

Toward understanding sophisticated markets and consumers: a win-win strategic alternative

Toward understanding sophisticated markets

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Hacia el entendimiento de mercados y consumidores sofisticados: una alternativa estratégica ganar-ganar

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Rumo ao entendimento de mercados e consumidores sofisticados: uma alternativa estratégica ganha-ganha

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Abstract

Purpose – The purpose of this study is to conceptually address the understanding of certain consumers and businesses that show new dynamics, including a heightened interest in quality and the concomitant development of entities and mechanisms designed to ensure certain standards as well as an increased level of involvement of the consumer with the product. These segments are identified and labeled as sophisticated markets.

Design/methodology/approach – Through a literature review following a conceptual model methodology, this study poses eight research propositions to seek a more profound and comprehensive understanding of this type of market that could potentially benefit several industries. This study



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explores and discusses some of the essential differences of sophisticated markets with a twofold purpose: to recognize the existence of sophisticated markets as a distinct category and suggest issues that may constitute interesting further research works.

Findings – The process of sophistication might occur in different industries. This study poses implications of sophisticated markets to better understand consumers and business through research propositions that can be classified into two main domains: consumer–firm relationships and communicational implications.

Originality/value – Previous studies addressing luxury or specialized markets have not considered these terms to be sufficient to describe what we propose be labeled as a sophisticated market. This study addresses this gap in literature and proposes a streamline of research that pursues a deeper understanding of this phenomenon.

Keywords Sophisticated markets, Sophisticated consumers, Consumer quality evaluation, Segmentation, Consumer education, Consumer engagement

Paper type Research paper

Resumen

Objetivo – Este estudio aborda de forma conceptual dinámicas novedosas que se están presentando en el ámbito de ciertos segmentos de consumidores y de ciertos sectores empresariales. Estas nuevas dinámicas incluyen elementos como un mayor interés en la calidad y en el desarrollo de satisfactores encaminados al aseguramiento de ciertos estándares, así como un mayor nivel de involucramiento del consumidor con el producto. Estos segmentos son identificados y etiquetados aquí como mercados sofisticados.

Metodología – A través de una revisión de la literatura, siguiendo una metodología de modelo conceptual, este estudio plantea ocho proposiciones científicas dirigidas a la búsqueda de una comprensión más profunda y completa de este tipo de mercados. Este artículo explora y discute algunas de las diferencias esenciales de los mercados sofisticados, con respecto a los mercados tradicionales, con un doble propósito: (1) reconocer la existencia de los mercados sofisticados como una categoría distinta de negocio y (2) sugerir elementos y relaciones que pueden constituir trabajos interesantes de investigación a futuro.

Resultados – Este proceso de sofisticación puede ocurrir en diferentes industrias. A través de estas proposiciones de investigación, este trabajo plantea elementos que pueden ayudar a incrementar el entendimiento que tenemos de este tipo de consumidores y empresas en dos grandes vertientes: la relación consumidor-empresa, y las implicaciones de la comunicación hacia estos segmentos sofisticados.

Originalidad/valor – Estudios previos enfocados en bienes de lujo o mercados especializados no logran explicar lo que proponemos aquí como el fenómeno de mercados sofisticados. Este estudio busca cubrir este vacío en la literatura proponiendo líneas de investigación encaminadas a profundizar en el entendimiento de este fenómeno.

Palabras clave Mercados sofisticados, Consumidores sofisticados, Percepción de calidad del consumidor, Segmentación, Educación del consumidor, Involucramiento del consumidor

Tipo de papel Trabajo de investigación

Resumo

Objetivo – Este estudo aborda de forma conceitual dinâmicas inovadoras que estão surgindo no âmbito de certos segmentos de consumidores e setores empresariais. Essas novas dinâmicas incluem elementos como maior interesse na qualidade e no desenvolvimento de satisfactores voltados para garantir determinados padrões, bem como maior envolvimento do consumidor com o produto. Esses segmentos são identificados e rotulados aqui como mercados sofisticados.

Metodologia – Através de uma revisão da literatura, seguindo uma metodologia de modelo conceitual, este estudo apresenta oito proposições científicas voltadas para a busca de uma compreensão mais profunda e completa desse tipo de mercados. Este artigo explora e discute algumas das diferenças essenciais dos mercados sofisticados em relação aos mercados tradicionais, com um duplo propósito: (1) reconhecer a existência dos mercados sofisticados como uma categoria distinta de negócios e (2) sugerir elementos e relações que podem constituir trabalhos interessantes de pesquisa no futuro.

