decision. It is observed that the younger people are more inclined to spend their income in buying things as compared to their older counterparts. This phenomenon can be caused due to the younger generation's need to socialize more, make new friends, do networking, appear trendy and modern, self-image enhancement, peer pressure etc.

Life Cycle: Customer life cycle also influences consumer buying behaviour as it reflects at what stage the consumer is in buying a certain product or service. Whether the consumer is mentally ready to purchase or is still in comparison or selection phase.

Education Level: Education level of a consumer enables him/her to search through the options available that best satisfy the need or desire that needs to be catered. Education level is also considered to be linked to an individual's self-control over spending and enables in curbing a desire that may cost more than what can be spent by an individual. Education level also

provides the consumer with the knowledge regarding the pros and cons of spending vs. savings.

Income Level: Income level helps the consumer in making a decision about spending, whether the consumer should spend a certain amount over luxuries or opt to save that amount. People at higher income level tend to spend more as their consumption and need for luxuries increases with improvement in income.

Mental Budget: Every individual to some extent does mental budgeting and planning to track expenses and to do spending as per what their income level allows. After mental budgeting people make a choice between opting to save some amount or spend it on luxuries.

Financial Management: People also do financial management to keep track of their savings and spending in order to remain prepared for unexpected happenings which might require extra amounts of spending to be done on them. Financial management is also helpful in keeping track of income inflows and outflows.

Multinational and local companies targeting developing nations like China, India, Indonesia etc., must consider these factors in specific terms to make substantial successful marketing strategies. It would be only appropriate to start from “a zero scenario” by developing and understanding of such factors in these markets.

Below we examine developing markets evolving characteristics and dynamics to throw light on challenges for marketers to design and implement strategies which will, directly and indirectly, also help in the achievement of greater objectives of accelerating the economic development process.

3. THE CONSUMPTION ACCELERATOR

The explosive growth of the emerging middle class in China, Indonesia, India and other developing economies will continue to bring sweeping changes in buying behaviour and will have major effects on social transformation. This will result in the following: (a) a substantial surge in income; (b) financial and economic reforms stimulating employment and income growth; (c) an increase in consumer spending resulting in increases in the efficiency and productivity of marketing organisations, which will further improve the income generation cycle; and (d) the birth of

sophisticated and seasoned shoppers who are ready to pay premium prices for quality and appreciate value over mere cost.

The rapidly growing middle class of consumers in emerging nations, including Argentina, Brazil, Chile, China, Colombia, Egypt, India, Indonesia, Russia and Mexico, numbers almost two billion people spending a total of \$6.9 trillion annually. About 70% of consumption is contributed by the middle-class category (15% upper middle, 32% middle and 23% lower middle). Annual household income ranges between \$56,500 and \$113,000 for the upper middle class, \$22,500 and \$56,499 for the middle class and \$13,500 to \$22,449 for the lower middle class (Economic Intelligence Unit, 2009; Euromonitor, 2009; World Bank, 2009). The research of Court and Narasimhan (2010), suggests that this figure will rise to \$20 trillion during the next decade, to about twice the current consumption in the U.S. About 28% of this consumption will come from deprived classes, who will comprise of 61.5% of the population (i.e., 3.38 billion, the majority of the population thus falling into the deprived sector in emerging markets).

Middle-income consumers are quite diverse in their needs and, in particular, in a trade-off between what they can afford and their fondness of brand and quality. Furthermore, consumer priority list versus income is also an important consideration in determining buying behaviour. For instance, in China and India (like in other developing economies), consumers spend 40% of their income on food and transportation, whereas this figure is 25% or less in developed countries. Consumers in developing countries are thus constrained by their income for discretionary spending. Some prominent consumer trends with implications for marketers in key developing nations such as China, Indonesia, India and Brazil are discussed in the following sections.

3.1 The Upper Middle Class: The Principal Engine of Consumer Spending

Researchers have forecasted that a global consumer base will expand from the bottom of the upper middle class in developing countries, which will be more globally minded in terms of their aspirations and spending patterns. This is mainly because of their fondness for and exposure to modern technology and its increase in affordability due to their increasing income. The impact of the Internet on consumers will continue to expand. In China, for instance, 68% of the middle class has access to it, compared with 57% of the total urban population. Consumers in this category have emerged as smart consumers, or knowledge consumers. The evolution of the middle class means that sophisticated and seasoned shoppers—those able and

willing to pay a premium for quality and to consider discretionary goods, not just basic necessities – will emerge as the dominant force. In China, as of 2012, the upper middle class accounted for 14% of urban households and is expected to expand drastically, to 54% of urban households and 56% of urban private consumption, by 2022. Consumers in this segment are more likely to buy laptops, digital cameras and specialised household items. They will also stimulate consumption of luxury goods, including watches, ready-to-wear clothing, jewellery, furniture and the like. Upper-middle-class consumers in the developing nations, however, will remain prudent and logical in their spending, following their ancestors' prudent approach to life. Hence, organisations do get ample access to them, but brand owners making *value innovations* (differentiation with cost breakthroughs and innovative business approaches) will have better chances of success.

