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Asset-Limited, Income-Constrained Consumers: A Macromarketing Perspective

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The purpose of this paper is to report on an ongoing study to understand the production, consumption and family life cycle of households that possess limited assets, and face limited prospects for income growth. In this paper we apply a macromarketing perspective to understanding the family structure and consumption contexts of households with income between $25,000 and $45,000, with heads of households between 25 and 55 years of age. Based on data from the US Bureau of Labor Statistics, preliminary findings suggest that these asset limited, income constrained (ALIC) households differ from higher and lower income households in terms of household structure, employment and consumption. Macromarketing frameworks are used to elaborate on these findings.

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Macromarketing has long had an interest in the lifestyles and consumption patterns of the poor (Alwitt and Donley 1996; Hill and Stephens 1997) and very poor (Hill and Stamey 1990). Poverty limits mobility and opportunity, and the poor often pay more, in real and absolute terms, for goods and services (Calpovitz 1963). Similarly, macromarketing efforts have addressed the necessary economic and political conditions for economic development (Cox 1965; Carman 19832; Sybrandy, Pirog and Tuninga 1991). While much research exists to understand the effects of marketing systems and public policy on the wealthiest and poorest among us, less is known about the effects of changing economic circumstances on the lower middle class, with modest skill sets and few assets to draw upon to improve their economic position. Increasingly, opportunities in high income economics flow to those Richard Florida (2002) calls the "creative class" – well-educated and able to engage in economic advancement through the creation and management of ideas. As Levy and Murname (2005) point out, "Good jobs will increasingly require expert thinking and complex thinking. Jobs that do not require these tasks will not pay a living wage." Those stuck along the second and third quintile of the income distribution, above the poverty line but below the rising incomes of the upper middle class, lack the attention policy makers or marketing infrastructure afforded the income-deprived or the asset-endowed. They have sufficient income to keep themselves above the poverty line, but are constrained in their ability to turn income into future assets. ALIC is not poor, but neither does he/she have prospects for an upper middle class lifestyle. In America today, households earning between $25,000 and $45,000 get by, but don't get ahead.

THE ALIC PROJECT

The ALIC Project addresses two broad questions. First, what do we know about asset-limited, income constrained households in the aggregate? Second, how do the production and consumption patterns of ALIC differ from the population as a whole? In the initial stage of this project, these questions are addressed by examining the demographic, economic and consumption patterns of ALIC are compared to median patterns, and to those with higher and lower incomes. Findings in the study are based on data from the Bureau of Labor Statistics' Consumer Expenditure Survey program (U.S. Bureau of Labor Statistics 2004), an annual survey of 7,500 US households. Currently, findings from these data serve as the basis for follow-up interviews and focus groups conducted in Tampa, Florida, and Las Vegas, Nevada.

For purposes of this study, ALIC households are defined as those making between $25,000 and $45,000 annually, with heads of households between 25 and 55 years of age. ALICs are individuals and households with limited ability to access current (income) and future (asset) resources. For ALIC, this is not a transient state: they are not college students with limited income but substantial future assets; nor are they the retired households, with limited current earnings, but a pension or nest egg of previously earned assets off of which they live. ALIC can expect to spend his/her working career above the poverty line, but below the tide that raises others in the middle class (Baumol, Blinder and Wolf 2003).

ALIC AND MACROMARKETING

Macromarketing is the study of the effects of marketing systems on society, and the effects of society on marketing systems (Hunt 1981). Macromarketing differs from its managerial counterpart in its recognition of the marketing system as the unit of analysis (rather than dyadic exchanges), and in its consideration of the external causes and effects of exchange and exchange systems. Unlike managerial marketing, which is interested in the causes or outcomes of a particular buyer-seller interaction, macromarketing is interested in the social, political or economic context that makes exchange desirable in the first place, and the effects of the aggregated exchanges on society. What light can macromarketing shed on our understanding of asset limited, income-constrained households? Two perspectives are offered here: a functionalist perspective and a systems perspective. Each offers insight into the life of ALIC.

The Functionalist Perspective

Fisk (1967) argued that five basic functions flow within any transaction network: communication; title; possession; finance; and risk. In cases of heterogeneous demand, markets will allocate these flows differently. For example, in some cases, consumers take on the function of financing, while in other cases credit will be borne by the seller. In some cases risk will be outsourced to insurance companies, while in other cases firms will self-insure. Cox (1965) and Layton (1981a; 1981b; 1989) developed the techniques to measure and understand the flows of these functions through economies. Of interest to us in this case is whether the functions of markets operate differently for ALIC than for other income strata.

