# Panama's Low-Income Consumers' Brand Loyalty:

## Panamanian Consumers

Rossano V. Gerald

DISSERTATION.COM

Boca Raton

*Panama's Low-Income Consumers' Brand Loyalty*
*Panamanian Consumers*



Dissertation.com
Boca Raton, Florida
USA • 2011

ISBN-10: 1-61233-755-4
ISBN-13: 978-1-61233-755-5

Abstract

The research problem focused on Panama's low-income consumer's decision making process when shopping for consumer-products. The purpose of the research was to determine Panama's low-income consumer's consumption values, preferences and loyalty towards a particular brand over another. The qualitative research method was employed in this study, and data collection process consisted of observation and in-depth interview documents that were organized and categorized. The results of the study found that Panama's low-income consumer's brand preferences were widely varied and brand loyalty behavior was influenced by consumers' knowledge, perceptions and commitment towards a particular product and service provider. Recommendation for further study addressed the marketing strategy that could be used to identify consumers' consumption preferences and loyalty towards a particular brand.

TABLE OF CONTENTS

LIST OF APPENDICES

LIST OF TABLES

## Acknowledgements

The author would like to express sincere gratitude to committee members, Dr. Gordana Pesakovic, Dr. Pender B. Noriega, and Dr. Juan Hernandez for their invaluable support and guidance in the planning and implementation of this research project. The deepest appreciation is further offered to Panamanian involved in the project for their participation in the research study. Without their contributions of time and resources, this study would not have been possible.

# Dedication

To GOD; and all the family members whose love and support

have help turn this once lifelong dream into a shared reality.

# CHAPTER ONE: The Introduction

## Statement of Problem

Consumer behavior has been defined as the interactions between consumer feelings (affect), social, economic and environmental conditions (marketplace), and cognition (thinking process) and behavioral patterns (action taken) that influences why they may purchase a particular product over another (Peter & Olson, 1996). Therefore, the consumer purchasing decision making process is based on the interactions between human behavioral elements and socio-economic events. However, the market researchers must also consider that an individual's cultural difference is attributed to or based upon their values, attitudes, motives and lifestyles. For example, several studies have suggested that consumer socioeconomic situations (e.g. income distribution, media access, mobility) and cultural differences (e.g. urban consumer vs. rural consumers) are important factors that determine consumption values, preferences and loyalties (Kim et al., 2002; Chauduri Sr., & Haldar, 2005).

As a result, marketers must understand the interactions or exchanges between markets and human elements when developing a marketing strategy to meet local consumer needs and wants. Consumer behavior dynamics have suggested that marketers must develop a marketing strategy that understands each target markets cultural differences and socioeconomic conditions when planning to sell any product in that region. For instance, Raju (1995) proposed that a marketing strategy should not be universal; instead, marketing plans must be adaptable to local consumer purchasing, consumption patterns, and able to deal with consumer loyalty challenges. The author also suggested that four stages of consumer behavior formats must be understood when dealing with clients in less developed countries. They are as follows: accessibility to product, buying behavior, consumption uniqueness and disposal income (with the acronym A-B-

C-D). This understanding of consumer behavior formats and dynamics will be used to address multicultural behaviors, consumption patterns and consumer loyalty issues that are influencing Panamanian low-income consumers to buy a particular product over another.

Globalization has led an integrated economic and open trade liberalization process that connects developing markets with developed ones thereby allowing them to exchange goods and products to meet marketplace needs and wants. This is due to developing nation's adaptation of trade liberalization policies to reduce trade barriers and tariffs on both import and export products sold within their regions. For example, globalization has introduced products such as Coca-Cola, Procter & Gamble, Nokia and Microsoft to developing nations that were not accustomed to advanced technological and sustainable type products. Also, some marketers and economists suggested that economic globalization processes brought Latin nations economic growth up and increased their gross domestic product (GDP) from 4.6% to 8.7%, but did not benefit their gross national product (GNP) stats that grew by a lopsided medium of 1.6 to 15.7 percent during the past decade (Tolliver-Nigro, 2006). This disparity income distribution dilemma has led to no such thing as an "average" consumer in this marketplace (Rubel, 1996).

Some advocates for globalization have predicted that global economic integration would lead to converging needs and tastes among worldwide consumers due to the standardization theory. This theory suggested that consumers are supposed to choose core products over others due to the economies of scale in production process (low market cost/higher quality products), which allows any core product to be sold in any homogenous region (De Mooij, 2000). For example, industrial or manufacturing companies may want to increase their productivity and keep a competitive edge over their rivals by moving research and development (R&D) closer to the marketplace. As a result, they may be willing to adapt an innovated strategic plan that can deal with all types of cross-organizational concerns while operating in any overseas business environment. By doing so, they can integrate parent organizational objectives with the host partner's technological resources to ensure that the core products are getting to those potential consumers in a timely manner.