4. THE RISE OF TIER 2 AND TIER 3 CITIES

Another phenomenon related to the growing middle class in emerging nations is the shift in composition of urban population in different-tiered cities. In 2002, 40% of China's relatively small urban middle class lived in the country's four Tier 1 cities, Beijing, Shanghai, Guangzhou and Shenzhen. In the next couple of decades, the share of these megacities will probably fall to about 16% as a result of a change in composition, not a decline in the numerical population. Middle-class growth rates will be greater in the smaller cities of the North and West. Many of them are classified as Tier 3 cities, in which the share of China's upper-middle-class households should reach more than 30% by 2022, up from 15% in 2002. The implication of this shift for marketers is that they must move from country-specific marketing plans to city-specific marketing plans in countries like China, India and Brazil. The plans should take into consideration an understanding of the needs of middle-class consumers emerging from their shift in purchasing power. Both local and international companies can benefit immensely by designing products that match this transition and, in particular, shaping their channels and go-to market strategies to emphasise local convenience and buying habits.

A similar situation is being observed in Indonesia, India, Pakistan and other developing economies. Indonesia has eight Tier 1 cities: Jakarta, Surabaya, Bandung, Makassar, Kudus, Denpasar, Gresik and Semarang. These Tier 1 cities contribute most to the consumption being initiated by the growing middle class. In particular, the upper middle class in Tier 1 cities contributes immensely (five times as much as Tier 4 cities) to the

consumption of discretionary products. Durable goods, along with dining out, leisure and travel, are also at the highest levels of consumption in these cities. The economic growth and governmental- and societal-level development programs occurring in the Tier 2 and Tier 3 cities are instrumental in creating a new level of consumerism, even in midsize and smaller Indonesian cities, which are also showing strong consumption potential. Commonly known factors such as per capita income, population size and income levels are good indicators of consumption potential. Together with these factors, developmental projects as well as industrial investments also bring about new surges in consumption patterns, even in small towns. Another reason for this is the closeness of Tier 2, Tier 3 and even Tier 4 cities to large rural markets, which expands the marketing capability of such towns. Close to Surabaya (an industrial city in Indonesia), Gresik (with a population of 1.2 million people) is home to a number of large industrial companies, including Gresik Portland Cement, which has a favourable impact on household incomes. Consumer spending on durable goods is 35% more in Gresik than the urban Indonesian average. Padang, the capital of West Sumatra and another Tier 2 city, with a population of fewer than 1 million people, is another good example. A new township called Bandar Minangkabau is an urban development project which has multiplied the spending potential of this city manifold (Razdan, Das, & Sohoni, 2013).

On the basis of population, India's cities and towns can also be divided into four tiers. Tier 1 cities, including Delhi, Mumbai and IT hubs like Bangalore and Hyderabad, have expanded to become much larger markets, and multinationals mostly dominate in the eight Tier 1 cities. Tier 2 cities include all towns and cities that have a population of 1 million people. These include Patna, Lucknow, Jaipur and Agra, which contain concentrations of mostly local corporations and some multinationals due to the emergence of a strong middle class. Tier 3 and Tier 4 include all other growing cities and some niche towns which are growing very fast in terms of middle-income consumers. It is forecasted that by 2025, Tier 1 cities will account for 35% of the country's middle class, whereas 45–58% of middle-class consumers will reside in Tiers 2, 3 and 4.

These examples of larger and richer middle-class economies clearly indicate not only that evolving consumerism in developing nations has to be researched in terms of new trends, buying habits and product category spending, but also that a simultaneous discovery of upcoming regions is necessary for geographical penetration. This is an absolute must in order to dig out new opportunities on an urban platform. Marketing plans of local

and multinational companies must incorporate a new dimension with a new chapter titled 'Regional and Geographic Diversification' or a similar heading.

4.1 Moving from Basics to Luxuries

When people move up the income ladder, their patterns of consumption also change. Experiences of different economies such as Taiwan, South Korea and Japan show that as their incomes rise, consumers tend to spend proportionally less on basic necessities (food and apparel) and more on discretionary items and relative luxuries. South Korea's share of spending on basic necessities has been halved since 1970, from 44% to 22% currently). Japan's population now spends 22% of income on basic items as compared to 35% in 1980. A similar transition is under way in China, and it is happening quite fast compared to that of other economies like South Korea. A reduction in food and apparel spending and a shift to the four more dominant product categories—i.e., transportation, health care, recreation and education—is very apparent. In the next 10 years, in China, the share of consumption of food and apparel is expected to go down from 45% to 26% (Farrell, et al. 2006).

The affluent consumer class of Indonesians, about 20 million strong, is an attractive consumer group. They are ready to experience new products, seek quality and are ready to pay for it. Upper-middle-income consumers are purchasing new categories of products and will be bringing change to the consumption mix between basic and luxury products. These include microwaves, home theatre systems, oatmeal, energy drinks, mouthwash, hair vitamin oil and auto insurance. They are also indulging in purchasing financial products such as mortgages and mutual funds and have a 30% higher penetration rate in financial products compared with the urban average. Credit card penetration is also quite high among them, and they are much more digitally connected as compared to general population.

