

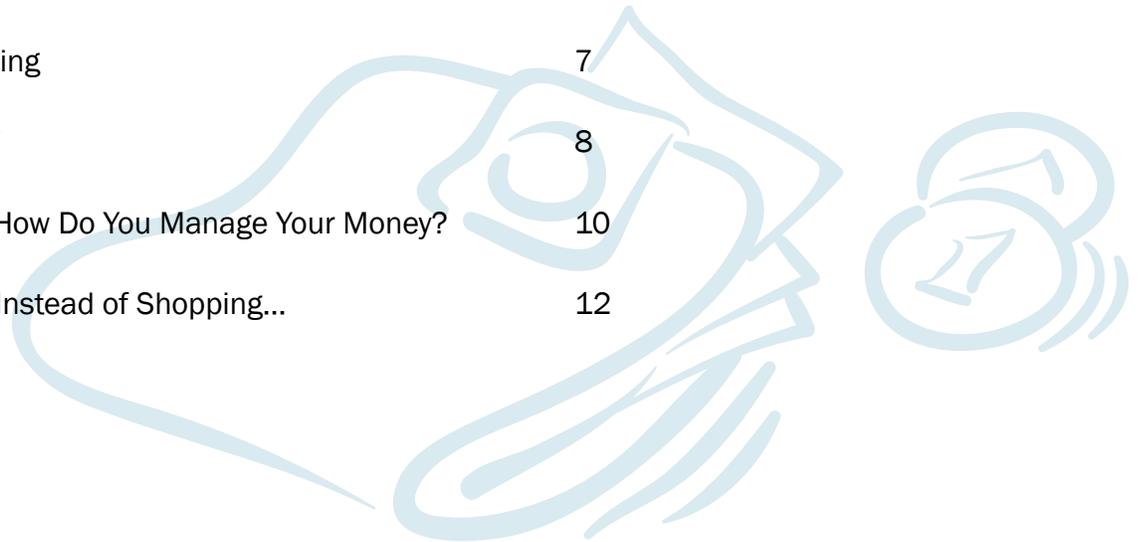


**WHY WE BUY:  
THE PSYCHOLOGY OF SPENDING**

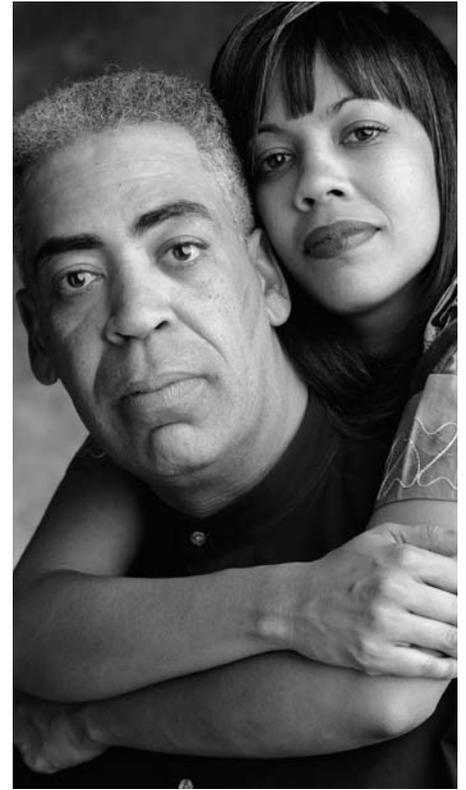
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*Why we buy is a difficult question to answer. But, we have to start somewhere. Spending behavior is complex and many of us have never considered why we spend money the way we do. Once we have some of the basic tools to evaluate our spending, we can make more informed decisions about whether to spend or whether to save.*



## AMERICA – SPENDERS, INC.

Let's face it. We love to buy things here in America. And, as Americans, if we are going to do something, we go all the way. To our credit, we have the numbers to show that we have done real well in the buying game. Just take a look:

- ▶ Americans spend an average of 146 hours a year searching for things to buy, according to the Bureau of Labor Statistics
- ▶ A survey of 700 *Money* readers found that more than half had, in the previous six months, made a major purchase they regretted
- ▶ Two-thirds of all buys are unplanned according to marketing expert and author of *Call of the Mall*, Paco Underhill
- ▶ When we buy gifts for ourselves, we tend to spend more than we would if we were buying for someone else
- ▶ Kids as young as 18 months recognize product logos
- ▶ Kids watch an average of 40,000 TV commercials a year
- ▶ There are over 15,000,000 shopaholics in the United States
- ▶ According to a 2002 Stanford University study, there are an estimated 60 million Americans addicted to shopping
- ▶ Americans have one of the lowest savings rates among industrialized nations
- ▶ Americans rack up over \$2 trillion in credit card debt per year