Therefore, the standardization process was beneficial to the core product in this business scenario because it connected perceived economic values with local marketing strategy plans, which allows the core product to meet global needs. For example, perceived economic value has been defined as what occurs when an economic input does not exceed the perceived fiscal output. In other words, the core product's standardization process produced immediate gratifications and benefits for consumers and producers alike because the process increased usage of the core product due to economies of scale in the production concept (Rayans, Griffith, & White, 2003). Therefore, some international marketers may want to use the standardization approach due to the cost savings effect on their marketing strategy plan; but this process may not work all the time because of target market cultural differences (Ball et al., 2006).

As a result, this economic value concept may not be best suited for utilitarian or sustainable products where consumer purchasing habits, norms, tastes, income disparity and preferences are more likely to influence product lifecycles. For that reason, product standardization processes may not be suited for a consumer from a developing country due to their preference, order and consumption patterns that are interdependent of consumers from developed countries. For instance, consumers from developing nations may see some durable goods or products, such as electronic materials, as high-valued merchandise for affluent consumers and thus refuse to purchase those items (Raju, 1995). As a result, marketers must understand a developing country's preferences, order and consumption values because they are important marketing variables used to determine the types of products that should be sold in that region. This eliminates any product-adaptation risk that might develop from not taking the host nation's tradition or cultural differences into account.

Marketers must also understand that the psychological and socio-cultural mindsets of the local consumers will determine the behaviors and attitudes towards any type of products that reflect their lifestyle. For example, a Santoro (1996) marketing research study discovered that Latin consumers were known to have five psychological differences based on these attitudinal variables identified as Laid-back Realists, Cautious Copers, Sophisticated Climbers, Hurried Handlers, and Optimistic Homebodies. The author went further to indicate that those attitudinal variables influenced consumer buying behavior to affect the why, when, and what types of products were purchased by Latin consumers (Gerald, 2007). Therefore, the marketing challenges lies in determining what type of intercultural marketing technique understands and is best suited for Panamanian consumption patterns, values and preferences (i.e., low-income consumers). It must also address buyer habits and motives for purchasing a particular product. As a result, the marketing research objective is to estimate the cost of US $5.25 billion, which is supposed to bring the annual average growth of at least nine percent in 2008-2009. These government macroeconomic projects are meant to accelerate economic growth and development, and raise the standard of living for marginalized sectors in this society (EIU View Wire, 2007).

## Basic Structure of the Panamanian Economy

Panama is an isthmus that is located in Central America, which is right below Costa Rica (North-west), and right above Colombia (South-east). It was a territory of Colombia until 1903, when the United States (US) helped extract it away from this authoritarian regime. After it achieved independence from Colombia, Panama signed a territorial and business agreement, with the US, that was called the Hay-Bunau-Varilla Treaty (1904-1999), which allowed the US to build and operate an inter-oceanic canal through the centre of this country. The Panama Canal is a 10-mile stretch of three sets of locks that allows all types of foreign cargo vessels to reach the Atlantic and Pacific oceans. This Latin Isthmus diameter is about 29,157 square miles, which is about the size of the state of South Carolina. Its population of 3.2 million is mostly Mestizo (a mixture of African, European, North American and Amerindian ancestry), which comprise 70 percent of these inhabitants.

Panama has natural and agricultural resources such as copper and mining deposits, fisheries, sugar, coffee, timber, livestock, and other vegetable and fruit products. This native language is Spanish, but English is also spoken due to its long relationship with US occupants and expatriates. Panama has a poorly skilled and uneducated workforce that fails to keep up with this modern labor market; however, the current Panamanian administration has allocated over US$503 million for higher educational standard programs that will not only cater to the urban social class, but also to the rural and indigenous population as well. Their goal is to reduce the high illiteracy rate of 7.2 to 4.0% by the end of 2008. The government also wants to establish English-language and vocational training programs that will allow its workforce to compete with other emerging markets, thus attracting those foreign information and communication technology (ICT) and telecommunication service investors that were lost to other developing countries such as Costa Rica, Malaysia, and Caribbean Islands due their fluent English-speaking workforce.

