

# MKTG 407: Ethnicity & Class: Ethnic Identity in Consumer Behavior

## Consumer Behavior: Chapter 15

[Ioannis Kareklas]

### Slide #1

**Slide Title:** WSU Online Title Slide

Title: Ethnicity & Class: Ethnic Identity in Consumer Behavior

Speaker: Ioannis Kareklas

**Audio:**

Music

### Slide #2

**Slide Title:** Slide 2

*[Image of the book cover for Consumer Behaviour: Human Pursuit of Happiness In the World of Goods 3<sup>rd</sup> edition by Avery, Kozinets, Nittal, Raghurir & Woodside]*

15 ETHNICITY & CLASS

Ethnic Identity in Consumer Behavior

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**Audio:**

This is the last chapter we are going to cover in this class. It deals with ethnic, racial and class identity. Our race and identity influence many of our consumption behaviors. For example, they may determine how we dress, how we wear our hair, or what types of foods we are likely or even allowed to eat. The latter part of this chapter deals with income, wealth and social class.

### Slide #3

**Slide Title:** Slide 3

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Race vs. Ethnicity

Race: Original Human Subspecies, with different genes

Ethnicity: Cultural or national heritage

- Hispanic is NOT a Race.

- Asian Americans are more than 1 Race.

*[Image of an African American young man]*

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013

**Audio:**

Let's begin by defining race and ethnicity. While race and ethnicity are related concepts and they are often used interchangeably, they are in fact different. However, there is no consensus in the literature about the exact meanings and the appropriate uses for each of these terms. That is because different researchers have defined and used them differently in their own research.

We are going to rely on the definitions in our textbook for this class, but you should be aware that you may encounter slightly different, possibly contradictory definitions in other books. Race is a biological concept. It refers to the distinction among humans based on their genes from which we can identify various subspecies of humans who differ in their biological make-up. Race is one of the three biological distinctions we can make that physically separate people as a group. The other two being age and sex, which we discussed in the last lesson.

In contrast, ethnicity is a sociological concept. It refers to distinctions among people based on national or cultural heritage. Race can be a major criterion for ethnicity. For example, the term Caucasian can refer to both race and ethnicity. At the same time, an ethnic identity can cross more than one race and within any one race, there can exist multiple ethnic identities. For example, most Italians and most French are white, but they are also two distinct ethnic groups.

The U.S. Census Bureau recognizes four racial categories: white or Caucasian, black or African American, American Indian or Alaska native, and Asian, Native Hawaiian and Pacific Islander. This latter classification, Pacific Islander has ten sub categories of its own. Hispanics are not identified as a separate racial category, correctly so because Hispanic is not a race, but rather it is an ethnic identity. So, on the race question many Hispanics identify themselves as other. Of course, Hispanics can be either Caucasian or black, but they tend to identify as Hispanic.

Hispanic, not black or Hispanic, not white. So, when we speak of blacks or Caucasians, we usually refer to non-Hispanic black and non-Hispanic Caucasians. Another important point here is that not all Asians have the same genetic roots so therefore, they are not the same race either. For example, people from India may either have Caucasian or aboriginal and Australian roots. So, Asian is more of original identity, not a race. Many Asians who mark the Asian race category in census race questions are interpreting it as a geographic identity group as opposed to a race.

**Slide #4**

**Slide Title:** Slide 4

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Ethnic Make of the U.S. Population

*[Image of a pie chart depicting ethnic make of the U.S. population]*

*[Image of a group of students dressed up in their ethnical constumes]*

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013

**Audio:**

According to the U.S. Census Bureau, the United States population is composed of about 70 percent Caucasian Americans, about 12 percent African Americans, about 4 percent Asian Americans, almost 13 percent Hispanics and just shy of one percent Native Americans. However, minorities are on the rise. In 1980, only 20 percent of Americans were non-Caucasian of non-European origin. By 19990, this number has climbed up to 25 percent and it is currently projected to rise continually as minorities account for an ever increasing proportion of American children. In fact, current expectations are by the year 2050, Caucasians will not be a numerical minority in the U.S.