Resultados – Este processo de sofisticação pode ocorrer em diferentes indústrias. Através dessas proposições de pesquisa, este trabalho apresenta elementos que podem ajudar a aumentar a compreensão que

temos desse tipo de consumidores e empresas em duas grandes vertentes: a relação consumidor-empresa e as implicações da comunicação para esses segmentos sofisticados.

Originalidade/valor – Estudos prévios focados em bens de luxo ou mercados especializados não conseguem explicar o que propomos aqui como o fenômeno de mercados sofisticados. Este estudo busca preencher essa lacuna na literatura propondo linhas de pesquisa com o objetivo de aprofundar a compreensão desse fenômeno.

Palavras-chave Mercados sofisticados, Consumidores sofisticados, Percepção de qualidade do consumidor, Segmentação, Educação do consumidor, Envolvimento do consumidor

Tipo de papel Trabalho de pesquisa

Introduction

Consumers and businesses within certain segments have developed attitudes, expectations and behaviors that significantly differ from many of the industries they are part of (Carvalho *et al.*, 2016). Certain consumers may purchase wine in supermarkets without thinking extensively about which brand or type to choose, whereas a specific segment could take a different approach for the same decision. This second segment could spend a huge amount of time and energy deciding which exact type of wine, the year and the origin they need for specific occasions. This study addresses these consumers and businesses as part of what the authors label as *sophisticated markets*. This term, comprising the characteristics explored in this study, has scarcely been used before and has not been thoroughly defined. Previous studies have used terms such as luxury markets (Brun and Castelli, 2013; Kapferer and Bastien, 2009; Ko *et al.*, 2019) or specialized markets (Schluter, 1999; Wolni and Zeller, 2006). However, the authors of this work consider that there is a gap in the literature where these terms may be insufficient to describe the complexity and particularities of what is proposed to be labeled as a sophisticated market. This study addresses this gap and proposes, through a conceptual model, a streamline of research that pursues a deeper understanding of this phenomenon. A conceptual model is a kind of methodology for conceptual papers aiming to identify connections between constructs and develop theoretical propositions to introduce novel relationships (Jaakkola, 2020). This process of sophistication might occur, or is about to occur, in different industries and constitutes the focus of this work.

To the best of the author's knowledge, the type of market sophistication that this present study analyzes has received scarce attention in marketing research because it is a recent phenomenon (Arinloye *et al.*, 2015; Carvalho *et al.*, 2016) triggered by the current social and mass communication context. Authors presently believe that this context favors some of the characteristics of these sophisticated markets (e.g. consumer education). Therefore, even if practitioners have grasped some of this new type of market characteristics, no academic research has still supported certain consumer behavior particularities. Hence, the literature has not clearly identified the following: marketing strategies that help the development of these markets; consumer needs that are evolving through the development of these markets; and the relevance and potential value of this sophistication process for various industries.

The coffee industry, for example, has been the focus of research in marketing because of the differing dynamics of consumer–firm relationships around this product in relation to its strong cultural meanings (Wang *et al.*, 2019). Wine, for example, has been defined as a high-specification product in which consumers and members of the supply chain have developed special characteristics (Carvalho *et al.*, 2016). The chocolate industry has also recently found an increase in specialty stores, the demand for festivals and exhibits around the product, among other characteristics that are also consistent with sophistication (Susan, 2003). Craft beer has seen a growing number of small producers, and the industry has witnessed and increased level of interest for differentiated products among consumers (Clemons *et al.*, 2006), which is also a characteristic consistent with sophisticated markets. However, the acknowledgment of evolution

in the consumption of this type of products, which is hereby presented as a sophistication process, is not found in the literature. Therefore, the elements offered by this study may constitute opportunities for further research to understand the antecedents, variables, moderating effects and outcomes involved in the potentially unique characteristics of sophisticated markets.

This study poses implications of sophisticated markets to better understand consumers and business through eight research propositions that can be classified into two main domains. Each domain relates to certain aspects of sophistication, namely, *consumer-firm relationships and communicational implications*. This initial set of research propositions aims to trigger and motivate further extensive empirical research. The relevance of this research is threefold:

- (1) It constitutes an unexplored aspect with implications to study and understand certain types of consumers and businesses.
- (2) This potential field of research in marketing is consistent with current research regarding aspects of responsible business and conscious marketing.
- (3) Sophistication could be a phenomenon that would affect several worldwide industries.

For instance, information about products and services plays a very relevant role in consumer decision-making within the responsible consumption context. As will be explained, the role of product/service information is consistent with sophisticated markets' unique behaviors and characteristics. Therefore, because of the potential impact on understanding consumer behavior, business dynamics and competitive market behavior, sophisticated markets may have important implications.

