The Counterintuitive Impact of Rising Income Inequality on Consumer Product Availability and the Fortunes of Retail Businesses

Rafael Becerril Arreola, University of South Carolina-Columbia

Public discourse around increasing levels of income inequality over the past several decades has drawn attention to the myriad ways income disparities affect our world—including attention to ways individual spending power can affect the broader economic environment. Whereas the direct effects of income changes on consumer spending are by now well researched and understood, we know less about how these changes may affect the behavior of the manufacturers and retailers who create and sell consumer goods and about how the changes may have pervasive consequences for consumers and businesses alike. In the United States, income inequality has grown by more than 20% from 1980 to 2017. My research with colleagues explores how such income trends influence the variety of products that retail businesses stock and sell. We find that consumer choices for middle-priced products have constricted, with implications for consumer welfare, businesses, and policymaking. As middle class buying power shrinks, so do consumer choices for all Americans.

Divergent Business Responses to Inequality

Business strategists disagree about how firms should respond to changes in income distribution. Some say companies are well advised to prioritize the needs of low-income consumers—as, for example, Whole Foods has done by entering low-income markets to sustain corporate growth. Other experts urge firms to prioritize producing and marketing premium products to high-income consumers—as has happened when mass market retailers try to attract higher-income customers with upscale merchandize or nicer store layouts.

Business strategies like these may succeed or fail at boosting revenues in the short term, but either way they likely affect the variety of products available from mass-market retailers—with potential negative consequences for all consumer groups. We know that income inequality affects consumers directly by limiting or enhancing their purchasing power; perhaps it also affects consumers indirectly when manufacturers and retailers change their product assortments. Retailers do this to adapt to the realities of shifts of purchasing power across income strata that have contrasting, more fragmented patterns of demand. But there can be broader consequences because, if inequality induces manufacturers and retailers to focus more exclusively on either low-end or high-end products, mid-range products may become less available to consumers across the income spectrum. All consumers end up with fewer potentially attractive choices. In turn, such constrictions could eventually lead to declines in business revenues—undermining the very reason for product specialization in the first place.

The Effects of Income Inequality on Mainstream Grocery Stores

Trends in the food retail industry serve as a telling example of the potential effects of shifts in U.S. income distribution. As consumer incomes and spending shift, retailers may alter the amount of space they allocate to packaged goods—that is, to the range of products offered in categories of basic, daily-use items like bread that most consumers buy and that need to be habitually replenished. As income distributions change, the assortments of such basic products are likely to vary, both within each store and across stores within a market region.

Data that I collected with colleagues from a nationwide sample of supermarkets, mass merchandisers, convenience stores, and drugstores during the 2007 to 2013 period support this hypothesis, by documenting that decreases in average consumer income and increases in income inequality lead to more constricted assortments of retail products. When average income is held constant, counties that experience rising income inequality see a reduction in the number of different products locally available. The results hold not just for the number of brands offered, but also for the diversity of products within brands. We find that the ranges of low-end, mid-range, and high-end products are reduced as well. In addition, as income inequality increases, larger brands lose more product variety than smaller brands.

The overall effect of income inequality on retail product variety happens primarily because of shifts in the income shares of the lower middle and upper middle classes. In consequence, we can attribute the constriction of available products to a hollowing out of the middle class that reduces overall consumer spending. As the middle class is depleted, retailers and manufacturers reap less revenue and respond by dropping the least-profitable products. They just offer fewer products and product lines in roughly the same number of stores. Rising income inequality leads to fewer kinds of products available to all shoppers.

Policy Implications

The patterns our research documents have policy implications. For example, the U.S. government has in the past increased the minimum number of offerings per category required for retailers to be allowed to accept SNAP ("food stamp") benefits. Stores that do not stock a broad enough range of products cannot participate in SNAP. Both sides lose out: Consumers who rely on government assistance have fewer places to shop, and retailers forgo potential revenues and profits when they cannot serve such customers.

More broadly, changes in product assortments induced by income distribution shifts can leave consumers with fewer ways to spend their dollars. Consumers who lose access to items they like may be the most adversely affected—and to the extent that once valued consumer items disappear from shelves, people with middling purchasing power, in the American middle class, are the ones most immediately affected. Yet because all income groups buy mid-range items, constrictions in product availability hurt all consumers regardless of their incomes.

Read more in Rafael Becerril-Arreola, Randolph E. Bucklin, and Raphael Thomadsen. "Effects of Income Distribution Changes on Assortment Size in the Mainstream Grocery Channel," *Management Science* 67, no. 9 (2020): 5878-5900.