**Slide #5**

**Slide Title:** Slide 5

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Race/Ethnicity

Caucasians Asian-Americans

Hispanic African-Americans

- Demographics
- Psychographics
- Consumption Patterns

*[Image of a young lady dressed in a Hispanic costume]*

*[Image of a couple dressed in African costume]*

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013

**Audio:**

The marketing literature identifies four racial ethnic groups in the United States – African Americans; Caucasians or European Americans; Hispanics, who are not Caucasians or black; and Asian Americans. The culture values, norms and behaviors of these four racial ethnic groups are very noticeably different.

Given such diversity, marketing have to understand the ethnic make-up of U.S. consumers, which is why this topic is so important to our study of consumer behavior. The ever increasing number of immigrants and their U.S. born children are having a huge impact on the mainstream culture and customs of the United States. For example, today Tortilla chips are consumed in about 62 percent of U.S. household and perhaps even more striking is that soy sauce currently outsells ketchup.

Next, we are going to discuss the demographic and psychographic profiles as well as the consumption patterns of each of the four racial ethnic groups.

**Slide #6**

**Slide Title:** Slide 6

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior  
Age Profile by Race/Ethnicity

*[Diagram: FIGURE 15.2 A PORTRAIT OF ETHNIC GROUPS IN U.S.A. – AGE]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBOOK.COM © Open Mentis 2013*

**Audio:**

Let's first look at their demographic profiles. In terms of age, Caucasians have the largest proportion of the oldest population – the seniors, with about 14 percent compared to just under 5 percent for Hispanics. In terms of younger people; however, those under 25 years old, which includes generation Y and generation Z, Hispanics have the highest proportion, just over 48 percent compared to only about 32 percent among Caucasians.

**Slide #7**

**Slide Title:** Slide 7

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior  
Income Profile by Race/Ethnicity

*[Diagram: FIGURE 15.2 C PORTRAIT OF ETHNIC GROUPS IN U.S.A. – INCOME]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBOOK.COM © Open Mentis 2013*

**Audio:**

As you might expect, there are wide income disparities both within each group, but also across the four racial groups. The poorest are the African Americans with about 43 percent of them earning less than 25,000 dollars a year as an annual household income. Hispanics follow closely with about one in three of them earning less than 25,000 dollars a year compared to about just one in four among Caucasians and Asian Americans. The highest earning group is the Asian Americans with one in five earning over a 100,000 dollars a year compared to one in seven among Caucasians and only one in fifteen among Hispanics and African Americans.

Currently, Caucasians are the single largest majority group in the U.S., accounting for about 70 percent of the population. For that reason, their income distribution, which is presented here in this slide as a pie chart and their educational distribution, which is presented in the next slide, closely resembles that of the U.S. average.

**Slide #8**

**Slide Title:** Slide 8

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior  
Education Profile by Race/Ethnicity

*[Diagram: FIGURE 15.2 B PORTRAIT OF ETHNIC GROUPS IN U.S.A. – EDUCATION]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

**Audio:**

In terms of education, the least educated group is the Hispanics with nearly 15 percent of them with less than high school education. The most educated group is Asian Americans with 44 percent having at least a Bachelor's degree and 17.4 percent with a post graduate degree. The next most educated are Caucasians with about 26 percent having a Bachelor's degree and almost 10 percent with a post-graduate degree. African Americans and Hispanics lag far behind with only about 15 percent and 11 percent respectively having graduated from college.

**Slide #9**

**Slide Title:** Slide 9

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior  
Family Structure Across Racial/Ethnic Groups

*[Diagram: FIGURE 15.3 PORTRAIT OF ETHNIC GROUPS IN U.S.A.- FAMILY SIZE]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

**Audio:**

The four groups also differ in terms of family composition. More Caucasians and African Americans live alone, each about one in four compared to just one in six for Hispanics and one in five for Asian Americans. Furthermore, the proportion of married couple households is the highest among Asian Americans and the lowest among African Americans. Hispanics have the greatest proportion of married couples with children than any other group and once again, this is the lowest among the African Americans, who have the greatest proportion of single women raising children than any other group – about 19 percent compared to just 4 percent among Asian Americans.