Defining sophisticated markets

This distinction of sophisticated markets from luxury markets is highly relevant because under a superficial vision, the term *sophistication* is associated with luxury. However, as this study intends to establish, the differences may be extensive. Additionally, luxury products and services have been the focus in marketing literature in recent years (Ko *et al.*, 2019); thus, throughout this paper, luxury (markets, consumers and brands) serves only as a reference and comparative element that is distinct from sophisticated markets. Although brands targeting sophisticated segments of the market may share some elements, they may differ in some key matters. Luxury consumption has been commonly associated with consuming in a highly visible manner to signal wealth and allow others to infer status and power, which is defined as conspicuous consumption (Wang and Griskevicius, 2014). This characteristic is neither necessarily present in sophisticated markets nor in sophisticated consumers, because consumption does not necessarily occur in public and could be more related to hedonic experiences (Hirschman and Holbrook, 1982) and not conspicuousness. A connection even exists between sophistication and an observed rise toward inconspicuousness attached to a sense of subtlety (Eckhardt *et al.*, 2015), which is more consistent with the propositions of this study.

After examining marketing research literature, we may find that the closest term to the sophisticated market is *high-end market*. The term high-end is usually used synonymously with high-price, high-quality products, to differentiate brand-name products from private-label ones (Ishibashi and Matsushima, 2008; Lauga and Ofek, 2011). There is also a definition of a sophisticated consumer as an individual who handles information efficiently, is experienced in the corresponding product category, likes to share this experience with others, enjoys shopping and uses products to explicitly communicate his or her self-concept (Sauer, 2004). However, although this previous definition shares some elements with the current work's understanding of the phenomenon, the present work considers that sophistication conveys a more profound

complexity of the market and product, as it is the result of a learning process involving modification in consumption, instead of being a characteristic that defines a segment within a certain market. In a sophisticated market, the customer would manifest a higher symbolism toward a product and its consumption.

Another term close to the sophisticated market in literature is consumer savvy, which encompasses competency and empowerment that enhances expectations from firms (Macdonald and Uncles, 2007). However, this concept has been framed within e-marketing and e-management literature and leaves certain offline industries, without the proper application of the term. Nevertheless, this term acknowledges the idea of a surge of a “new” type of consumer and has been tested regarding its cross-cultural applicability (Garnier and Macdonald, 2009). This study considers certain aspects defined by savvy consumers (e.g. consumer self-efficacy and expectations of firms); however, it expands on additional characteristics that the term savvy usually excludes.

The development of sophisticated markets

The concept of sophistication, as proposed in this study, comprises the notion of conversion. It assumes that a consumer was once a non-sophisticated one, and then certain factors (internal or external) made them move toward becoming a more sophisticated consumer. A mass-market consumer is motivated by different factors when making their choice than a sophisticated one in the same product category. For example, a consumer who will buy a pair of shoes within the mass-market segment might only consider price and convenience as the main attributes for making that choice, whereas sophisticated consumers know the type of leather; where it originates; and the product’s durability, comfort and so on. Luxury brands might find that their main differentiator from a brand targeting mass-market is high price, prestige and exclusive distribution channels, among other elements (Brun and Castelli, 2013). Conversely, a sophisticated consumer may consider additional elements, such as stronger emphasis on quality, specialized reference figures, country of origin and materials. A first exploration of consumer sophistication also indicated that this process leads to higher levels of satisfaction and affect self-esteem and self-image (Liu, 2010). However, the present study is primarily concerned with defining the implications for consumer behaviors and attitudes, consumer–firm relationships and the consequent implications for new marketing strategies.

The coffee industry is a recent and clear example of the process that this study intends to present. For long, coffee has been treated as a mass-market product; however, the industry has evolved in recent years toward creating what we might classify as a sophisticated market. It is also showing a process that is very similar to what has happened with the wine industry. Mass-market brands and products within the coffee industry are recent and still growing. However, in parallel, sophistication has fostered the creation of new retail concepts, new communicational efforts in the coffee shops that build stronger relationships with consumers, brand extensions for global coffee providers and other elements that can be used as a model for implying sophistication (e.g. Blue Bottle Coffee and Starbucks Reserve). On the consumer side, the shift from a mass-market consumption to a sophisticated one implies several factors that would include a higher engagement level, closer relationships with retailers (Sánchez and Martínez, 2020) and a higher ability to differentiate the quality and characteristics of the products offered (Ornelas and Vera, 2019). Most of these factors are presented in this work as research propositions that may facilitate a deeper understanding of the sophistication process.