The Systems Perspective

Mittelstaedt, Kilbourne and Mittelstaedt (2006) review the first twenty-five years of research in the *Journal of Macromarketing*, and offer three general findings, based on the accumulated work: (1) individual transactions take place in the context of complex systems; (2) reflecting heterogeneous demand across different groups of consumers, facing different circumstances; and (3) with consequences far beyond the individuals involved in the exchange. This means, for example, that households choose to engage in exchange because it makes sense in the context of its production-consumption cycle, which may differ from others because of social, economic or political circumstance, and result in different consequences across households and time. Such a system is reflected in Figure One. ALICs live in complex systems of economic and political circumstance, and their needs likely differ from either their poorer or wealthier counterparts.

These perspectives of macromarketing are not mutually exclusive. Together they are applied to understand how ALIC households manage the flows within an exchange economy, and the choices they make in the context of the complex web of their lives. Our intention is to better understand the needs and choices of ALIC.

Project Findings

Demographic, employment and consumption profiles of ALIC households were compared with their economic counterparts above and below their income stratum, controlling for working age of head of household (25-55). When age is restricted, 4,659 of 7,779 cases reported in the Consumption Expenditure Survey were included in the analysis (59.89%). When accounting for age, ALIC represented 28.4% of the population, where 15.0% have a lower household income ("lower income"), and 56.6% have an income in excess of ALIC ("higher income"). We summarize two important findings concerning ALIC: who s/he is, and what s/he consumes. Each lends insight into the daily life of the asset-limited, income-constrained, with macromarketing implications.

Key Finding 1: Home Ownership, Household Structure and Education Matter. Tables 1 – 5 summarize the housing, marital status and education of ALIC, compared to other income strata. In each case, counts and within-group proportions are reported. What distinguishes ALIC from upper income households? First, the plurality of ALIC households rent (48.3%), compared to the vast majority of higher income households that own with a mortgage. For upper income households, real property serves as a source of wealth (De Soto 1999), and mortgages allow households to build future assets, tax free. This is not the case of almost half of ALIC households. Second, the majority of ALIC households are single income households, while the majority of upper income households have two or more earners. This is important because the more earners in a household the greater its ability to advance, economically. Additionally, upper income households are more likely to benefit from the repeal of a "marriage tax," a "marriage benefit" enjoyed by households with a spouse at home.

The rate of marriage is much higher among higher income households than ALIC households. ALIC is as likely to be single or divorced (49.7% combined) as he/she is to be married (43.5%), while nearly three quarters of upper income persons are married (74.9%). Of equal importance, upper income households tend to possess two college degrees in the workforce, while ALIC is most likely to have a high school education. Put another way, the economic and social benefits of marriage are tied to long-term, educated partnerships. This combination of marriage and dual income serves as the engine of long-term income growth for upper income households, but not for ALIC.

Key Finding 2: Constrained income limits ALIC's accumulation of assets. Tables 6-9 summarize ALIC household consumption, compared to others. Differences in income influence patterns of expenditures between ALIC and upper- and lower-income households. Three are worthy of note. First, those in the lowest income group spend 39% of their income on housing as compared to 36% for ALIC and 32% among those in the upper income group. The major distinction between ALIC and upper income households is that upper income households are making tax-exempt mortgage interest payments, while ALIC is just as likely to be paying taxable rent. While a house serves as shelter for ALIC, it serves as an asset for upper income households.

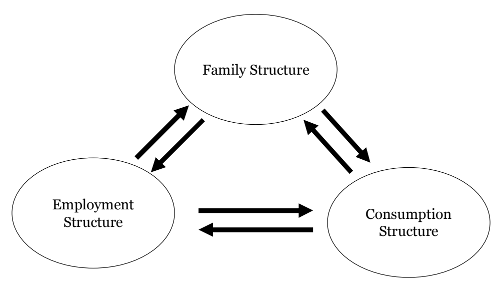
Second, while transportation spending is proportionally equivalent across ALIC and higher income households, the latter tends to buy new vehicles, while the ALIC buys used cars. These may or may not travel through similar channels, but they reflect very different marketing infrastructures. New cars are offered with warranties and manufacturer financing. For used cars these functional flows of risk and finance are borne by the consumer.