Panama has an economic system that relies heavily on the Canal and the Colon Free Zone (the largest duty-free zone in the Western Hemisphere) business sectors in terms of growth revenues. These transshipment business and service sectors has been known to contribute over

61 percent of the national GDP as recently as in 2005 (Hornbeck, 2005). In addition, it must be noted that the Panamanian financial and banking sectors contributed to the increase of foreign trade and investment in this marketplace. By adopting the US financial system and dollar as legal tender, it has avoided monetary devaluation or inflationary concerns that plagued a majority of other Latin nations in the 1990s (Costarangos, 1997).

Panama's business to customer commerce (e.g., wholesalers and retailers) accounted for at least 39 percent of GDP in 2005. Also, it should be noted that within the past two years, agriculture, livestock and fisheries industries only accounted for four percent of GDP due to government renewed interest in developing new copper and mining fields in "the interior" (EIU View Wire, 2007). Panama's economic predictions for 2007 are the healthiest among its Latin America neighbors. Its real GDP for the first six months was 9.6 percent, and economic analysts predicted that last half of the year would taper off to no lower than 9.3 percent due to a slowing of growth in the manufacturing and agriculture sectors (EIU View Wire, 2007).

As previously mentioned, Panamanian commerce and logistic service sectors, such as the Canal, international financial and banking systems, and Colón Free Zone (wholesalers and retailers) recorded GDP growth of at least 77.0 percent in 2005 (Hornbeck, 2005). Its agricultural sector recorded a robust growth in the first quarter of 13.5 percent in 2007, but failed to sustain growth and lost at least two percentage points. However, the hospitality, construction developments and mining sectors recorded double-digit growth for the first half of the year due to increased tourism, export and a real estate investment boom. The Latin American media, such as *Latin Business Chronicle,* noted that Panama was recognized as the most globalized country in the region in 2006 due to its high degree of trade, tourism, foreign and real estate investments.

## Socioeconomic Outlook

Panama's socioeconomic development situation seems to be headed in the right direction. The government introduced a social and economic program called Objetivos y Metas del Gobierno de Patria Nueva 2004-09 that seeks to tackle poverty issues. This government consumption program committed millions of dollars to social spending (e.g., education, social security and health) in an effort to reduce inequality and income disparity between the "haves and have not", in which have not account for about 40% of the population. The goal of this consumption program is to implement economic development plans that will increase foreign direct inflow capital, reduce unemployment, and bolster energy growth. For instance, the government is planning or proposing the following foreign joint ventures. The first is to build a natural gas pipeline from Colombia to Panama, establish wind generated power (i.e., hydroelectric) in "the interior", propos a foreign regional oil refinery off the Pacific shorelines. The Panama International Merchandise Mart [(PIMM), estimated cost of US50 million] is the second proposed foreign joint venture that has been slated for construction close to the Colon Free Zone as the region's first Wholesale Merchandise Mart that will cater to about 425 million Latin and Caribbean consumers who may not be able to enter the United States due to strict visa restrictions or laws (estimated total investment of US1 billion by 2012). The third foreign joint venture opportunity is the Canal expansion project (2008-2013) with an estimated cost of US $5.25 billion, which is supposed to bring an annual average growth of at least nine percent in 2008-2009. These government macroeconomic projects are meant to accelerate economic growth and development and raise the standard of living for marginalized sectors in this society (EIU View Wire, 2007).

## Political Environment

In the past decade, Panama adopted a democratic and open market system that allowed its people to be more involved in the nations' socioeconomic process. This democratic regime was instrumental in reducing risks for foreign investors by passing legislation that encourages property rights protection to multinational enterprises (MNE). These pro-foreign business transactions are benefiting MNEs, because the host government is not trying to control equity in the foreign subsidiaries. As a result, Panama's political and economic reform strategy has lured foreign capital investments in the region and helped to break down trade barriers, which was preventing it from becoming a global competitor. In addition, its policymakers are playing key roles in working with domestic entities to find ways to reduce poverty and boost foreign confidence for their economy. This was done by passing legislation that is resolving macroeconomic and microeconomic issues to deal with this society's social inequality and income disparity issues. Additionally, it initiated an independent Electoral Tribunal process that gave voters more rights and a voice on other political and regulatory matters in their communities. Therefore, Panama's democratic regime has been considered a success story because it decided to eliminate the corrupted practices of the past authoritarian regimes and hold politicians accountable for social and economic issues that plaguing this society (Perez, 1999).