A similar trend can also be found in the case of India. Currently, food, beverages and tobacco are the dominant consumption products, whereas transportation and housing are growing the fastest. Food, beverages and tobacco will remain the highest-consumption product categories in the next 10 years; however, their percentage of consumption will drop from the current 42% to 25% by the next decade, according to researchers. Communication, which currently occupies only 2% of total consumer spending, is growing by 13%. Other significant growth product/service categories are transportation, education and health care (Ablett. et al., 2007).

4.2 The Advent of International Modern Trade

Conventional retail channels (mom-and-pop shops) still dominate, but modern trade has started gaining ground, and in several ways it can be considered a bigger landscape of consumer products channel. In Pakistan, local modern retailers like Naheed and Imtiaz due to their price impact have been able to cultivate a large consumer base in Karachi. However, their geographical penetration is still very small, which leaves room for traditional mom-and-pop channels to dominate. This also connects with low purchasing power and consumers' habit of breaking down their purchases into smaller quantities. The impact is sizeable when viewed from the perspective of the middle-income class buying 'monthly groceries'. Large-scale mom-and-pop shops face intense competition from the modern channels for their share of monthly grocery pickup by middle-income consumers who, for reasons of convenience and extra discounts, prefer to shop in the modern way.

In Indonesia, modern retail channels are continually becoming stronger. Consumers rely on multiple channels, including convenience stores, hypermarkets, supermarkets and department stores. The affluent consuming class is using hypermarkets, whereas convenience stores are being used across all consumer segments mainly due to their service levels and product availability. Supermarkets are gaining the attention of the aspiring consumer class. Convenience stores such as Alfamart, 7-Eleven and Indomart have grown fastest at 32% between 2000 and 2011 and are expected to grow with a similar double-digit number in coming years. A little slowdown is expected in their growth due to increasing sales at hypermarkets and supermarkets. The perception of higher prices keeps some customers away from supermarkets and hypermarkets. Although modern trade and channels are gaining new momentum and registering growth, they have not been able to substantially take business away from conventional retail channels. However, the new channel design poses challenges to conventional retail to improve their outlet design, service level, product availability and price feasibility through moderate-level bulk buying and more efficient supply chain management.

The Indian retail industry is also passing through a paradigm shift with the entry of one-stop shopping, which offers a tremendous shopping experience with entertainment. Side by side in mass retail networks, also called 'Kiryana Stores', modern retail chains are also taking positions and getting wide consumer acceptance particularly among high-income, middle-class, young consumers. Economic growth, changing lifestyles, urbanisation and young generations' fondness for global brands are important factors in the evolution of modern retail chains (Sharma , Bhattacharya, & Sonwaney, 2012).

Modern retail channel history can be traced back to 1980, when manufacturers' retail chains like Gwalior Suiting, Bombay Dying, Calico and Titan started their operations in cities and small towns. Then came multi-brand retail stores in the 1990s. Food World, Subhiksha, Nilgiris and others made entry into the fast-moving consumer goods sector. The new millennium saw the emergence of supermarkets and hypermarkets. A number of local giants like Future Group (Kishor Biyani), Reliance, Bharti Walmart and Tatas Super Stores are entering into the arena and are creating an impact on the new waves of consumerism in India.

Retail business contributes more than 10% of the Indian GDP (Marketing White Book, 2009–2010). The country has more than 12 million retail outlets, which will continue to dominate the retail landscape for diversified product categories. The contribution of local and international retail is still quite low compared to that of other developing nations. The contribution of organised retail is 55% in Malaysia, 40% in Thailand, 30% in Indonesia and 20% in China, while in India it is just 5% (Marketing White Book, 2009–2010).

Our review of channel outlooks of some developing nations shows a slow transition from the conventional retail system. Thus organisations have to develop and reinforce extremely foolproof and wide-scale 'outlet coverage' and 'shelf share' dominance together with creating a good 'brand franchise'. To win middle-income consumers, availability is most crucial for a retail chain. However, both local and multinational brands must design their channel strategies to meet the challenging needs of balancing business with multiple channels and localising the retail experience based on the consumer traffic in stores. Winning the retail battle on small outlets with proper monitoring system of distributors, wholesalers and retailers is the route to marketing in developing nations. Unilever Pakistan serves over 500,000 small retail outlets with an extensive route plan (referred to as the Permanent Journey Plan) to ensure that each retail outlet is served on a precise schedule and with frequency to replenish the products it needs. Further, data marketing is done by capturing secondary sales data through handheld technology given to all salesmen who take orders from retail and wholesale outlets to measure and monitor outlet coverage, strike rate, drop size per outlet and other such performance indicators. In India, Hindustan Levers serves more than 1.5 million retail stores in urban towns and cities by deploying thousands of distributors and jobbers and monitoring channel activity through thousands of sales teams deploying handheld devices to capture and analyze secondary sales data. Outlets are analyzed for their sales trends and are prioritised in terms of consumer off-take to decide on coverage and services needed.