*A mom tells her son that she doesn't have money to buy the toy. Her son responds saying, "Just put your card in that machine and it will give you money."*

## RESOURCE MANAGEMENT

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Have you ever considered how you spend your valuable resources of time and money? The world would be a very different place to live in if we only bought what we needed to survive. Instead, we spend money on goods and services for other reasons that produce conscious or unconscious emotions. We spend in different ways and with different amounts. And, we spend a lot of time doing it.

Consider the way you spend time and money by doing the following exercise. You might find that you can make some changes in your life.



**What types of products and services do you *enjoy* spending money on?**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**How are you a “good” spender?**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**How would you like to change your spending habits?**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

*“Chaaarge it!!”*

## WHO'S PUSHING YOUR BUTTONS?

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When the economy is not doing very well, we, as consumers, are encouraged to go out and spend. But, what influences our spending behavior? What is it that gets us to open our wallets? It must be more than politicians telling us to do our civic duty of spending to help the national economy. Well, in fact, it is.

We tend to make purchases on things that fulfill desires and make us feel a certain way. If you want to change a spending behavior, it helps to understand what, and who is pushing your buying buttons. Consider these influences:

- **Advertising** – You might not think that all of those advertisements are targeting you, but they are. Advertisers spend millions of dollars to determine what will make you buy. They use “psychographics” – the study of lifestyle, ambitions and world-view to help marketers focus on specific psychological triggers. Once they identify those triggers, they design ads to encourage you to buy for reasons that you can't explain.
- **Shopping as Experience** – For many people, going shopping is an outing. You might not plan on buying anything, but it's fun to shop. Marketers know this and they create shopping environments to not only make shopping fun, but also to make you buy. Take the mall for example. You might go there with your friends and make it a social activity. You might go there with your children for entertainment. Marketers create the mall environment in such a way to keep you there as long as possible because they know that the longer you stay there, the better the chance you'll buy something. So, when you smell pleasing aromas and listen to calming music, and stroll through the miles of aisles at the mall, remember it is all designed to make you buy.
- **The Media** – We all know that the lifestyles presented in television and movies are not a reality for a majority of Americans. And yet, these images influence how we envision our level of success. In other words, we want to be like those we see in the media. If you don't believe it, think about fashions and how they are introduced and adopted.
- **The Proliferation of Consumer Goods** – In America, we have the richest poorest people in the world. Even those of low to modest means have many material things. Stores in America are chock full of a seemingly limitless variety of goods. Whether it's linens, TVs or hammers, we have an endless selection of goods that are in the price range of the American consumer. What used to be a luxury is now a staple. And, because it's “affordable,” we buy it.
- **Society** – Success in our society is not defined by how much we volunteer to help others or how smart we are. Instead, success is defined by what we own, what we look like and how much money we make. We buy things to make ourselves look wealthier than we are so we can impress others. That is why producers have turned luxury items into affordable items. So, we can buy them. So, we can look good. And, so we can impress. Consider this: are people more apt to say to you, “Great job on that volunteer work you did.” or “That's a nice sweater; where did you get it?”
- **Friends and Family** – We have many external influences in our lives. Our families and friends expect us to act in a certain way when it comes to the use of our money. They want things from us. And we spend to fulfill their desires and to avoid conflict. It's hard to say “no” to our loved ones. So, we spend instead.

- ▶ **Easy Credit** – Combine the proliferation of affordable goods with easy credit and you can understand why consumer spending is a large part of the American economy. If you're like most Americans, you've gone into a department store and been asked by the salesperson if you would like to apply for the store card to save 10% on your purchase. Retailers want you to have their card so you will come back and shop in their store. Consider the advertisements that you see that mention that you can get credit even if you've had bad credit in the past. Payday lending, cash advances, and high credit limits are all intended to help you buy more than you can afford.

Knowing and understanding these spending influences can help you if you are looking to make changes in your spending behavior.



*"No credit? No Problem. Come in today and we'll get you the car you deserve!!"*

## YOUR MONEY PERSONALITY

Have you ever wondered why you use money in a particular way? Many forces impact the development of your money personality. You make purchases to fulfill desires and to make yourself feel a certain way. Some spending influences include: advertising, media, society, friends, family, and easy credit. In addition, shopping has become an “experience” to enjoy and there are so many goods that are so affordable.