Combined, food, shelter and transportation account for 77% of lower income expenditures, 71% of ALIC expenditures, but only 63% of upper income expenditures. Where does the difference go? For upper income households, the third largest expenditure is insurance and pensions, i.e., investments in future assets. Indeed, while lower income households spend five times on food as insurance and pensions, and ALIC spends nearly twice as much on food as insurance and pensions, upper income households spend 125% of food outlays on insurance and pensions. While tax deferments are available to all, only the upper half of households appear to reap their benefits.

Discussion

The complex system in which ALIC works is different from that of either lower or upper income households (See Figure Two – Four). From a functionalist perspective, lack of title to one's home reduces ALIC's future asset accumulation, and deprives him/her of the single greatest source of credit for entrepreneurial business activity, risk management, etc. Tax policies encouraging home ownership are available, but not actionable. The long term consequence is that ALIC can rely on housing for shelter, but not as an asset to be managed.

Figure One: The Household Production-Consumption System



Similarly, the functions of marketing systems are distributed differently between new and used vehicles. In the case of new vehicles, manufacturers bear much of the finance and risk functions necessary for the flow of these markets. In the case of used vehicles, these functions are either borne or arranged for by the consumer. The result is that for those who are credit-worthy, new cars can cost less than their used counterparts, in terms of financing and repair, even when they have higher initial sticker prices. For ALIC, who drives mostly used cars, transportation is more an expense, and less an asset, than for upper income households.

Figure Two: The Higher Income Production-Consumption System

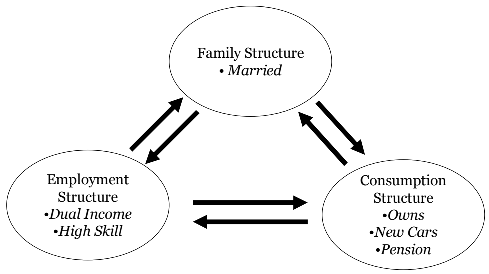
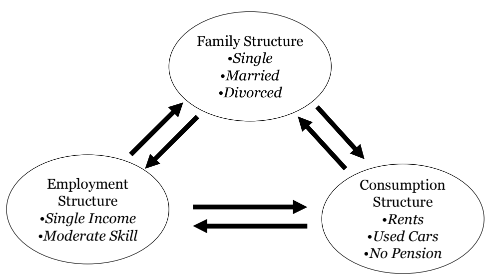


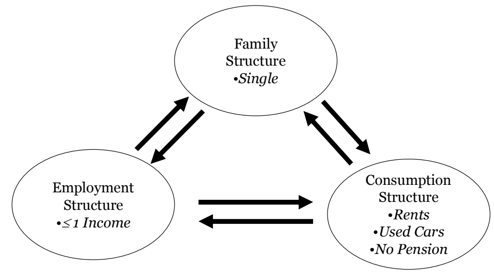
Figure Three: The ALIC Production-Consumption System



Finally, households that divert current income into future assets have different planning horizons than their asset limited counterparts. For ALIC the inability to divert income to future use means s/he either limits her/his future expectations, or makes current decisions with limited thought to future asset implications (i.e., excessive debt). In focus groups we are seeing evidence of both. In either case, the link between current income and future assets is not as strong as it is for upper income households.

In Mittelstaedt, Kilbourne and Mittelstaedt's (2006) summary of twenty five years of macromarketing theory development, three principal findings emerge: markets are complex systems; demand is heterogeneous; and choices of market participants have choices far beyond themselves, for better or worse. Each of these is reinforced in the findings of the ALIC project.

Figure Four: The Lower Income Production-Consumption System



First, markets are complex systems**:** The circumstance in which ALIC find him/herself reflects the complexity of market and social systems. The manufacturing economy for which ALIC prepared has given way to productivity increases and job mobility. In a previous generation, a high school education would have been sufficient to support a long-term, stable household. These jobs are no longer the backbone of the U.S. economy, having been replaced by a knowledge economy (Danzinger and Gottschalk 1995; Florida 2002; Levy 1998). One result is that the marketing systems designed to meet the needs of higher income households either have no value to ALIC, or do not see ALIC as their customer.

Second, demand is heterogeneous across income and asset strata: The consumption patterns of ALIC differ from upper income households, and from the poor. In many ways, the channels distribution designed for ALIC are fundamentally different from those above, or below, their counterparts. For example, ALIC spends as much, proportionally, on transportation as upper income consumers, but gets less for their money because they take on the functions of financing and risk. Equally, by renting they lose out on both the tax advantages of homeownership and the asset accumulation offered by real property. The result is that the new working class cannot afford to buy into the American Dream the way their parents could.