In less developed African countries, Coca Cola has built a network of over 3000 'micro distributors' (small entrepreneurs) that deliver Coke products by pushcarts and bicycles to difficult-to-reach outlets. These are

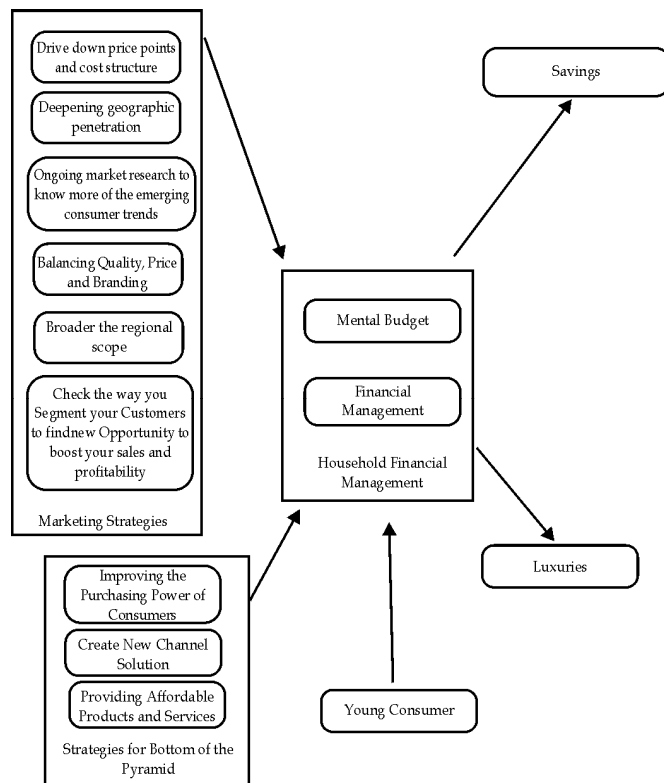
clear examples of sustainable competitive advantage in go-to-market strategy in emerging markets, and there is hardly any substitute for this.

4.3 Implications for Marketing Strategies by MNCs and Local Champions

The emergence of a strong middle class with rising income and upward movement in social class offers tremendous business opportunities in this part of the world, and it appears the market size will surpass the potential of many European countries. Though local champions are meeting the basics of 'purpose branding' matching purchasing power and affordability factors, they have to improve their focus to match the evolving needs of consumers in this part of the world. MNCs must also change their business models to exploit these opportunities.

We take an inventory of evolving marketing strategies in developing markets in Figure 3. An explanation of related factors is also given below.

Figure 3. Marketing Strategies



Drive down price points and cost structure. Despite their increasing income pushed by economic growth, consumers will have diverse needs to

fulfil and will seek an optimal parity of quality-price ratio in developing economies. Hence organisations must adopt innovative business models to reduce cost and bring in products at different price points to get closer to consumers' affordable price points. Business feasibility in this part of the world is most driven by economy of scale derived through tremendous volume, which a good brand can get.

Deepen geographic penetration. As we have examined the movement of the middle class in geographic concentration from Tier 1 cities to Tier 2 and 3 cities in most developing nations, it is mandatory to look into the infrastructure development in these regions to be close to these consumers. This is important in terms of localised product specifications, channel and distribution management, price points, exploiting local availability of raw materials and above all brand building by undertaking social value creation besides adopting local advertising and below-the-line techniques.

Pursue ongoing market research to know more of the emerging consumer trends. As this explosion of new consumerism in developing nations is an ongoing phenomenon and will extend for the next two decades to lead to some established trend, organisations will gain by getting knowledge of consumers and consumer behaviour on a continuous basis. The time and money invested in this activity will help understand the changes in consumer behaviour and a change in strategy of the organisation by a quick reaction time, which is the essence of the game.

Balance quality, price and branding. Local champions focus more on cost and price, whereas MNCs have an absolute focus on quality and branding. As consumers are becoming more and more quality conscious, local champions have to move from price competition to focus on quality and branding. One good example in China is the white goods giant Haier, which changed its vision and with innovative strategies achieved this goal not only in the local market but also in its pursuit to become a global player. MNCs on the other hand will have to balance quality and branding by examining their value chain and revamping it for all sorts of over specifications to be consumer centric (Jullens, 2013).

Broaden the regional scope. Local champions are normally niche players in rural markets where customers have more price penetration needs. The middle-income explosion in the future will provide new opportunities in neighbouring markets. Local companies must keep an eye on this

development to expand their market base. As MNCs must make an inroad with the value-driven approach to emerging value-conscious consumers, the marketing war will take a new shape, with consumers being the ultimate beneficiary. This will give local brands an opportunity to become national brands, for which they will need to move to a 'system-driven' approach to managing their business.

