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

How US Consumers Function and Cope

Illiterate consumers in the US have difficulty engaging in thinking that involves abstractions, according to Viswanathan’s observations of and interviews with illiterate or low-literate consumers. Consumers are able to perceive one piece of information, such as price, but often have difficulty relating that data to another piece of information, such as package size. This tendency to process single pieces of information without deriving higher-level abstractions such as trade-offs between attributes or between price and size is called concrete thinking. US consumers also
appear to make multiple errors in basic perception such as in reading a price, computing the price of two items, and totaling expenses. They fall back on an intuitive sense of product quality and think in pictures — sometimes viewing brand names and prices as images in a scene rather than symbols to read, and visualizing amounts of products to buy by picturing them rather than using available symbolic information.

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

India's One-on-One Environment

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

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

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

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

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