Sophistication is considered a process; consumers follow a particular path, which poses the opportunity to establish different steps with antecedents, consequences and mediating elements. A consumer might experience this transition instead of solely establishing themselves at a sophisticated segment as the beginning of their consumption experience. This transition can also

imply interaction with other entities, such as retailers, manufacturers and service providers, in a way that is distinct from different types of markets.

The knowledge and ability to distinguish quality are key elements that help identify the moment wherein a consumer becomes sophisticated. Even if the actual ability to identify higher levels of quality may be partial, sophisticated consumers are more interested in quality and quality communication than mass-market consumers, comparing products within the same category. This knowledge and ability to differentiate quality is usually realized through consumer education, which is a responsibility bestowed on retailers in several industries (Sánchez and Martínez, 2020). A consumer might find themselves at a moment where educational efforts lead them into the path of becoming sophisticated, thereby bringing additional consequences, such as higher levels of engagement and increased levels of loyalty in some cases (Bell *et al.*, 2017). The implications of this process, the different variables that interact at different stages and the entities that need to redefine their roles are presented and analyzed, considering field observations and current marketing literature toward the development of research propositions.

Research propositions

As stated above, this work follows a methodology of a *model* conceptual paper (Jaakkola, 2020).

Among the main objectives of this type of conceptual paper is the development of research propositions that result from the prediction of novel connections between constructs through theorizing the causal linkages and mechanisms around a focal concept. Additionally, in this kind of work, the nomological structure of the focal phenomenon is explored (MacInnis, 2011). Hence, the following propositions aim to establish a set of key issues pertaining to consumer behavior related to sophisticated markets, which may impact two domains: the consumer–firm relationships and communicational implications with sophisticated markets. Within these two fields, a different analytical perspective considering the process of sophistication is needed. Considering this, not only new challenges but also new opportunities could arise for businesses targeting this kind of consumers.

Notably, sophisticated markets are consistent with current trends regarding patterns of consumption, such as conscious consumption. Conscious consumers have been described as more discerning and demanding of quality and authenticity in the products they buy, and they have an increased interest in specialist distribution and sourcing practices (McEachern *et al.*, 2010). Firms that develop strategies and invest efforts toward consciousness pursue profit-making goals and beneficial interaction with various stakeholders, such as investors, suppliers, employers and customers (Grewal *et al.*, 2017). These demands from consumers and certain firm characteristics are also consistent with those observed in sophisticated markets.

Liu's (2010) study presents a model of consumer sophistication as a multidimensional construct with a set of outcome variables such as self-esteem, self-image and satisfaction. However, the proposed model considers it as being related to a novel consumer characteristic. The previous approach only considers intrinsic characteristics of the consumer at a given point in time and does not present the possibility of sophistication as the result of a complex process. This study proposes an alternative vision of sophistication as an evolution of a consumer within the same product category that includes external forces (e.g. consumer education). An interesting issue here is that a certain consumer can migrate from a mass-market consumption to sophisticated consumption. This may happen because of certain internal (e.g. engagement increase) and external (e.g. educational efforts) circumstances. Understanding this sophistication

process can clarify the path that companies may follow to encourage consumers to make this transit.

Sophistication does not seem to be necessarily related to a higher income. Instead, it could be associated with alternative variables to be explored, such as savviness, product knowledge, education level and social consciousness. For companies that serve sophisticated segments of the market, high-end prestigiousness is not that necessary. It may be sufficient to simply offer a product that can be assessed as high quality within a special sensory experience. This constitutes an opportunity for new businesses that instead of investing time and money in building a high-end prestigious and exclusive brand image should focus on offering high-quality products that consumers can value regardless of the non-existing high awareness of the newly created brand.

Consumer–firm relationships in sophisticated markets

The sophistication process might imply changes in the consumer side and the manufacturer's role. Both parties need to adjust to a sophisticated market dynamic where different entities adopt entirely new responsibilities. A retailer may have to invest in educational efforts, but in turn, engagement levels of its consumers may increase (Sánchez and Martínez, 2020), which is likely to create a more loyal customer (Verhoef *et al.*, 2010). Contrastingly, educational efforts also lead consumers to assess products more accurately (i.e. choosing the best wine for a particular dish), forcing companies to produce higher-quality products to avoid the risk of losing customers (Bell *et al.*, 2017). Therefore, these newly adopted responsibilities and the newly created behaviors might benefit the consumer and companies and develop a closer consumer–firm relationship. Once they become involved in this sophistication path, the benefits for both entities can guide them into a constant pursuit for improvement and enhanced interaction between them. Consequently, we suggest *PI*:

- PI.* Companies in sophisticated markets and educated consumers represent a mutually beneficial interaction that leads to the constant improvement of both parties and a closer relationship between them.