Check segmentation of customers to find new opportunities to boost sales and profitability. A lot of new market opportunities lie in the way companies segment their markets, customers or consumers. It drives their product, service and value innovation. According to a local research on the marketing practices of multinational and local companies in Pakistan, it has been found that segmentation is largely based on conventional methods, and it is not very productive for discovering opportunities around emerging consumer needs, latent or known. For instance, it is not uncommon in cellular phone industry to segment customers as prepaid or post-paid. In milk it is loose milk users, packaged milk users, powdered milk users or users of another product such as for drinking, tea making and dessert making. This approach, however, risks alienating customers in two ways: customers who happen to be in more than one segment get bombarded with multiple uncoordinated offers. And big spenders in one product category who start buying in a second category are justifiably miffed when they are treated as strangers.

Consumers are also studied based on demographics such as income, gender, rural/urban lifestyle, age group etc., but these distinctions are generally not useful unless customers' needs happen to align neatly with demographic characteristics. Lego, the brick toy manufacturer, while segmenting based on age also considers what users do with their bricks. Schoolchildren who focus on building when they play will likely want plain bricks, but those who focus on role-playing usually gravitate toward themed sets. In his article "New Criteria for Segmentation," Daniel Yankel-Ovich argued based on research on various consumer and industrial products that demographics cannot lead to the right customer insights and suggested non-demographic segmentation based on seven key questions (Table 1).

Table 1.
Non-demographic Segmentation Key Questions

1. How buyers define value
2. How susceptible they are to changing their minds
3. How they define a product's purpose
4. What kind of product styling they prefer
5. How they view change and technological progress
6. What individualised needs they want to fulfil
7. How confident they are in their ability to choose among different offerings

Local preference in different emerging markets must be researched to be successful. Segmentation on a global scale will not work. Keeping in view the diverse nature of demographic composition and customers' preferences and behaviours in different market segments, another important consideration for strategizing is coverage of different price points. Hindustan Levers in India has not left any gaps in its approach to the detergent market in terms of coverage of various segments and price points, and it has been able to give a tough time to low-price competitors like Nirma and Ghari. A careful segmentation strategy helped Frito-Lay capture the bulk of the Indian and Pakistani branded-snacks market. They localised the taste of their global product and also created Kurkure, a cross between sub-continental traditional street food and Western-style potato chips. The main points of success in Kurkure's success are competitive prices, local feel and scalable international packaging to give it a global look.

Bring the brand into consumers' consideration set. One research points out that Chinese consumers consider an average of three brands and end up buying one 60% of the time. In the United States and Europe, consumers consider at least four brands and end up selecting one only 30-40% of the time. This means coming into the initial consideration set of consumers is highly important in developing nations. This is also because of the fact that emerging consumers are younger: 63% were aged 35 or under in 2010, versus 43% in developed countries. They are more optimistic and want to spend as their income increases. Many of them are first-time buyers of a car, television, or computer. Hence they would like to be informed and know more about brands. They are receptive to branding efforts of international and local companies.

In order to create brand awareness, companies depend on mass media advertising. They also need to move to mobile and digital channels, including e-commerce. Chinese consumers are more likely to trust online recommendations from companies as well as friends and family circles than to trust television advertisements. In China more than half of the urban population is online, and a quarter of Brazilians using the Internet had opened Twitter accounts in 2010.

Another important factor to be considered in branding efforts in developing countries is to reach these consumers with positioning that suits local market preferences and concerns and is likely to be trusted. When Acer China tested its slogan “Simplify my life” in China as part of a campaign emphasising the low cost of its PCs, the message did not resonate. For typical Chinese consumers, a PC is a very big-ticket purchase, so they care mainly about durability. A change in Acer’s message to stress reliability rather than simplicity and productivity helped the company to build a more relevant and trusted brand (Atsman. Kuentz, & Jeongmin, 2012).

Improve price-performance ratio (affordability) to increase the market. Expanding the market helps a company significantly to hold its position or at least stay near it. But it is important that the company takes a lead and matches well with consumers’ purchasing power. When consumers are hard-pressed for money, products might not only compete with similar products but they also will compete with the priority list of consumers matching the purchasing power.

It is high time companies looked across value chain and make the needed structural improvements to address consumer affordability, which will bring consumption jumps, making their products feasible to the masses. Expansion of demand for motorcycles through structural cost improvement in Pakistan is a good example. The CEO of Coca Cola targeted coke to be sold in China at the price of tea. Supermarket chain Imtiaz, in Karachi, Pakistan, maintains its ‘low cost/extra discount strategy’ and never faces ‘sales’ issues; it manages its sourcing by keeping the focus on the ‘cause of customers’.

5. BOTTOM OF THE PYRAMID CONSUMERS

The World Resource Institute (WRI) estimates that people at the bottom of the income pyramid who earn less than \$3,000 a year embody a global market of more than \$5 trillion. The response behaviour of the emerging giants as well as the multinational companies to such a massive consumption opportunity has got to begin with incorporating necessary provisions into

their 'big picture'. Many marketers used to refuse to go for it, declaring it was not their domain. This attitude cannot work anymore. Developing countries also have most of their population in rural areas, and the opportunities there are tremendous. In India, many health care businesses have changed their approach to their innovation, creativity and marketing programs to match the needs of the bottom-of-the-pyramid (BOP) market and are quite successful.