**Slide #10**

**Slide Title:** Slide 10

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

## Race/Ethnicity

*[Image of a Caucasian couple]*

Caucasians (Non-Hispanic)

- Demographics
- Psychographics
- Consumption

*[Image of a Asian-American couple]*

Asian-Americans

- Demographics
- Psychographics
- Consumption

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBBOK.COM © Open Mentis 2013

### **Audio:**

Next, we are going to talk a little more about each group's demographics as well as their psychographics and consumption patterns. Let's start with the Caucasians. There is currently about 211 million Caucasian Americans and about 4 million of them are foreign born. Immigrants from Europe boomed between 1980 and 1995 when about 1.2 million Europeans migrated to the U.S. largely because of the breakdown of USSR. In terms of the psychological make-up, Caucasian Americans are very competitive, explicit and direct in their communications. They value youth and materialism and their market transactions tend to be impersonal, rational and efficiency driven. They purchase products and services with self-centered benefits in mind. These values and marketplace behaviors are in sharp contrast to the other groups as we will briefly discuss in a few minutes.

Not all European Americans think of themselves as ethnic, but many of them do and they tend to maintain strong ties with their ethnic homelands. These ethnic Europeans exhibit different marketplace behaviors from other non-Hispanic Caucasians in general and from other ethnic minorities in particular. They tend to spend their money more liberally on material goods and recreational activities. For example, they take more cruises than the average American. They also tend to gamble more in Casinos. As many as half of Germans, Italians and Portuguese identify themselves as having gambled in the past year. Among ethnic whites, conspicuous consumption is especially conspicuous, especially among the recent immigrants from Eastern Europe for whom buying expensive consumer goods is a strong symbol of having become an American citizen.

So, given all this, how should marketers respond? We should respond by adapting the mainstream marketing strategies to cater to ethnic European groups. For example, we could target different cruises to ethnic segments like the Greeks, the Italians and the Eastern Europeans and customize our food and entertainment to suit each group's tastes. Another strong marketing tool is to use ethnic languages in advertisements as ethnic whites tend to find their native tongue most appealing.

Now, let's talk about Asian Americans. They are the second fastest growing group, second only

to the Hispanics and they currently number about 14 million Americans. The term Asian American is merely conventional label as previously discussed as this group comprises many countries such as China, Philippines, India, Korea, Vietnam and Japan.

Confucianism has had a huge influence on many Chinese Americans, who accordingly value hard work, long term reciprocal relationships, respect for authority, harmony in all things, discipline and delayed gratification. Many Chinese Americans do not trust banks and instead they prefer to borrow within their own community and tend to save their money in a safe at home rather than in a bank.

Japanese Americans also value hard work, loyalty to the group and obligation to return favors and respect age and tradition. They also value education very highly and considering doing well in educational endeavors as an honor to the family and in some cases, even an honor to the whole community.

Korean Americans are very hard working, especially in their family-owned stores. Like other Asians, they also value family loyalty, education, frugality, and respect for their elders. Also, like Chinese they distrust banks due to unfavorable experiences with banks in their homeland. More than any other minority group, Korean Americans prefer to maintain their culture and resist assimilation and many of them return to Korea after they make some money here in the states.

Filipinos share many cultural traits with Hispanics, which we are going to talk about in the next slide. These include valuing the family and they are also very outgoing, sociable and just love having a good time. Asian Indians also value their families and many live in extended families where adults and children care for the elderly. Many are deeply religious and like to maintain their traditions and customs. In terms of marketplace behaviors, Asian Americans differ from the mainstream population in that they are the most utilitarian of all. Every purchase they make is deliberate and they tend to do a lot of comparison shopping beforehand.

However, as a group, they are willing to spend a lot of money. Especially, since they have a lot of money. Saving face is very important to Asians. Consequently, as a group, they don't like comparative advertising because they consider it bad to make someone else, the competitor, lose face. Many Asian Indians are vegetarians, but even for those who are not, certain meats are prohibited. For example, Hindus are not allowed to eat beef and Muslims are not allowed to eat pork or drink alcohol. Japanese Americans are very sophisticated customers. They generally have a lot of money to spend and tend to buy high quality mainstream brands. Finally, Chinese tend to pay cash when buying a car whereas Japanese like to finance it.