## Merchandise Market

As previously mentioned, the Panama International Merchandise Mart (PIMM) would be in the Colon Province, which is known as the largest free zone market in this hemisphere. This free zone provincial's trade revenue was about US15 billion of the real GDP in 2006, which was up by 18 percent from previous annual earnings. The PIMM is suppose to be built on 1,300 acres of land that will house approximately 10 office buildings and four upscale hotels. This merchandise concept will allow merchants to buy, lease or rent a mall showroom to sell their products to about a quarter of million Latin American and Caribbean consumers. Marketing analysts are predicting that PIMM will provide Latin consumers with affordable and quality products, which are offered in the North America malls (EIU View Wire, 2007).

Panama also has outlet-open-area and upscale indoor marketplaces, where its multi-cultural consumers congregate to do their everyday shopping. These malls and plazas connect to the city's main transportation system and they are aimed at providing shoppers with the same bargain products or brands that found in those European or North America marts. Additionally, Panama has supermarket chains (e.g., El Rey, Super 99, Super Xtra and Riba Smith) that are selling grocery products at a bargain price, which is influenced by consumer consumption values or preferences. Therefore, Panamanian consumers have access to wholesale and retail marts that offer affordable and quality products to meet their family needs, and community wants.

With the existing merchandise markets and the government proposed international merchandise marts that will contribute to strengthening and maintaining a continual economic growth in this region, the question becomes; how marketers can use these consumption behavior variables when selling their products to less-well off consumers? Will products or brands sold by these marketers meet potential low-income consumer needs and wants? What types of products are consumed by these low-income consumers? Finally, how does income disparity concerns influence the purchasing decision making process?

## The Problem Background

The research interest came from a Wall Street Journal article written by Mr. Regalado (January 26, 2007) that discussed why international marketing firms are implementing marketing strategy plans for Latin America's low-income consumers (e.g., Mexico, Brazil and Panama), where one-third of low income population had accounted for at least half of those emerging markets' annual national income that was about US$239 billion (e.g., GNP) (Regalado, 2007). In addition, international marketers wanted to identify what type of products should be sold to the low-income classes because of regional income disparity issues. By implementing an intercultural marketing research design that may be able to determine if consumer preference, consumption values and consumer loyalty are influenced by personal income status (Gerald, 2007).

As previously cited by the researcher's exploratory marketing research project in the summer (Gerald, 2007), the above article's author stated that Interpublic Group's McCann (a marketing agency) launched a US$2 million advertising campaign to target less-well off consumers in some Latin America countries such as Mexico, Chile, Colombia and Panama. This niche market campaign was aimed at those consumers whose incomes were less than $2 a day and others with household income that averaged about US$500 per month. This international marketer noticed that people, who were once thought of as not well-off enough to buy their products, might be the fastest growing consumer group. As a result, in the spring (March 07), McCann's researchers conducted a marketing research project that allowed them to live with those potential consumers (i.e., 100 families) to determine their brand loyalty, purchasing habits and symbols or celebrities that motivate them to purchase particular products.

Nevertheless, international marketing agencies are faced with the challenge of selling a product that will socio-economically be accepted by those low-income consumers. Additionally, most marketers failed to address cross-cultural high or low context differences, which are best suited to communicate a positive message about their products thereby causing potential consumers to purchase their manufactured goods (Usunier & Lee, 2005). Therefore, which type of marketing communication objectives should be used and which types of products are consumed by low-income consumers are poorly defined and this has become a problem for marketing strategists.

## Research Problem Defined

Panama's income disparity has created an international marketing problem for marketers targeting their products to potential consumers, who are earning less than $2 a day or with household income not more than US$500 per month. This per capita income figure has been a good indicator of a person's consumption and non-consumption behaviors (Chauduri & Haldar, 2005). For example, Panama's affluent consumers are more likely to have sophisticated consumption values, where less-well off consumers are more likely to have traditional consumption patterns due to their income status. Consequently, these traits have caused them to adapt an ethnocentric belief that it is culturally wrong to choose a product, which is not price-sensitive and identifiable with their socio-economic situations (Robert, 2007).

As a result, this consumer ethnocentrism behavior may have caused low-income consumers to develop an intrinsic brand preference belief that can influence their purchase decision making process. For example, they are more likely to repurchase or remain loyal to the same product and hesitate to switch to brands that offer the same attributes, but seem unaffordable to them due to their socioeconomic status. Therefore, Panama's low-income consumer consumption patterns may be influenced by their income disparity issues, which keeps them from buying brands that are lacking brand equity or value-added (i.e., price-quality relationships) attributes (Raju, 1995). When international marketers decide to provide a product to meet these consumer consumption behavior criteria (i.e., practicality, affordability and quality); then these consumers may switch to brands and products that are being consumed by affluent consumers. So the question is -- What type of intercultural marketing strategy should be used by international marketers to meet these low-income consumer consumption values?