These opportunities call for organisations to make changes in their value chains while of course keeping their shareholder value. This can also take place without compromising on the quality of service being offered to BOP consumers. This approach and change of mind set are appropriate now. The opportunities, dynamics, alternatives and impact of the BOP market will be examined with reference to the strategy benchmark being created in this part of the world.

With economic expansion and increasing investment on governmental levels, social transformation is taking place in the rural part of developing nations. It is forecasted that several hundred million people will be moved from the poverty level in India and China respectively, yet a large chunk of the rural population will still fall into the social class of the 'deprived'. Even with increasing urbanisation and migration, 63% of the total population will still be living in rural areas by the year 2025. Another important factor to consider is the market growth of rural India, which is expected to triple in the next 20 years, surpassing the market size of South Korea or Canada. Opportunities for marketers in BOP markets are tremendous. To exploit these opportunities, a company must pursue a new business approach aiming at creation of 'social value' based on the philosophy by Michael Porter. Commercial organisations should move from pure 'profit making' business objectives to profit making through social value creation in BOP markets (Porter & Kramer, 2006). A number of examples can be seen of both multinational and local companies in India that have helped create new market opportunities and gained a 'first mover advantage'.

Serving rural markets in India, China, Indonesia or any other developing economies is not without big challenges. Bottlenecks in exploiting the true potential of these markets include infrastructural constraints such as roads. Channel development is a big issue. Another problem is developing consumer awareness and appreciation of products and services, which are crucial in maintaining a certain quality of life. There are examples from both multinationals and local companies who are adopting through new business models to serve the need of BOP consumers in a very unique way. This

requires first and foremost the identification of social needs of the consumer and the society as a whole and discovery of a solution by integrating these needs into the value chain of the business to yield a profitable solution.

Nevertheless, before social needs are integrated into the value chain and processes of the organisations, identification of these new opportunities around the social issues of the community requires a change in organisational attitude, and strategizing around the same requires a new leadership competency and human resource skills. The reaction to development of a new product and service matching the social value or cost innovation breaking the utility-specification ratio to favour the society appears negative. But wherever these challenges are faced by 'will to do' and 'empathy', managers are successful. Keeping in view the tremendous opportunity that rural markets now offer and continue to further enhance, managers in many markets are left with no option but to go for this new opportunity, which is quite big in number and potential.

We will review a number of examples taking place in various parts of the world market where the favoured attitude has done the job.

5.1 Improving the Purchasing Power of Consumers

Rural consumers are hard-pressed now for money. Products are not just competing with competitive brands but are also competing for consumer purchasing power. Hence there is a dire need for expanding consumers' purchasing power and capacity to spend and consume. A nonconventional approach to creating capacity to consume was adopted by a supermarket chain called Casas Bahia in Brazil. Poor consumers in Brazil are not able to buy appliances. Casas Bahia opened up a banking facility to give loans to consumers of low and unpredictable income streams. Through a very sophisticated credit rating system coupled with counselling, Casas Bahia is able to provide access to high quality appliances to consumers who could not otherwise afford them (Prahalad, 2005).

Cemex, one of the world's largest cement companies in Mexico, follows a similar approach in its 'do it yourself' business focused on expanding the consumer capacity to buy. The idea is to help the consumer learn to save and invest. By creating a pool of three women who save as a group and discipline and pressure each other to stay with the scheme, Cemex facilitate the process of consumption by bundling savings and access to credit with the ability to add a bathroom or a kitchen to their homes (Prahalad, 2005).

5.2 Create New Channel Solution

Rural markets have a big population and are denied with infrastructure to reach conveniently and comfortably. Hindustan Levers picked this as an opportunity to develop a new channel of distribution and created a project called '**Shakti**'. They joined hands with 'SHC' (Self Help Group) getting micro financing facility from NGOs working towards empowering rural women. Hindustan Levers trained **Shakti Amma** (empowered mother) to become their distributors, providing education, advice and access to products to their villages. These village women entrepreneurs have unique knowledge about the village needs and which products are in demand (Prahalad, 2005).

"The social integration between micro financing agencies, rural women and the multinational corporation can well be called as the MODERN CSR example built in the value chain and processes of the company benefitting the society and the company at the same time."

Another example of financial and economic empowerment in channel innovation was found by Nokia, when they were looking for breakthrough opportunities for mobile phone business in India. They found people to sell mobile phone from small stands, about the size many vendors use to sell fruit and vegetables. There were plenty of entrepreneurial people eager for the chance to make a decent living. Nokia picked them, trained and gave them product for couple of day's sales and created new opportunity for high velocity (turning over) to the people who had small money in their hand. A big brand given to a network of people to sell on vegetable carts like stand and getting economic and social empowerment. Tremendous form of CSR well built in the channel of distribution of Nokia, a nonconventional model to help the society together with achieving its own market share and profit objectives. The model was later copied in various other countries by Nokia in Indonesia and sub Saharan Africa (Lafley, & Charan, 2008).