## **Slide #11**

**Slide Title:** Slide 11

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior  
Race/Ethnicity

*[Image of an African American young woman]*

African-Americans

- Demographics

- Psychographics
- Consumption

*[Image of a Hispanic family]*

Hispanic

- Demographics
- Psychographics
- Consumption

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013

**Audio:**

Next, let's talk about African Americans. There are currently about 40 million African Americans. Family and religious values are very important to them. Taking care of their loved ones comes first. Middle-class African Americans display a high degree of achievement motivation. As a group, African Americans are very conscious of their self-image and they like to look stylish. They also have a very strong racial awareness and ethnic pride and hence, they tend to support marketers and stores that show respect for their ethnic pride. As a community, research shows that they feel discriminated against in the marketplace. 88 percent of them report feeling them and about 56 percent report that they have noticed security guards watching them much more closely than other customers of different races.

African Americans love to shop. Many use it as a social occasion. Compared to the general population, they spend disproportionately more on clothing, shoes and home electronics. Their buying power has also grown substantially in recent years. It grew about 165 percent nationwide from 1990 to 2007 and is currently at around 1.1 trillion dollars. While the majority of research suggests that consumers prefer ads that feature same race spokespeople, African American models appear quite infrequently in mass media advertisements. Some research suggests that this is because advertisers are worried that if they feature a black spokesperson in their ads, they may alienate white consumers, a phenomenon known as white backlash. More recent research, however, suggests that marketers should use more black models in their ads, especially if they target black consumers.

Next, let's talk about Hispanics. There is currently about 42 million Hispanics and they are by far the fastest growing group – about 12.5 percent a year. In Miami, the account for the majority of consumers, about 57 percent, about 40 percent in Los Angeles and about 25 percent in New York. There are four major subgroups of Hispanics – Mexicans, Puerto Ricans, Cuban Americans and Dominicans. As a group, they value their value more than anything else as to them, their family and children always take precedence over their work. They are also very conscious of their appearances, buying cosmetics very heavily compared to the other groups and just like African Americans, they love to shop. They are especially fascinated by technology so they tend to buy a lot of new electronic gadgets. They also tend to be very brand loyal, about half of them buying their usual brands. Also, like the Chinese and the Koreans, they don't trust banks so they often pay in cash. Nationally, only one in three Hispanics has a checking account or owns a credit card compared to more than two thirds of all Americans.



## Slide #12

**Slide Title:** Slide 12

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior  
Ethnicity

Ethnic Identity

A person's knowledge of his/her membership in his/her ethnic group and the value and emotional significance attached to that group.

Positive emotion → Celebrating one's ethnic identity

Vs.

Negative emotion → Distancing from it.

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

### **Audio:**

So far we have looked at ethnicity as an all or nothing descriptor of consumers. However, we all know people who do not act like their ethnic type or who don't see themselves in terms of ethnic labels. This phenomenon is captured in the concept of ethnic identity. It refers to a person's knowledge of her or his membership in a social group and the value as well as the emotional significance that they attach to that membership. In other words, it refers to how much they affiliate with their ethnic group. Consumers with low ethnic identity are more assimilated into the mainstream culture while those with high ethnic identity celebrate their ethnicity and engage in many of the consumption rituals of their respective ethnic group.

## Slide #13

**Slide Title:** Slide 13

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Moderating Effect of Ethnic/Racial Identification

*[Diagram of a graphic representation of the effect of racial identification for Caucasians and African Americans]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

### **Audio:**

This slide presents a marketing example regarding the influence that a consumer's identification with their ethnic or racial in-group can have on their advertising evaluations. Ethnic marketing is a major research area of mine and this research came out of my doctoral dissertation. It is based on data from a total of 8,919 consumers with 3,236 black and 5683 white consumers. These consumers were exposed to identical advertisements featuring either a Caucasian or an African American endorser. Consumers who scored high on their ethnic or racial identification,

were twice as likely to prefer ads featuring in-group endorsers as compared to consumers who scored low on ethnic racial in-group identification.

**Slide #14**

**Slide Title:** Slide 14

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Income & Wealth

Income – the amount of monetary earnings received periodically, regularly.

- Discretionary Income

Vs.

Wealth – a consumer’s total financial resources.

