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Hispanic buying power

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Buying power is a measure of interest for many businesses trying to market to a particular group. It is not proper to talk about buying power for the Hispanic market as a whole. That is because Hispanic buying power varies tremendously within the market. The Hispanic market needs to be studied as an ethnic group that is composed of many different sub-groups that sometimes have very little in common. In addition, the Latino culture is so different from the general market culture that the rules on how much buying power is needed for a particular product or service no longer apply. This article explores the actual buying power of the Hispanic market segments and the differences in what Latinos buy with their buying power as compared to the general market.

The power

The Hispanic market enjoys a very strong economic power that marketers should not ignore. Buying power is defined as the income that is available, after taxes, for spending on goods and services. With a combined buying power of over \$223 billion, this market represents an enormous potential to U.S. marketers. Yet, as I mentioned, looking at this figure as a whole is not as meaningful as trying to expose the real market potential. Because it is difficult to find accurate quantitative information on the Hispanic segments, I

will attempt to combine my qualitative market knowledge with other sources of qualitative and quantitative information. Regardless of what the actual numbers are, I have no doubt that the Hispanic market can be very profitable to marketers of goods and services. What makes it truly unique is that, unlike other segments of the U.S. population (that are reached through regular mass media), the Hispanic market can be accessed directly. The Hispanic market media is less saturated with advertising and is more cost effective than the regular market media. This means that, not only do Latinos have purchasing power, but there are also established channels available to gain access to this power.

According to the Bureau of the Census, the average Hispanic (over 15) makes \$19,099, as compared to \$24,359 for the non-Hispanic population. It is interesting, however, to look at income by Hispanic and ethnic background.

As you can see from the table above, income levels vary greatly among Hispanic subgroups. Cubans have a significantly larger income level and, as a result, enjoy higher disposable income. In fact, the average Cuban income level is not significantly different from that of the general population. A further study would reveal that Cuban income levels vary considerably within the U.S. Cuban population. In fact, there are more distinct social class differences among U.S. Cubans than among any other Hispanic market segment. In contrast, the income level of U.S. Mexicans and Central & South American Latinos is extremely low and has continued to decline in the past two years. U.S. Census statistics (1995 numbers released in January 1997) indicate that median family income rose for every racial and ethnic family group except for Hispanics - the fastest growing group. This downward turn has surprised many experts that predicted a rise in Hispanic income levels.

Why has Hispanic income gone down? Many reasons have contributed to the decline but most of them have to do with the new influx of Hispanic immigrants. New immigrants are coming to this country with minimal education and work skills. While many are capable of performing well in blue-collar jobs, changes in the economy have reduced the number of well-paying blue-collar jobs. A large obstacle in gaining employment is the inability of new immigrants to speak English. Discrimination has also played a role in their difficulty in finding good jobs. Of the two million new immigrants that came into this country from Latin America between 1990 and 1994, the majority were poor. They moved to inner cities and crime-infested areas, making it very difficult for them to advance themselves. Many Hispanics end

up working in low-paying positions in the service industry that have few or no opportunities for advancement.

Social history and income levels

A closer look at the different Hispanic market segments will reveal some of the reasons behind the different income levels. The Cuban community in Miami is largely made up of exiled educated professionals and skilled laborers that left Cuba for political reasons. It was indeed Cuba's middle and upper class that flooded Florida during the Cuban revolution. In contrast, the Puerto Ricans who went to New York arrived there looking for a better economic situation than what they were experiencing on the island. They were poor. Interestingly, they originally came to New York because it was the main airline route to the United States. Since these immigrants were already U.S. citizens, there was nothing that prevented them from leaving the island for New York. During the great depression, thousands of Puerto Ricans looked for New York to offer them a better lifestyle.

The Puerto Rican immigration history is a lot closer to that of today's new immigrants. Today's immigrants are fleeing from deplorable economic situations in their countries of origin. They are also poor, but despite their tough economic status in the U.S., they are often doing better than they were doing back home. Many immigrants come to the United States illegally, on a temporary basis, in order to make some money to take back to their country. That is the case of thousands of Mexicans who cross the border to find jobs in the U.S.

The Mexican population is also highly fragmented. Many Mexicans are long-time U.S. citizens. In fact, many of them never migrated. Their ancestors were there when the U.S. took over the West in 1848, as a result of the Mexican War. They are the original U.S. Hispanics. Many others just recently crossed the border. Since many of these new and illegal immigrants lack any formal education, they all compete for the available blue-collar jobs. Although many industries in the Southwest depend on Mexican labor, the jobs pay very little because of the very large pool of available workers.

Why do most Hispanics stay poor?

The U.S. is the land of opportunity. Over the years, immigrants from all over the world have come to this country and managed to work hard to improve their economic situation. What is different about the Hispanic immigrants? To answer that question, you have to take into account the fact that the times

have changed. Today's immigrants do not arrive here by breaking all ties with their homelands. While just a century ago people would take a long boat trip across the Atlantic to get to this country, today's immigrants can move here overnight and go back to visit the following week. They never have to lose touch. From the airlines to the telephone to the television and even the Internet, new immigrants can keep in touch with their homeland. Even in this country, the Hispanic community keeps in touch by creating its own home away from home. Hispanics have Spanish television, can read most product labels in Spanish, can easily purchase their favorite ethnic food at the local supermarket or bodega, and can socialize with others who speak their language and share their culture. This is indeed very different from the old melting pot culture where immigrants forced their children to forget their mother tongue and become part of the new culture.