5.3 Providing Affordable Products and Services

This is another area where corporations as a result of research and development and revamping their value chain can come out with products and services which can be affordable to consumers. Masses can benefit from products and services which otherwise were out of reach of the consumer with low income. An example from Pakistan is '**Naya Jewan**' an Insurance company who are offering health service to poor people at an annual price premium of Rs. 1,200 only. Hospitalization charges worth Rs. 150,000 will be

provided against this annual cost of Rs. 1200 only. **Amul**, a dairy cooperative in India, has introduced good quality ice cream at less than \$0.05 per serving affordable by all at the lower income group. This product is not only a source of enjoyment; the milk in it is also a source of nutrition for the poor. Through **Tecnosol**, the poor consumers in rural Nicaragua have access to clean energy from renewable sources - solar and wind power. Previously, these consumers did not have access to grid-based electricity and were dependent on more expensive source such as kerosene and batteries (Bhattacharya & Michael, 2008).

A number of new opportunities can be created to the society particularly for its deprived members or **Bottom of the Pyramid** (BOP) as some Strategy Guru calls them instead of helping them through philanthropist acts. Further areas of interest may well include:

Establishing Personal Computer Kiosks in rural areas to give valuable information to farmers, fisherman etc., to check market prices, weather forecasts, learn about various fertilizer options and so on so forth through internet connections

Manufacture basic functional cell phone for masses in rural market to create

Connectivity with the larger group in urban centres. Examples are already there by Garamen Phone in Bangladesh and Telefonica in Brazil (Yunus, 2007).

Providing low cost Jeans garments or Shalwar Kameez or ladies suit. Export based Textile companies, should they examine possibility with a 'cause driven marketing' (not forgoing profits of course but better managing their value chain) can do so.

Banks opening up special accounts for poor with smaller savings to give them banking facilities. Examples have already been created by ICICI bank in India. Innovative banking facilities created by UBL Omni in Pakistan (whereby banking facilities are provided to masses through retail shop channels) are other example of strategic CSR built marketing program.

Refrigerated dairies built by Nestle as collection points for milk and sending its truck out to the dairies to collect the milk. It enhanced safe storage of milk in villages and increased the number of milk contribution even from small level farmers.

On governmental level instead of running a program of giving 'subsistence allowance' to the poor, focusing on creating employment for masses by steering growth in selected industry. Example is of Bangladesh's readymade garment which created more than three million jobs. A 8.5% reduction in absolute poverty over a five year period in Bangladesh can be a role model governmental level 'CSR' in collaboration with civil society, private sector, general public leading to a social transformation (Sprinkle & Maines, 2010).

Marketing thus can take new shape in view of the shift of focus from corporate social responsibility (CSR) to social value creation initiatives and can be rightly termed as 'cause-driven marketing'. A new stream of funding and workforce is being enforced in both urban centres and rural markets. Examples are many micro-financing initiatives which make funds available for 'have-nots', creating opportunities for marketers to penetrate into nonconventional markets. This is also improving income for the poor, creating a consumption surge. The example of Hindustan Levers (a subsidiary of Unilever) in India is being copied to exploit these opportunities by marketers in other developing nations. One such initiative on micro-financing at zero cost is Akhuwat in Pakistan, which created self-employment opportunities worth \$120 million for the local population. Amazingly, its recovery rate for loans extended to poor people is 99%.

5.4 Toward a Marketing Approach based on Social Class

Young consumers are also writing a new history of consumerism with the help of various social platforms. The digital shopping universe is playing a significant role. Even data mining and micro-segmentation may not give the right marketing results, as these consumers are 'real-time-experience driven' and thus would like to be co-creators of the product of their choice. Income and shopping attitudes are diverging, and they want to be known, be served and feel empowered.

China is a fast-growing retail market. A vast portion of this growth, particularly for luxurious and modern products, is fuelled by Chinese under the age of 32 who continue to spend more and are quite optimistic and enthusiastic about their future disposable income growth. In order to succeed in the Chinese market, it is vital to understand the core target market, consumers who are much younger than in other countries. Marketing strategies thus needed to be well linked to this group of customers' choice of products, media preferences and channel options.

While older generations are still influenced by TV ads more than any other medium, Chinese young people turn more and more to the Internet to learn about products and to shop.

More than 70% of the young people, as per researchers, use search engines such as Baidu (BIDU) to find out more about products. They are also more likely to trust product recommendations on a stranger's blog than from salespeople in stores or traditional advertising. They prefer to watch pirated DVDs or surf the Web. Chinese youth in large cities spend around 20 hours a week online which is around 8 hours more as compared to an American youngster.

For companies to be successful targeting young Chinese, they should focus marketing efforts where their consumers are. Males often play online games from Netease (NTES) or Shanda (SNDA), and buy DVDs and electronics on Alibaba's consumer-to-consumer site Taobao. Females navigate to blogs on Sina (SINA) or Tencent's portal QQ to track their favourite celebrities. Together with internet advertising, mobile phone advertising is also expected to catch more attention of brand owners as the number of mobile phone users in China increases. In 2008 there were 600 million users, which was almost 50% of the world total. Chinese youth change cell phones every 9 to 12 months as compared to 18-24 months in other countries. A fashionable mobile phone is rather a good status symbol for those who cannot express their status by owning a good car or similar high-value branded products.