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

**Audio:**

Next, we are going to talk about income, wealth and social class. Let’s first distinguish between income and wealth. Income refers to the amount of monetary earnings that a person gets periodically on a regular basis. This can consist of wages and salaries or it might be income from one’s personal business if the person is self-employed. Discretionary income refers to the amount of personal income that is left over after the individual pays her or his taxes and after she or he buys necessities. Wealth determines whether a person is poor or rich or somewhere in between. It refers to a person’s total financial resources. Of course, income is one of the components of a person’s financial resources. The other components include personal property like homes or cars; savings , which usually come from the accumulation of past income; as well as other income producing assets such as real estate, stocks and bonds. Wealth also includes any money, stocks, bonds or houses that a person has inherited from her or his relatives. For some consumers income is the principal or even the only determinant of their wealth.

**Slide #15**

**Slide Title:** Slide 15

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Income Distribution in the U.S.

*[Diagram of income distribution in the U.S.]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

**Audio:**

A universal fact of life is that in virtually all societies across history income has not been evenly distributed across the population. In most cases, the vast majority of the population earns a very low income whereas a very small percentage of people earns a very high income. This is pretty evident in this figure, which shows the distribution of income in the United States.

Please note that due to rounding errors, the percentages shown on this figure do not adopt to a 100 percent. As shown, only about 2 percent of Americans make over 200,000 dollars a year whereas 77 percent make less than 75,000 dollars a year. Unfortunately, our book does not discuss three very important measures of national income and income distribution: the GINI index, the Gross National Product and the Gross Domestic Product. So, I have added these to this presentation on the next slide.

## Slide #16

**Slide Title:** Slide 16

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

GINI Index, GDP, & GNP

- The GINI Coefficient & the GINI Index  
*[[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_income\\_equality](http://en.wikipedia.org/wiki/List_of_countries_by_income_equality)] [Image of the Lorenz curve]*
- GDP (Gross Domestic Product)  
*[[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(nominal\)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal))]*  
vs.
- GNP (Gross national Product)  
*[<http://www.studentsoftheworld.info/infopays/rank/PNB2.html>]*

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBOOK.COM © Open Mentis 2013

### Audio:

Once again, the material on this slide is not in your book, so please make sure to take good notes. Let's first talk about the GINI coefficient, which is a measure of statistical dispersion that is mostly used as a measure of an equality of income or wealth distribution. The GINI coefficient is a ratio with values between zero and one. Zero corresponds to the rather unrealistic situation of perfect equality, where everyone has exactly the same income. One is also unrealistic. One is also unrealistic. It corresponds to perfect inequality, where one person has all the income while everyone else has zero income. Therefore, a low GINI coefficient indicates more equal income or wealth distribution while a high GINI coefficient indicates more unequal distribution.

The GINI index is the GINI coefficient expressed as a percentage. For example, Sweden's GINI coefficient of .23 corresponds to a GINI index of 23. The percentage sign is usually omitted in GINI indexes. Worldwide, GINI coefficients range from approximately .23 in Sweden to .71 in Namibia.

Next, let's talk about GDP and GNP. First, GDP. Gross Domestic Product is one of the measures of a national income and output for a given country's economy. It is defined as the total market value of all the final goods and services that are produced within a country in a given period of time, usually a calendar year. GDP can be contrasted with GNP, which stands for Gross National Product.

The difference is that Gross Domestic Product is concerned with the region in which the income is generated. In other words, GDP focuses on where the output is produced rather than who produces it. So, GDP measures all domestic production disregarding the nationalities of the companies who produced it. In contrast, Gross National Product measures net foreign income by focusing on who owns the production. For example, in the United States, GNP measures the value of the output produced by American firms regardless of where the firms are located in the world.

Now, please press on the hyperlinks on this slide to see how the different countries of the world stack up against each other with regards to these three measures of national income and wealth distribution.

### **Slide #17**

**Slide Title:** Slide 17

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Income Allocation

Discretionary Income & Engel's Law

*[Image of a table depicting how American Consumers spend their money (2000) from MYCB Textbook]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

#### **Audio:**

Of great importance to marketers is an understanding of how consumers spend their money on various product categories such as clothing, food and transportation. Although no two households spend their money in exactly the same way, statistical analysis of product expenditures by households from diverse income groups has shown a pretty consistent pattern of how income is allocated over the various expense categories. Not surprisingly, poor families spend their income largely on necessities.