One way to evaluate your approach to money is to identify your attitudes about money. Where do you fit?

- ▶ **Hoarder** - The hoarder likes to save, budget, and prioritize
- ▶ **Spender** - The spender likes to spend
- ▶ **Planner** - The planner is the nitty-gritty, take-it-one-step-at-a-time type
- ▶ **Dreamer** - The dreamer hatches passionate schemes, but has no idea how to make them come true
- ▶ **Merger** - The merger wants to pull all of the couple’s money together
- ▶ **Separatist** - The separatist wants at least some of his/her own money
- ▶ **Risk-taker** - The risk-taker loves adventurous investing
- ▶ **Risk-avoider** - The risk-avoider goes for the sure thing

You might find that your approach to money includes more than one profile. Take some time to know yourself better.



*“One key to moving forward is to know where you are starting from.”*

## SPEND ON SAVING

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You have probably heard the old saying, “The more you make, the more you spend.” Well, it is true. Here is an example to illustrate it. Americans who are having trouble paying their bills find themselves with approximately 80% of their annual income in unsecured debt. This means that if they make \$30,000 per year, they have \$24,000 of unsecured debt. If they make \$50,000 per year, they have \$40,000 of unsecured debt. And, because the more we make, the more we spend, if they make \$100,000 per year, they have \$80,000 in unsecured debt.

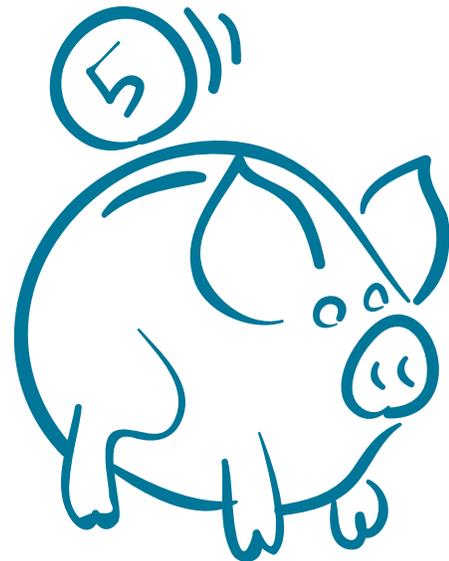
Saving – just saying the word sounds good and it brings to mind financial success and achieving financial goals. And yet, for many Americans, saving money is a challenge.

Here’s another saying that you might have heard, “Pay yourself first.” As a rule of thumb, financial experts, families, friends and even strangers will encourage us to put aside some money in savings before we pay our bills. Problem is – many of us don’t follow the advice. Instead, we pay our bills and at the end of the month there is no money to save.

What happens when you get a raise or a bonus? Do you put the extra money into a savings or retirement account? Do you pay off debt and accumulate no more? Too often, the more we make, the richer we feel and the more motivated we are to spend increasing amounts.

Here are some tips to help you get the most from your paycheck:

1. Live below your means. Choose the amount of your paycheck that you want to live on.
2. Deduct the difference between your net income and how much you will live on and have that amount automatically deposited into a savings account.
3. Make savings an expense. If you learn to love seeing your savings grow, you will love the expense called saving.



*“It’s not how much you earn in your life –  
It’s how much you spend that keeps you from achieving your goals.”*

## CONTROL SPENDING

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You might be a person who does very well with your money. Your money management skills are serving you well. On the other hand, you might have some concern about your spending habits. Find out by taking the quiz in Appendix A - How Do You Manage Your Money?

Regardless of whether you are a controlled spender or an overspender, there are ways to improve your particular situation. If you are looking for some things to do instead of shopping, take a look at Appendix B - Instead of Shopping...



There are many tools and techniques to help make behavioral changes with spending habits. Here are a few:

1. **Stay clear** - of the spots where you know that you spend lots of money
2. **Take a timeout** - Create a policy for yourself that says, "I will always wait two weeks before I buy an item. I will think before I buy."
3. **Shop with a list** - Most purchases that sabotage a spending plan are impulse buys. Using a list and sticking to it, will make splurging a thing of the past.
4. **You can still splurge** - If you have an urge to spend, spend, spend, consider doing it at Goodwill instead of Saks Fifth Avenue. You might find that your urge is satisfied.
5. **Track your money** - and use cash when you purchase items. You've worked hard for that money and sometimes it is more difficult to exchange cash when making a purchase.
6. **Call a friend** - Just talking with a trusted person can help redirect your thoughts away from buying something.

