

Why the poor pay more at the store

February 25 2016, by Greta Guest



Turns out you have to make good money to save money.

That's according to new University of Michigan research that found that people with low incomes are less able to buy in bulk and move purchases forward to take advantage of [sales](#).

Using Nielsen data on toilet paper purchases, Yesim Orhun and Mike Palazzolo of U-M's Ross School of Business showed that while low-income [households](#) tend to buy cheaper brands to save money, a large proportion of that savings is lost because these households buy smaller package sizes (at a higher unit price) and don't utilize sales as often.

Worse, the relative inability to buy in bulk and on sale has a compounding effect, exacerbating the "poverty penalty," they say.

"Because they have to buy small quantities, they have little inventory at home and can't wait until a sale presents itself to purchase again, making it even harder to take advantage of sales," said Orhun, an assistant professor of marketing. "It's a [double whammy](#)."

The researchers say that low-income households pay 5.5 percent more per roll of toilet paper than they would if they purchased more like high-income households—that is, if they bought in bulk and on sale more often. By contrast, low-income households save 11 percent on their toilet paper purchases by purchasing "cheap" brands.

Consequently, roughly half the savings low-income households reap by purchasing lower-tier brands is sacrificed because they struggle to buy in bulk and on sale.

The analysis also shows that it's not simply a lack of knowledge or awareness of sales and bulk discounts that drives the problem. There is also a cash flow issue. When low-income consumers have more liquidity—after getting their paychecks, for example—they do take advantage of bulk discounts and sales.

"It's not about poor people making poor decisions—it's about them facing liquidity constraints, and it matters even for what we'd consider small purchases," Orhun said. "Clearly, the government can play a role in

easing liquidity constraint by making credit more accessible. However, government action isn't the sole potential source of liquidity relief."

Can retailers or manufacturers do anything about it? Possibly.

Retailers could extend low-interest lines of credit to consumers for everyday items like [toilet paper](#). Manufacturers could offer promotions to encourage people to buy larger packages, Orhun said. This could also help lock in customers and help manufacturers avoid losing sales to brand-switching.

Provided by University of Michigan

Citation: Why the poor pay more at the store (2016, February 25) retrieved 21 May 2024 from <https://phys.org/news/2016-02-poor.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.