Consumer education is the first key element in the development of sophisticated markets. Educating consumers or helping them develop the skills necessary to use information about a product, its characteristics and benefits constitutes a strategic competitive effort for companies within sophisticated markets (Burton, 2002). Education provides consumers with tools to assess a firm's offerings more accurately, which could impact consumer loyalty (Bell *et al.*, 2017). However, this ability to evaluate products and distinguish different levels of quality may also be one of the main differentiators between a sophisticated market and a non-sophisticated one. Considering that sophisticated markets offer higher-quality products, the need for consumers to assess this higher quality becomes relevant. Hence, the role of consumer education is providing the necessary actions for them to increase this ability and, consequently, receive the positive consequences of this education in higher levels of engagement and loyalty (Bell *et al.*, 2017; Sánchez and Martínez, 2020). Based on the theory of reasoned action (Ajzen and Fishbein, 1973) and the principles of the theory of social representation applied to marketing (Lauri, 2015), the present study considers that this educational process should be based on the construction of a system of truthful, normative shared beliefs. Therefore, further research on the effect of consumer education in their ability to recognize higher-quality products in different industries constitutes an interesting path for research. Hence, we propose the following:

P2. Consumer education provides necessary learning to differentiate products/services of actual high quality from those of supposed high quality.

The relationship between consumers and companies within sophisticated markets not only is mutually beneficial but also shows vast concordance with what has been recently defined as the new paradigm in the field: conscious marketing. Conscious marketing poses that contemporary businesses should assume responsibility for all their activities and communicate effectively about their offerings to all their stakeholders (Ottley *et al.*, 2016). Education should include fair and truthful communication about a firm's offerings and facilitate consumers to make better choices within sophisticated markets.

Understanding the path that a consumer follows toward becoming a sophisticated consumer benefits the decision-making of several companies currently developing these high-end markets (Liu, 2010). Moreover, identifying the path and the moderating variables in this evolution allows these companies to direct their efforts into enhancing the selected relevant variables in this process. The kind of information and the means to convey it to consumers as well as the impact that the acquired knowledge has on consumer decision-making might be highly valuable for strategic decision-making.

Consumption within sophisticated markets means that consumers can spot the products appropriate to their needs, make comparisons accurately among the offerings of different brands and choose the products consistent with their values and belief system. Once an advantage has been identified for the consumer, the value of targeting sophisticated markets for companies must be recognized. Sophisticated consumers increase their ability to recognize higher-quality products (Ornelas and Vera, 2019); therefore, the tendency of those consumers to increase their willingness to pay higher prices is worth exploring. However, this does not necessarily mean entering the high-end market in terms of the most expensive products available. The consumer's ability to identify better quality products enables them to make better choices (Ornelas and Vera, 2019). Moreover, they may be willing to pay more for better products based on the close relationship between perceived product value and perceived relative price (Beneke *et al.*, 2013). Additionally, consumers can find educational efforts valuable (Burton, 2002) and be willing to assign a monetary value for it, which may or may not be embedded in the product's price.

Certain industries have shown an increasing interest in alternative products and services as a response to current market practices not being entirely successful in providing consumers with meaningful experiences (Smith Maguire *et al.*, 2017). Therefore, businesses can find several opportunities in new markets if they discover their sophisticated consumer needs. In certain cases, creating new products and services also brings a higher willingness to pay for these high-quality products (Tsakiridou *et al.*, 2009). For example, consumers may be willing to pay a higher price for a coffee in a specialty coffee shop that regularly hosts cupping events, brewing methods workshops, etc., thus conveying higher profits for retailers in the long run. Therefore, we posit the following:

P3. Sophisticated markets tend to favor the emergence of highly differentiated products that generate profitable businesses.

Within the changes in the relevance of certain attributes that sophisticated products experience, recognizing the importance of the value chain is a vast topic that poses diverse research questions. In the coffee industry, sophisticated consumers are interested in knowing where the coffee beans were grown and harvested and if the farmer is being paid a fair price for their produce (Carvalho *et al.*, 2016; Jones, 2016). Traditionally, ethical concerns regarding the value chain had not been particularly relevant for consumers because the

assumption that businesses were only created for profit was a common belief and any moral consideration beyond that was out of consumer's purview (Wempe, 2005). Moreover, certain certifications, such as fair trade, are more relevant for sophisticated consumers than for other segments (Carvalho *et al.*, 2016). Furthermore, ethical claims and practices along the industry may be more important to sophisticated markets than for other types of segments.