Hispanics place a high value on being able to maintain their customs, language, and culture. The U.S. freedom allows it, and it is indeed attractive. Yet, I argue that not "melting into the pot" creates a difficult situation that leads to lower income. By insisting on being "different," Latinos are promoting discrimination. When Puerto Ricans wear their flag on everything from their cars to their T-shirts, they are making a statement that says, "I am proud of my heritage," but it is often read as "I am not part of this country." That leads to a common reaction: "Well, get the heck out!" which is also known as discrimination. Discrimination often leads to a lower income. This is especially true of Hispanic communities that consist of individuals with minimal education and labor skills. These communities depend on the jobs provided by members of an outside community. The number of Hispanic businesses that provide job opportunities to their own community is extremely low, compared to other ethnic groups like Asian Americans. There are exceptions. One, of course, is the Cuban community in Miami, whose Hispanic-owned businesses hire four times as many people than Hispanic-owned businesses in New York City.

Besides discrimination, there are other factors that affect income. To keep their culture, Hispanics often move near other Hispanics in typical Latino neighborhoods. Some of these neighborhoods have deteriorated -- victims of crime and drug problems. To complicate matters, public education systems in many Latino neighborhoods are overcrowded and underfinanced. As a result, Hispanic young people are not receiving an equal education. Since English is not the language of choice in most Hispanic neighborhoods, and the schools are not adequate, many Latinos are not proficient enough in English to obtain

decent employment. What is worse, because Spanish is not taught in school, many Hispanic Americans grow up not knowing how to read and write in Spanish.

Despite my contention that Latinos would be better off financially if they tried to blend into the American culture, I don't agree with that approach. Looking at the situation from an economic standpoint you must give value to the desire of Hispanics to keep their customs, language and culture. I argue that this value is so high that it justifies whatever negative effects may occur -- discrimination, lower income, or even bad neighborhoods. Since the Hispanic population continues to grow at a higher rate than any other minority group, these problems will eventually disappear. Even today, Spanish culture is quickly becoming ingrained into the American culture. Tacos are now as popular as hot dogs and hamburgers in the typical American diet, and Spanish words are becoming part of the American language -- ¿Comprende?

Low income...large purchasing power?

While the income level of U.S. Hispanics has gone down, the combined purchasing power keeps going up. This is, of course, because the numbers keep growing. The Hispanic population is projected to account for 44 percent of the U.S. population growth between 1995 and 2025. That is 32 million Hispanics out of a total of 72 million people added to the nation's population. Hispanics will continue to value their culture and heritage. Businesses that cater to them directly and pay attention to the Hispanic culture and heritage will benefit from tapping into this large source of purchasing power. It is indeed the Latinos' desire to maintain their roots that makes this market so receptive to target marketing.

Differences in use of disposable income

Hispanic buying habits are different from those of the general population. Despite their low income, many Hispanics will spend an inordinate amount of money for products that cater to their Latino needs. Hispanic consumers spend more on food than their non-Hispanic counterparts. They tend to buy brand name products that advertise on Spanish television. Brands that sell well in their Hispanic country of origin also do well with Hispanics here in the U.S. Most importantly, the Latino community will embrace any product that is manufactured and marketed to meet their needs, regardless of cost. Let me illustrate this point with a case history of an actual product:

Efficient Laboratories is a small, family-owned pharmaceutical company based

in Puerto Rico. It specializes in marketing products to Hispanic consumers. One of its products is a cough syrup called Cough Out. Cough Out is an expectorant, whose active ingredient, guaifenesin, is the same ingredient found in almost all other expectorant products. A bottle of Cough Out contains 3 ounces of the syrup, while a bottle of a well-known brand like Robitussin typically has 8 ounces. Yet Cough Out sells for at least double the price of Robitussin. Here's why.

Cough Out was designed with the target market in mind. To appeal to the Puerto Rican community in New York, an English name was selected. The company knew that although Puerto Ricans value a product targeted to them, they want to feel that it comes from a reputable company. The research told the people at Efficient that an English name translated into "American Quality"-- a positive when it came to a product that is to be ingested. The label, however, is written in English and Spanish. To be able to compete effectively in the crowded expectorant market, the product had to have a unique selling proposition. Research again came with the answer. Many Puerto Ricans and Dominicans believe that one of the best expectorants available is aloe vera. It was also indicated through the research that they saw honey as the best soothing remedy for a sore throat. Efficient asked their lab if they could add aloe vera and honey to their cough medicine formula. They did.

A TV campaign was developed emphasizing the fact that this product was different. In order to comply with the law the voice-over mentioned that the active ingredient guaifenesin came suspended in a base that contained aloe vera and honey. The aloe vera plant was emphasized visually. The product sold very well. Later research indicated that consumers who regularly bought the product stood by it, regarding it as a much better expectorant.

This product was manufactured specifically to meet the market's needs, but that doesn't have to be the case. More often it is a matter of positioning the product correctly. But you cannot use your regular market knowledge as a guide to how Hispanics will use their disposable income. It is important to study the Latino culture and its different segments. That's where marketing research comes in.

No need to wait

Given its projected growth, reaching the U.S. Hispanic market should be a part of every company's marketing plan. But there is no need to wait for the

projections to come true. Marketing to Hispanics can pay off now! Companies that set aside a budget to target the Latino market find it to be a very profitable and worthwhile decision.