They spend it on food, housing and on basic clothing. Consumption items other than these necessities are called discretionary products because consumers buy these with discretionary income. Once again, discretionary income refers to personal income that is left over after paying for taxes and necessities. Therefore, as income rises from low to moderate levels, people tend to eat more food and more of the foods that are not considered staples. So, they will buy and consume more food and more expensive food items.

Importantly, we should note that although the absolute amount that is spent on food increases as income increases from low to moderate levels, the proportion of income spent on food remains the same. As income increases even further, the proportion spent on food starts to decline. After all, one can only eat so much.

The percent of income spent on housing rises with income in the very low income range, but then remains fairly constant. In other words, as people make more money, they tend to live in larger, more expensive houses. With regards to clothing, cars and other luxury goods, spending on these items rises sharply with income until a very high upper limit is reached. Finally, savings rise dramatically with income and they never decline. The spending patterns we just discussed as described by Engel's Law.

Engel's Law was proposed about a 100 years ago and it still stands true today meaning that several studies, even recent studies, have confirmed these findings. Engel's law is a very important concept for marketing. It states that as income rises, the percentage on food declines, the percentage spend on housing remains constant and the percentage spent on savings increases. This topic as I said is very important. So, let me say that again. So, once again, Engel's law states that as income rises, the percentage spent on food declines, the percentage spent on housing remains constant while the percentage spent on savings increases.

The table on this slide shows how American consumers spend their money on various expense categories. This data was compiled by the U.S. Department of Labor, which tracks how consumers allocate their income by asking about 15,000 consumers who are chosen at random to record in diaries how they spend their money down to the last penny.

## **Slide #18**

**Slide Title:** Slide 18

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

MONEY

MONEY ATTITUDE – Consumer View of Money

*[Image of a man hugging large dollar bills]*

4 SEGMENTS:

- 1) Flaunters
- 2) Big-spenders
- 3) Planners & Savers
- 4) Tightwads

Discussion:

- Which type are you?
- Do you know someone of each type?

*[Image of front cover for CONSUMER BEHAVIOR]* Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013

**Audio:**

Next, we are going to talk about money attitude, which refers to a consumer's view and orientation towards money. In other words, money attitude refers to what money means to the consumer and how they want to utilize it. Some consumers try to show off their money while others go to great lengths not to let others know how much money they have. Some consumers see only one purpose for money – to spend it while others want to see it accumulate and they tend to save it. For the same amount of income, consumers' money attitudes determines their spending and consumption habits.

We can divide consumers into four segments depending on how they spend their money. The first group is the flaunters. These are consumers who have a lot of money and they try to show it off. These consumers get pleasure from buying conspicuous products such as expensive cars, luxury cloths and jewelry. These products allow them to show off to others how much money they have. Furthermore, these consumers enjoy their possessions more for their exhibition value than for their utilitarian value.

Next, we have the big-spenders. These are consumers who are not necessarily wealthy, but they like to spend big. So, they are not as wealthy as they flaunters, but spend money just as much as the flaunters do if not more so. Big-spenders tend to be impulse buyers and often end up living beyond their needs. So, they tend to accumulate a lot of debt. In contrast to flaunters, they tend to buy a lot of inconspicuous goods and services such as cosmetics and they eat out, they travel a lot and so on.

Third, we have planners and savers. For this group, money is a means of providing for a reasonable living and ensuring that they will have a secure future. They like to save and accumulate their wealth for future use. They are very avid comparison shoppers, heavy users of coupons and tend to evaluate every purchase they make very careful, always looking for the best value in everything they buy.

Finally, we have the tightwads, who are on the other extreme of flaunters. They are obsessive about saving as much money as possible. They avoid buying anything unless it is absolutely necessary and they always buy the bare bones versions of everything they buy, trying to pay the absolute lowest price. They also tend to try very hard to find new uses for things that they already own or they try to extend the useful life of their products.

Now, please discuss on Angel, which of these four classifications best describes your own attitude towards money? Also, discuss examples of people that you know who are in each of the other categories.

**Slide #19**

**Slide Title:** Slide 19

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Consumer Sentiment

- Refers to consumer's expectations about his/her well-being in the near-future.
  - “More than the current financial resources, consumer sentiment (expected future

resources) influence consumer buying behavior.”