Sophisticated consumers consider social responsibility more seriously. For instance, in the coffee industry, a fair price paid to the farmer seems to be as important as the price the consumer will pay at the coffee shop (Hernández, 2017). In the chocolate industry, intention and willingness to pay tends to increase among consumers that identify pro-social practices and fair trade (Zerbini *et al.*, 2019). This notion is also consistent with above-mentioned trends in conscious marketing and socially responsible practices for consumers and firms (Grewal *et al.*, 2017; Ottley *et al.*, 2016). Acknowledging the necessary changes to adapt to this social trend includes a new perspective for analyzing the marketing mix, new market segmentation strategies and new data capturing tools, among others (Dibb, 2014). These perspectives and adapted strategies are also a critical aspect of sophisticated markets. Particularly, the effect on the value chain constitutes a relevant field to explore because of the following observation:

P4. Distribution of profit along the value chain tends to be more equitable in sophisticated markets than other types of markets (e.g. mass or luxury markets).

If consumers recognize the fair distribution of wealth along the value chain as a relevant managerial practice and a key differentiator among products offered, then companies will look forward to implementing this type of strategy. Once a fair distribution of wealth along the value chain can be established as a standard practice, consumers may not be willing to buy products reluctant to adopt this type of managerial practices. This assertion would only be true within the assumption of sophisticated consumers that know about the products and the production process behind them; alternatively, unsophisticated consumers might even encourage unethical behaviors from companies who might not find an incentive to behave toward a greater social good (Titus and Bradford, 1996). Furthermore, companies that are already implementing socially responsible behaviors, but whose customers do not recognize it, could find an alternatively more conscious market that enhances their profit by recognizing its responsible marketing activities. Fairtrade and similar practices have recently been the focus of businesses because of an increased number of consumers recognizing the value of this type of practices as part of an ethically minded consumption (Sudbury-Riley and Kohlbacher, 2016). Within certain segments of consumers, ethical and environmental claims have a stronger influence on purchase decisions than the price of the product/service (Perez-Castillo and Vera-Martinez, 2021). Within the wine industry, there is a segment of consumers willing to pay extra for sustainably produced wines (Kelley *et al.*, 2022). However, to the best of the author's knowledge, the importance of these ethical components as a characteristic of sophisticated markets has not been explored.

Social responsibility strategies followed by some manufacturers and distributors have been identified as opportunities to develop alternative markets (Dibb, 2014; Grewal *et al.*, 2017). The consumers within these new markets encompass extremely particular necessities that drive them to seek specific products for achieving satisfaction (Eberhart and Naderer, 2017). If this behavior is particularly relevant for sophisticated consumers, then some businesses will need to shift their focus to implement proper strategies to offer a valuable option. Hence, we propose the following:

P5. Sophisticated markets contribute to the creation and growth of socially responsible companies and consumers.

Sophisticated markets may foster the implementation of socially responsible managerial practices and recognize these practices for the consumers' decision-making process. Moreover, sophisticated markets motivate the creation of new businesses and business models. In Ghana, for example, there is a recent entrepreneurial initiative to grow the domestic chocolate industry producing premium chocolate that very likely will be targeted to sophisticated consumers (Ahmed *et al.*, 2022). To pursue a more equitable distribution of wealth, some roles in the channels need to be redefined, and in some cases, some entities would merge with others. In other cases, certain channel members may even have to redefine their purpose and how they add value (Carvalho *et al.*, 2016). For instance, in the coffee industry, new business models that diminish the relevance of wholesalers have been created. Moreover, intermediaries are not considered essential anymore, and specialty coffee farm-to-consumer businesses have emerged. The amount of value that each member of the chain adds is evaluated by consumers, and only those who are worthy remain in this chain (Al-Mudimigh *et al.*, 2004; McPhee and Wheeler, 2006). Additionally, certain activities (e.g. delivery) are merged, thereby creating new business models. For instance, coffee subscriptions are a new type of business that brings consumers and producers closer, thus eliminating intermediaries and making fair pay to farmers easier. In other cases, the increased levels of consumer engagement with products and services within sophisticated markets lead to businesses focusing on the experience pertaining to the product or service. Visits to wineries and being part of the harvesting process is an example of this situation. Other characteristics of sophisticated consumers, such as an increased savviness, have been found to develop favorable attitudes toward businesses to have higher participation in the value co-creation process (Ballantyne and Varey, 2006; Garnier and Macdonald, 2009; Lusch and Vargo, 2006). In the case of coffee, coffee tasting clubs; subscriptions for discovering coffees worldwide; and education services for cupping, brewing, roasting, etc., are examples of new business models that were not previously possible in the traditional mass-market coffee consumption. Thus, the following is proposed:

P6. Sophisticated markets foster the creation of new business models.