Finally, the choices of market participants have implications far beyond themselves, for better or for worse. In some ways, ALIC is a victim of their own consumption. ALIC leverages their limited assets by shopping in low priced retail formats. In turn, these retailers compete on price to attract ALIC, in turn seeking the lowest cost supplies. The result is a system where ALIC the consumer cannot afford to support ALIC the producer. In other ways, their consumption options are limited because retailers do not see ALIC as their customer.

IMPLICATIONS AND CONCLUSIONS

What makes ALIC? In the modern, American economy, asset-limited, income-constrained households find themselves in a web of production and consumption that allows them to get by, but not ahead. Why?

First, in terms of marketing systems, ALIC's needs differ from others in the economy. ALIC's Production-Consumption System possesses comparatively fewer, and less educated, producers than their upper income counterparts, and bear different responsibilities and opportunities in the marketplace. If, for example, ALIC doesn't feel like banks want him/her as a customer, they are probably right. Macromarketing recognizes that variety of assortment and retail outlet reflects differences in demand.

Second, policy tools needed to address ALIC's needs must be very different than those of higher or lower income, and require different mechanisms. The needs of the poor are taken care of through transfer payments and entitlement programs, while the needs of the wealthy are provided for in tax policy. No equivalent mechanism exists for ALIC. ALIC needs policies and programs that promote long term, stable marriage, and that open educational doors. ALIC needs opportunity, not entitlement or wealth protection.

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Table 1: Home Ownership and Rental, by Income

		Lower Income	ALIC	Higher Income	Total
Own with Mortage	Count	127	494	1,863	2,484
	%	18.1%	37.4%	70.7%	53.3%
Own w/o Mortage	Count	116	181	314	611
	%	16.5%	13.7%	11.9%	13.1%
Rent	Count	450	638	451	1,539
	%	64.0%	48.3%	17.1%	33.0%
Occupy w/o rent	Count	10	8	9	26
	%	1.4%	0.6%	0.3%	0/6%
Total	Count	703	1,321	2,636	4,660
	%	100.0%	100.0%	100.0%	100.0%

Table 2: Number of Earners per Household, by Income

# OF WAGE EARNERS		Lower Income	ALIC	Higher Income	Total
0	Count	196	10	10	223
	%	27.9%	1.3%	0.4%	4.8%
1	Count	429	807	674	1,910
	%	61.1%	61.1%	25.6%	41.0%
2	Count	67	446	1,536	2,049
	%	9.5%	33.8%	58.3%	44.0%
3 or more	Count	10	51	416	477
	%	1.4%	3.9%	15.8%	10.2%
Total	Count	702	1,321	2,636	4,659
	%	100.0%	100.0%	100.0%	100.0%

Table 3: Marital Status, by Income

MARITAL STATUS		Lower Income	ALIC	Higher Income	Total
Married	Count	194	577	1,974	2,745
	%	27.6%	43.6%	74.9%	58.9%
Never Married	Count	261	339	293	893
	%	37.1%	25.6%	1.1%	19.2%
Divorced	Count	166	319	319	795
	%	23.6%	24.1%	11.8%	17.1%
Separated	Count	56	57	36	149
	%	8.0%	4.3%	1.4%	3.2%
Widowed	Count	26	30	23	79
	%	3.7%	2.3%	0.9%	1.7%
Total	Count	703	1,322	2,636	4,661
	%	100.0%	100.0%	100.0%	100.0%

Table 4: Education of Reference Person, by Income

EDUCATION		Lower Income	ALIC	Higher Income	Total
< HS	Count	191	199	128	518
	%	27.2%	15.1%	4.9%	11.1%
HS Graduate	Count	228	407	521	1,156
	%	32.4%	30.8%	19.8%	24.8%
Some College	Count	144	320	512	976
	%	20.5%	24.2%	19.4%	20.9%
Associate's Degree	Count	57	121	334	512
	%	8.1%	9.2%	12.7%	11.0%
Bachelor's Degree	Count	67	218	730	1,015
	%	9.5%	16.5%	27.7%	21.8%
Grad/Prof School	Count	16	56	411	483
	%	2.3%	4.2%	15.6%	10.4%
Total	Count	703	1,321	2,636	4,660
	%	100.0%	100.0%	100.0%	100.0%