*"I need a car. I want a Porsche."*

## KNOW YOURSELF

Marketers would prefer that you shopped from a subconscious level. To fight back, ask yourself these questions before you buy:

1. Am I here for something other than what I am considering buying now?
2. Do I really need this product?
3. What are the underlying motives for making this purchase?
4. What else do I have that provides the same use?
5. Will I use this product?
6. Did I feel a need for this item before I saw it in the store?
7. Am I motivated to buy this because I like the setting I saw it in?
8. Did the salesperson influence my decision?
9. Do I have room in my house for this product?
10. What is the financial cost of this purchase and can I really afford it?
11. What will change if I wait to make the purchase?
12. What else will I have to give up in order to afford this?
13. Are there other costs associated with making this purchase?
  - a. Will it start an argument with my spouse?
  - b. Will it make me feel guilty?
  - c. Do I need to buy other matching items?
14. How do I feel right now?



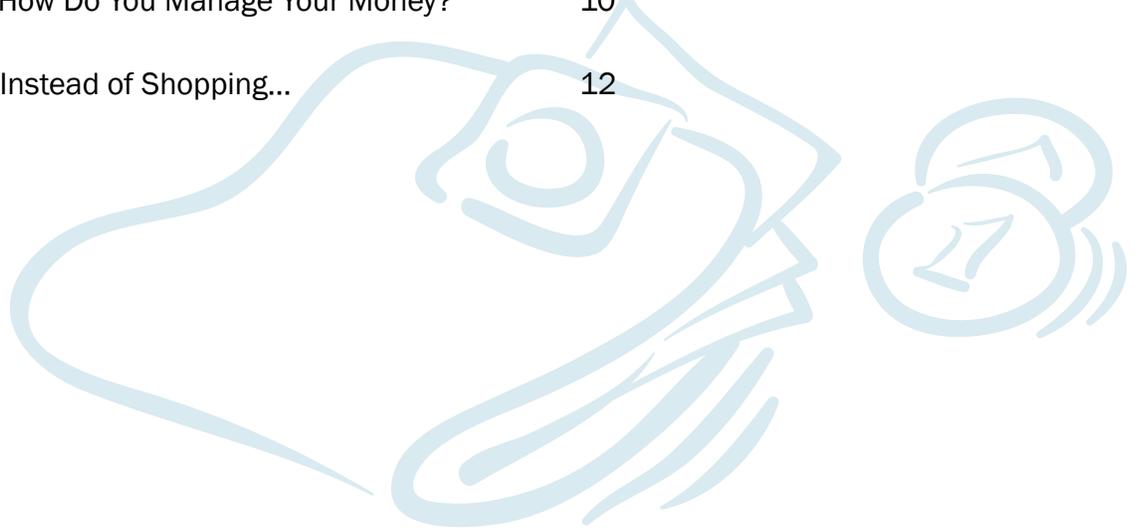
*"I went shopping and saved \$55.20!" Yes, but how much did you spend?*

# Appendices

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## HOW DO YOU MANAGE YOUR MONEY? \_\_\_\_\_

Answer the following questions as truthfully as possible according to your present financial practices. Then check your score to determine your money management skills.

### 1. I pay the rent/mortgage and utility bills on time.

Always _____	Sometimes _____	Never _____
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### 2. I save 10 percent of my net income.

Always _____	Sometimes _____	Never _____
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### 3. I try to keep three months of my net income in reserve for emergencies.

Always _____	Sometimes _____	Never _____
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### 4. I plan ahead for large expenses such as taxes and insurance.

Always _____	Sometimes _____	Never _____
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### 5. I set goals and keep a budget for my net income.

Always _____	Sometimes _____	Never _____
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### 6. I spend no more than 20 percent of my net income for credit payments, excluding home mortgage payments, but including car payments.

Always _____	Sometimes _____	Never _____
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### 7. I comparison shop for the purchase of most items.

Always _____	Sometimes _____	Never _____
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### 8. I keep track of my daily expenses.