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

**Audio:**

So, as we just discussed, consumers’ money attitudes determine their spending habits. Money attitude is a relatively enduring quality of a consumer. Much like a personality trait, it does not change over time, but consumers also hold an attitude towards spending that does change from time to time. How it changes depends on how consumers expect their economic futures to change. This is called consumer sentiment and it refers to a consumer’s expectation about her or his financial well-being in the near-future. Specifically, consumers can be optimistic, pessimistic or realistic about their economic outlook, which will cause them to either spend more or less money now. Consumer sentiment has been shown to influence buying behavior even to greater extent than a consumer’s current financial level of resources.

**Slide #20**

**Slide Title:** Slide 20

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

**SOCIAL CLASS**

- A Relative standing of a person in society terms of social prestige or status.
  - NOT the same as Income.

*[Diagram depicting some of the determinants of social class]*

*[Image of front cover for CONSUMER BEHAVIOR] Human Pursuit of Happiness in the World of Goods MYCBBOOK.COM © Open Mentis 2013*

**Audio:**

Finally, today we are going to talk about social class. Most researchers agree that social class is a more meaningful characteristic of consumers than income or even financial resources in understanding and predicting consumer behavior. Social class refers to the relative standing of a person in society in terms of status. In other words, social class is a prestige hierarchy in a society.

It is not the same thing as income. For example, the U.S. president gets paid about 400,000 to 500,000 dollars a year, but is pretty much at the top of the hierarchy. If you compare the income of the president to the income of many people on Wall Street, you realize that there is a huge disparity. This slide presents some of the determinants of social class. Income is an important factor in determining one’s social class, but it is certainly not the only determinant. Other determinants include education and occupation. So, a college professor who is highly educated and holds a prestigious job belongs to a higher social class than a car salesman or car saleswoman, who may be making two or three times as much money as they professor. Another determinant is one’s accomplishments that give her or him social recognition, respect and prestige. Finally, a person’s social capital is the fourth and final determinant of their social

class. Social capital refers to our connections, the network of people that we know.

## **Slide #21**

**Slide Title:** Slide 21

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Some Core Concepts of Social Class

- Status Crystallization: When all components of social class become consistent.
- Underprivileged: Those earning substantially below the median of that class
- Overprivileged: Those earning substantially ABOVE the median of that class.
- Social Mobility:
  - Upward vs. Downward
  - Across vs. Within generations

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### **Audio:**

This slide discusses some of the core concepts of social class. First, status crystallization. Because social class is made up of multiple characteristics, two people may belong to the same social class and yet have very different incomes, occupations or education. Status crystallization occurs when all components of social class are consistent. Generally, economically stable societies have a greater degree of status crystallization.

One reason for a lack of status crystallization can be the income diversity between the same occupation and educational groups. For example, MBA graduates can earn a starting salary of about 50,000 to 150,000 dollars a year. The median income for a recent MBA graduate in the U.S. is around 80,000 dollars a year. Those earning substantially below the median income might feel unprivileged whereas those earning substantially above the median might feel overprivileged. Both groups generally strive to keep up the appearance of the social class defined by their education and their occupation. In other words, the underprivileged struggle to keep up by buying homes, cars and spending on leisure activities that they may not yet be able to afford, but that they reflect the tastes of their fellow executives while the overprivileged tend to curb their desires to indulge in super luxury items for fear of being seen by their peers as flaunting their disproportionate wealth.

Finally, let's talk about social mobility. Although people do not generally change their social class over night, it is possible to move both up and down, to a higher or to a lower social class. Moving up to a higher social class is called upward mobility and moving down to a lower social class is called downward mobility. This can occur in two different ways. It can occur across generations when grown up children rise above or fall below the social class of their parents, but it can also occur within generations when over time the same adult moves into a different social class whether it is higher or lower.



**Slide #22**

**Slide Title:** Slide 22

15 Ethnicity and Class – Ethnic Identity in Consumer Behavior

Social Classes in U.S.

- The Mass market is really the middle class.

*[Image of a graphic depicting the various social classes and their respective proportions in the U.S.]*

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**Audio:**

This slide presents the various social classes and their respective proportions in the U.S. As shown, the middle and the working classes are indeed the great majority in the United States. This concludes this presentation.