The new dynamics of industries targeting sophisticated consumers also have other implications. For example, a revision of current findings of the country-of-origin effect within sophisticated markets is also interesting. For example, previous results show that the country-of-origin perception has a stronger role in brand-extension fit than global brand awareness (Sichtmann and Diamantopoulos, 2013). This notion is consistent with the concept of sophisticated markets. However, additional variables (e.g. conscious practices, fair trade, consumer education, consumer engagement, brand knowledge and cultural perceptions) are necessary to accurately understand this kind of relationship.

Communicational implications within sophisticated markets

Sometimes managers fail to accurately assess their customer's perceptions, which can trigger wrong strategic management decisions (Hult *et al.*, 2017). Considering this, managers might not acknowledge that consumers have gone through a sophisticated process or that business opportunities exist within this kind of segment. Furthermore, using certain strategic business actions yields a strategic path for proactively developing this segment.

Consumer education potentially serves two purposes:

- (1) making consumers assess better a firm's offerings (firm-related education); and
- (2) giving consumers the possibility to compare different brands more knowledgeably (market-related education) to make a better purchase decision (Bell *et al.*, 2017).

Consumer education also reduces the effect of subjective knowledge (what consumers think they know) on self-consistent choices of information and products (Moorman *et al.*, 2003). When firms adopt the approach of educating consumers, they also engage with the need to communicate more effectively with the rest of the stakeholders. At the minimum, this implies that companies, audiences and consumers must receive truthful information about the firm's offerings. Educating consumers is a possible strategic path for companies striving to adopt a conscious marketing approach. This educational process would also prompt smarter consumption to reduce negative environmental and social effects of consumption (Bechwati *et al.*, 2014). This is consistent with current trends that elicit an enhanced focus toward informed decision-making and the development of conscious consumers. Hence, sophisticated markets would partly be the result of consumer education, and thus, an improvement of consumers making smarter decisions is expected.

Cognitive dissonance is considered an uncomfortable state of tension that occurs when one's previous perception of a person or thing is inconsistent (De Bono, 2018). Knowing more about the products that the consumer would buy before the purchase contributes to the diminishing of cognitive dissonance, which is an undesired outcome for brands and companies. Furthermore, avoiding cognitive dissonance increases satisfaction and loyalty (Koller and Salzberger, 2012). Therefore, sophisticated markets may reduce cognitive dissonance because of the efforts to increase consumer education. Thus, whether education is firm- or market-related, it would contribute to consumer ability to better assess product characteristics (Burton, 2002), which would decrease perceived inconsistencies after consumption.

Regarding cognitive dissonance, a consumer may fear another negative outcome in a post-purchase scenario, that is, the consistency between the product and consumer self-identity. A consumer is usually prone to consume self-identity-congruent products, which help them affirm self-concept (Chugani *et al.*, 2015). Educated consumers can also identify this identity-congruent product more easily if they know more about its characteristics and origins. This educational process may include inherent product characteristics and value chain information, such as traceability and fair-trade practices. Such information is likely to be valuable for customers who aim to consume products that are congruent with their beliefs and values. In the case of specialty coffee, knowing the farm where the coffee beans were harvested, inclusion of fair trade or direct trade certifications are valuable for consumers and can be part of the educational process, along with the type of beans, roasting procedure and brewing method. This necessity for information and value attached to this kind of knowledge makes specialty coffee a suitable example of a sophisticated market (Carvalho *et al.*, 2016; Ornelas and Vera, 2019; Wollni and Zeller, 2006).

To satisfy and maintain sophisticated consumers, retailers need to evaluate their communicational tools. For example, mass-market consumers of coffee might not need more than an advertising campaign, price promotion or point-of-purchase materials to help them make their choices (Jones, 2016). In contrast, sophisticated consumers, equipped with greater knowledge concerning the products they are buying, need much more information to make a purchase decision. In this case, manufacturers need to include certain information that was not necessarily essential before. In the case of coffee, the country or region of origin, altitude wherein it was grown and harvested, roasting level, notes of flavor that one may find in the coffee and so on might be fundamental for a sophisticated coffee consumer (Jones, 2016). These characteristics are examples of intrinsic attributes of the product. Within the craft beer industry, consumers tend to have strong feelings about their choices and usually they show characteristics that might lead them to be considered sophisticated consumers. In this industry, which has developed a wide variety of differentiated offerings, companies might find in alternative media, such as online reviews in which consumers thoroughly share their personal experience and perception of the attributes of the beer, one of their most valuable

allies for attracting new customers (Clemons *et al.*, 2006). Meanwhile, extrinsic attributes, such as decent packaging and a fair price are more relevant for a non-sophisticated consumer. Therefore, companies targeting sophisticated consumers might find themselves in need of redefining their communication strategies. Accordingly, we propose the following:

- P7. Sophisticated markets require a shift in the focus of communication strategies from extrinsic product/service attributes to intrinsic ones.