Always _____	Sometimes _____	Never _____
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**9. I balance my checkbook every month.**

<b>Always</b> _____	<b>Sometimes</b> _____	<b>Never</b> _____
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**10. I check my credit report once a year.**

<b>Always</b> _____	<b>Sometimes</b> _____	<b>Never</b> _____
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**Scoring**

To total your score: Give yourself 2 points for each ALWAYS; 1 point for each SOMETIMES; and 0 points for each NEVER.

**20-15** You are practicing good money management skills. To add to your financial knowledge, take advantage of the information available at the library or through the media or workshops.

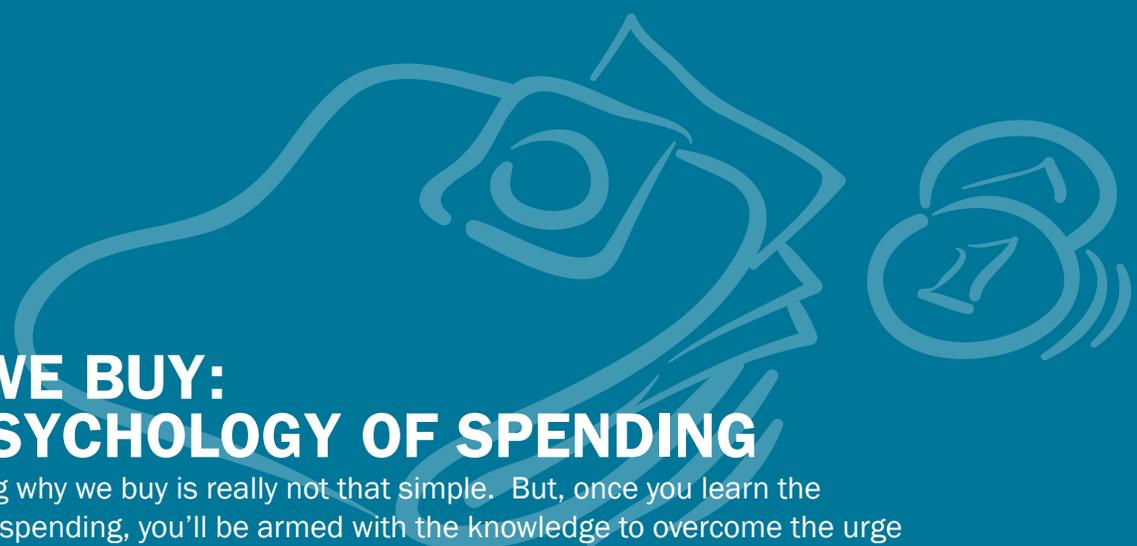
**15-10** You are making an effort to improve your skills. Seek specific information about your financial issuers.

**10-0** You need to improve your money management skills.

## INSTEAD OF SHOPPING...

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- Listen to your favorite music
- Enjoy a long, warm bubble bath
- Go for a walk
- Relax outside
- Exercise
- Do stretching exercises
- Watch the sunset or sunrise
- Concentrate on a relaxing scene
- Write your thoughts and feelings in a personal journal
- Attend a favorite athletic event
- Read a special book or magazine
- Play a musical instrument
- Work with plants
- Learn a new skill
- See a special play, movie or concert
- Ride a bike or motorcycle
- Make a nutritious meal
- Draw or paint a picture
- Swim, float, wade or relax in a pool or at the beach
- Do aerobics or dance
- Visit a special place that you enjoy
- Take time to smell the roses, or any other flower that you enjoy
- Go horseback riding
- Enjoy a relaxing nap
- Visit a museum or art gallery
- Practice yoga
- Relax in a whirlpool or sauna
- Enjoy a cool, refreshing glass of water or fruit juice
- Enjoy the beauty of nature
- Play like you did as a child
- Star gaze
- Window shop
- Day dream
- Attend a special workshop
- Go sailing or paddle boating
- Create with clay or pottery
- Pet an animal
- Watch your favorite TV show
- Write a poem
- Make a bouquet of flowers
- Relax and watch the clouds
- Visit a park, woods or forest
- Phone a special friend
- Picnic in a beautiful setting
- Enjoy a cup of coffee or tea
- Play a board game
- Participate in a hobby
- Spend time playing and laughing with your child
- Play a video game



## WHY WE BUY: THE PSYCHOLOGY OF SPENDING

Understanding why we buy is really not that simple. But, once you learn the psychology of spending, you'll be armed with the knowledge to overcome the urge to splurge. In *Why We Buy*, you will learn how to manage valuable resources, the external factors that influence buying behavior, money personalities, ways to control spending, and overcoming the forces that make us spend.



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