## Literature Review

The review of literature will define the various consumer behavior variables that were used to address consumer purchasing decision concerns in a developing nation. These marketing factors are as follows: consumer affect and cognition variables, attitudinal and behavioral, cultural dimensions, communication and segmentation marketing strategies. They were used to gain a better insight and understanding about these low-income populations purchasing habits.

### *Consumer Affect and Cognition responses*

Consumer affect and cognition variables are associated with various attitudinal and behavioral elements that have influenced the consumer purchasing decision-making process (Peter & Olson, 1996). This researcher used eight cognitive (thinking) and affective (feelings) elements to explain why consumers may choose one product over another. These elements are categorized as consumer decision-making process and brand preference, shopping environment, consumer product knowledge and product attribute information, consumer perceptions, satisfaction and values. Harcar, Spillan and Kucukemiroglu (2005) suggested that consumer purchasing behavior is influenced by the decision making, experiential and behavioral processes that determine why consumers may purchase utilitarian or hedonic types of products. In addition, Foxall et al.'s (2006) study on supermarket shoppers provided more insights about consumer preferences. These authors stated that brand price, utilitarian and informational reinforcement factors influenced repertoire-buying behavior among store patrons.

Other studies suggested that product knowledge could influence consumer decision-making process. Product knowledge has been defined as the consumer's perception or known information about the product (Lin & Chen, 2006). This information is obtained by consumer experiences and subjective or objective knowledge, which is based on specific known information about an existing product (Baker, Hunt, & Scribner, 2002). Consumer prior knowledge information can be used to get a better understanding of the product attributes before purchasing (Shehryar & Hunt, 2005). Peter and Olson (1996) found that product attributes (e.g., price and packaging) influenced the consumer choice process because this information allowed them to compare the perceived benefits and costs of existing products with other competitive items. Ayyildiz and Cengiz (2007) suggested that the consumers' perception of a product or service is a forbearer for consumer satisfaction that determines the buyer behavioral intentions, such as the purchase or repurchase of particular products and thus molds their loyalist attitudinal and behavioral disposition towards a product.

*Attitudinal and Behavioral aspects*

In the past decade, some researchers found that consumer affective (emotional), cognitive (knowledge) and conative (behavioral) dispositions towards a brand are influential factors that determine their brand loyalty or commitment and preference (Brink, Odekerken-Schroder, & Pauwels, 2006). Additionally, Rowley (2005) suggested that loyal customer behavior is based on four different shopping patterns (e.g., captive customers, convenience seekers, and contented loyal and committed customers) that are associated with their buying intentions, retention and choice of service or brand. Other authors argued that loyalist buying behaviors are determined by these four shopping habits (e.g., pre-sold consumers, pliable consumers, store loyalists and rational shoppers), with additional influences such as shopping at a particular store because of convenience, brand commitment or bargain hunting for a better deal (Sawmong & Omar, 2004; Berkowitz, Bao, & Allaway, 2005). These attitudinal and behavioral explanations provided a wide range of viewpoints on loyal consumer behavior. The researcher must consider cultural dimensions that are related to specific subgroup affective (emotional reactions to foreign products) cognition responses (how products are associated to their beliefs or values) behavioral aspects (product is tailored towards their customs and rituals), and environmental factors (product is priced to their living standards or conditions) (Peter & Olson, 1996).

*Cultural Dimensions*

This study has defined culture as a group of people that are programmed collectively by the same cognitive beliefs, values and practices, whether they belong to a society, organization or subgroup (Hofstede, 1983; Gerald, 2007). Cultural dimensions that include uncertainty avoidance, power distance, and masculinity-femininity, individualism and collectivism factors were used to describe cultural backgrounds, reference groups, gender roles and societal bonding in this region (Peter & Olson, 1996; Ball et al., 2006). In addition, the researcher used various cross-cultural marketing literatures that examined how consumer consumption beliefs and norms were passed down through generations and how cultural affinity class and country of origin were used to determine the target segment consumption traits and their loyalty towards a product or brand (Usunier & Anne Lee, 2005; Pappu, Quester, & Cooksey, 2006).

Raju's (1995) study was used to explain how cultural meanings, socioeconomic conditions and consumer purchasing powers influenced cultural consumption values. Other marketing research studies were used to examine how the consumers perceived product preference was influenced by reference groups (e.g., spouse, relatives and friends), subjective norms and beliefs about a particular product, so that they might be able to see if these reference groups are persuading the purchaser/decision maker to alter their consumption values (Amine, 1998; Bagozzi, 2000; Sing, Kumar, & Baack, 2005). This researcher reviewed literature that