Sophisticated consumer segments are more prone to engage with products and services committed to higher levels of quality and with companies that display socially responsible managerial and marketing practices. An enhanced level of engagement leads to customer loyalty, where a loyal customer base is likely to be an asset for a business (Higgins and Scholer, 2009; Hollebeek *et al.*, 2016). A business that creates a base of more engaged customers, when recognizing firm efforts to sell better products, might encounter a consumer who is willing to pay as per that improved value (Sánchez and Martínez, 2020; Tsakiridou *et al.*, 2009). When consumers have a high knowledge regarding competing brands within a market, a phenomenon known as informational product differentiation may occur, which likely creates additional barriers for new entrants to that market (Bagwell, 1990).

Increasing the perception of value is critical in the buying process (Beneke *et al.*, 2013). Sophisticated consumers have higher perceived value toward the product because of their higher level of education. This relationship with consumers adds value to the brands (Jones, 2005; Sweeney and Soutar, 2001). Sophisticated markets seem to be a path wherein this relationship can increase to higher levels. Additionally, sophisticated markets involve an evaluation of the interactions among the members of the value chain; this leads the company to a different approach for the relationship between the business and the stakeholders (Grewal *et al.*, 2017). Brands can also benefit from this non-consumer relationship (Jones, 2005), and together with the increased consumer engagement, those brands' values would increase ways that may not be possible in other types of markets:

- P8. Product sophistication and consumer education constitute a solid ground to generate highly valuable brands.

Current trends that benefit the creation of valuable brands and firms may include sensory marketing, which is defined as the phenomenon wherein the consumer's senses (sight, smell, hearing, touch and taste) are stimulated to a level wherein these stimuli significantly affect their perception, judgment and behavior (Krishna, 2012). Sensory experiences are related to the perception of sophistication (Krishna, 2012). Certain industries exhibit a higher focus on understanding the sensory cues, improving customer sensorial abilities and offering products that respond to characteristics that they look for within these sensory experiences (Bhumiratana *et al.*, 2011; Chironi *et al.*, 2017; Imran *et al.*, 2014). Once the accurate profiling of a sophisticated consumer and the precise specification of the product they value is achieved, a business could determine several paths of strategic decision-making regarding possible propositions of sensory experiences. Potentially, some of these sensory-based alternatives increase the value of the consumer–business relationship.

The eight research propositions constitute a first approach toward understanding sophisticated markets' implications for consumers and businesses. The sophistication process, sophisticated consumer, firm–consumer relationship changes under the sophistication process and strategic alternatives regarding this phenomenon are only the initial components for understanding sophisticated markets. The pursuit of theoretical development and empirical support for each one of these propositions, as well as a deeper description of the process of

sophistication, becomes an interesting and extensive research path. A thorough research on this type of market may pose, as this study intends to show, substantial opportunities for businesses that involves prospects of ways to improve favorable customer behavior outcomes, such as satisfaction, perceived value and brand loyalty.

Conclusion

Acknowledging the potential existence of a distinct type of segment as the result of a sophisticated process can be the first step for developing a set of research streams that could contribute to knowledge regarding marketing and consumer behavior. The first six propositions intend to guide further research into comprehending these relationships and their unique characteristics. New strategical approaches are required to succeed because of this new dynamic between consumers and firms. The last two propositions are meant to identify key issues that shed light on alternative research paths on this matter. Finally, further research should be developed toward understanding the internal stimuli and the contextual factors that lead a consumer to evolve toward sophistication. Research can also endeavor to recognize and assess the benefits associated with the development and identification of sophisticated markets for companies. To expand the work from here, future research efforts should include the refinement of the conceptualization of consumer sophistication by generating measurement indicators to test the potential antecedents and outcomes of the consumer sophistication model, which was initially suggested by Liu (2010). Research acknowledging the factors involved in the transition of a consumer from a mass consumption segment to a sophisticated market remains to be isolated in the literature. The above propositions constitute an initial approach to understand the factors, variables and indicators to acknowledge the key antecedents and outcomes of what sophistication embeds for consumers, companies and markets. Managers might find this set of propositions as a guide to understand and observe these behaviors and opportunities within their industries and explore the possibility of changing their strategic focus. Companies willing to target sophisticated consumers may use these propositions as the key elements for their strategic decision-making in terms of product development, value chain partnerships and customer relationship management, among others.

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