Table 5: Education of Spouse, by Income

EDUCATION		Lower Income	ALIC	Higher Income	Total
< HS	Count	48	120	114	282
	%	30.0%	21.8%	5.9%	10.6%
HS Graduate	Count	63	213	499	775
	%	39.4%	38.7%	25.6%	29.2%
Some College	Count	29	100	322	451
	%	18.1%	18.1%	16.5%	17.0%
Associate's Degree	Count	3	46	231	280
	%	1.9%	8.3%	11.9%	10.5%
Bachelor's Degree	Count	12	55	520	587
	%	7.5%	10.0%	26.7%	22.1%
Grad/Prof School	Count	5	17	261	283
	%	3.1%	3.1%	13.4%	10.6%
Total	Count	160	551	1,947	2,658
	% of HH	22.7%	41.7%	73.9%	57.0%
	%	100.0%	100.0%	100.0%	100.0%

Table 6: Consumer Expenditures of 25-55 Year Olds, by Income
Summary of Annual Expenditure, by Percentage, 2004

	Lower Income	ALIC	Higher Income	All Households
Housing	39%	36%	32%	33%
Transportation	18%	19%	19%	19%
Food	20%	16%	12%	14%
Personal insurance and pension	4%	9%	15%	13%
Entertainment	4%	4%	5%	5%
Health care	4%	5%	4%	5%
Cash contributions	2%	2%	3%	3%
Apparel and services	3%	3%	3%	3%
Education	2%	1%	2%	2%
Adjusted miscellaneous expenditures	1%	2%	2%	2%
Alcoholic beverages	1%	1%	1%	1%
Tobacco and smoking supplies	2%	1%	1%	1%
Personal care	1%	1%	1%	1%
Reading	0%	0%	0%	0%
TOTAL EXPENDITURES	**$19,480**	**$29,947**	**$58,771**	**$44,676**

* Expenditures are drawn from second quarter 2004 Consumer Expenditure Interview data and multiplied by four for yearly estimates. Consumer Units (households) with reference persons between the ages of 25 and 55 are included in this table.

Table 7: Housing Expenditures of 25-55 Year Olds Who Own with a Mortgage, by Income

	Lower income	ALIC ($20,000 - $45,000)	Higher income	All Consumer Units
Housing (shelter and utilities)	$7,604	$10,673	$18,729	$14,768
	(39%)	(36%)	(32%)	(33%)
*Owned Dwellings**	$1,575	$3,150	$9,326	$6,406
	(8%)	(11%)	(16%)	(14%)
Mortgage interest	$881	$1,920	$5,962	$4,050
	(5%)	(6%)	(10%)	(9%)
Property taxes	$427	$661	$2,112	$1,447
	(2%)	(2%)	(4%)	(3%)
Maintenance, repairs, insurance	$267	$569	$1,251	$909
	(1%)	(2%)	(2%)	(2%)
Rented Dwellings	$3,283	$3,547	$1,816	$2,528
	(17%)	(12%)	(3%)	(6%)
Rent excluding rent as pay	$3,146	$3,527	$1,807	$2,497
	(16%)	(12%)	(3%)	(6%)
Rent as pay	$137	$20	$8	$31
	(1%)	(0%)	(0%)	(0%)

* these are expenditures related to the actual physical shelter, excluding utilities, household operations and household furnishings.

Table 8: Transportation Expenditure of 25-55 Year Olds, by Income

	Lower income	ALIC ($20,000 - $45,000)	Higher income	All Consumer Units
Transportation (vehicle & expenses)	$3,532	$5,732	$11,135	$8,457
	(18%)	(19%)	(19%)	(19%)
Vehicle Purchases (net outlay)	$1,490	$2,119	$4,767	$3,522
	(8%)	(7%)	(8%)	(8%)
Cars & trucks, new	$383	$554	$2,344	$1,541
	(2%)	(2%)	(4%)	(3%)
Cars and trucks, used	$1,106	$1,504	$2,279	$1,882
	(6%)	(5%)	(4%)	(4%)
Gasoline & motor oil	$947	$1,479	$2,279	$1,882
	(5%)	(5%)	(4%)	(4%)
Other vehicle expenses	$962	$1,960	$3,598	$2,736
	(5%)	(7%)	(6%)	(6%)

Table 9: Insurance and Pension Expenditures of 25-55 Year Olds, by Income

	Lower income	ALIC ($20,000 - $45,000)	Higher income	All Consumer Units
Personal Insurance and Pensions	$829	$2,839	$8,916	%5,974
	(4%)	(9%)	(15%)	(13%)
Life and other insurance	$75	$193	$586	$397
	(0%)	(1%)	(1%)	(1%)
Retirement, pensions, S.S.	$755	$2,646	$8,331	$5,577
	(4%)	(9%)	(14%)	(12%)