Chinese youth prefer to buy brands that connect their products and their communication strategies to the hopes and aspirations of the people of the mainland rather than talking about their global positioning.

Retail services in China have traditionally been somewhat limited. Consumers going out to shop for products were accustomed to dealing with poorly trained salespeople with little knowledge of the products they sell and little interest in helping their customers.

However, as Chinese youth travel to Hong Kong and shopping centres further abroad in Milan or London, they are becoming accustomed to better service and are now demanding the same at home.

Consumers want to be able to touch products and compare different brands directly rather than being limited to looking at products from behind a counter. The stores that have benefited the most from this are foreign retailers such as Carrefour that have come in and not only specialized based on Chinese needs and preferences, but also adopted a higher level of basic service than what can be found in typical big-box retail stores.

Barton, Chen, & Jin, (2013), in research on Chinese consumers, divided the new middle class into two broader generations and called the younger one Generation 2 (G2). An estimated 200 million young consumers in 2012 accounted for 15% of urban consumption, and this is expected to grow to 35% in the next decade. This segment offers tremendous opportunity in terms of not only absolute value and number of products but also quality and creativity.

These G2 consumers are modern youth in their early 20s, born after the mid-1980 and have been raised in relative abundance. It was a time period of progressive economic reforms in China, and hence their families had more disposable income. As this young generation is also made up of only children (under the Chinese government's single-child policy), their parents were more liberal in spending on modern products. They are confident, independent minded and determined to display their independence of mind through their consumption of modern technological products. G2 consumers are more close to global youngsters, having a liking for modern lifestyles and digital gadgetry. They understand high-value products as an expression of upmarket quality and have developed a natural appreciation for the same. They are smarter consumers who prefer to check Internet comments of their peer groups about various products and brands to shape their thought processes and decision-making cycle. They are relatively more brand loyal and also seek emotional satisfaction out of the value proposition of various brands. These G2 consumers in China are not fully Western in their social integration; rather, they still have respect and regard for their ancestral value system and consider them important in their modern lifestyle. They do not spend lavishly—in other words, they go for optimal balancing of value with spending, are hard-working, aim for adequate savings and are desirous of getting higher education in the country or abroad. They avoid borrowing and would like to express success in terms of money, power and social status.

New emerging middle-class consumers in India are identified in three distinct segments, namely kids, youth (including young working singles) and urban Indian women. These segments are playing significant roles in transforming the consumption patterns in Indian markets.

There are 300 million children between 4 and 14 years of age in India who form a vast market by any standards. Along with their parents, these kids are now an important influencer in buying decisions regarding even products of high value and longer-term use, like cars, consumer electronics, laptops and air conditioners. Their parents also welcome their advice due to their knowledge of social media and ability to search for information better. Due to their exposure and clarity owing to social media exchange of information, their choices and recommendations are strongly built even at a

young age as compared to those of older generations. The speed of their mental and informational growth makes them confident and acceptance of their advice more viable (Upadhyay, & Joshi, 2014).

In India the majority of the population is below the age of 25 years, which is shaping a high-potential consumer market with new needs. In terms of aspirations, the younger generation—whether of urban or suburban geographic locality—have a similar mind set and approach to living standards. They are all Internet savvy and have greater access to information through technical gadgets (Magni, & Poh, 2013).

Similar to members of Chinese Generation 2, young Indian consumers also have a love for brands and gadgets but are equally comfortable with their parents' value system and social culture. They want to live for today and have good disposable income. The entrance of modern brands into Indian markets, creating hype and brand awareness through social media and channel-focused marketing communication programs, has resulted in a lot of spending on leisure and personal gratification. They love to spend more time away from home and love to practice extreme multitasking (using a mobile phone and an iPad as well as surfing the Internet while chatting with friends). Today's young consumers in developing nations are hugely mercurial and are smarter about building their knowledge based on real-time experiences curve either of his own or his widely connected world. This poses new challenges to marketers in every arena, be it product improvements, channel development, communication or in-store promotion. Internet or mobile marketing or some other innovative and creative tools matching their trust in word of mouth from friends would do the job. All these require deep search and investigation, as overdoing it could do substantial harm to the brand.

Developing economies are dominated by middle-income consumers in their 20s and early 30s who are self-determined, exposed, knowledgeable, doers and go-getters and want to experience the world and the innovations around it. They are disbelievers in conventional processes and methods of choosing and consuming but are ready to spend to realise their dream of a modern lifestyle. They lead in the digital era, and half of all global Internet users live in emerging markets. Brazilian social network penetration in 2010 was the second highest in the world. A recent research on urban African consumers in 15 cities in 10 different countries shows that almost 60% owned Internet-capable phones or smartphones. This is instrumental in paving greater ways towards e-commerce and mobile payment systems, and emerging new consumers will be the driving force behind digital revolution in this part of the world.

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