

THE PSYCHOLOGY OF SPENDING: WHY WE BUY



"Empowering people to lead financially healthy lives."

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CHECK YOUR KNOWLEDGE

Look for this icon throughout the workbook for important information.

Many of us are not meeting our financial goals, because we don't understand the psychology behind our financial choices. In this workbook, we'll examine that psychology and explore ways to take control of our spending and savings habits.

WHY VALUES AND ATTITUDES ARE IMPORTANT

When trying to understand how, and why, we spend money, we must first examine our values and attitudes about money. The two words are often used interchangeably, but are actually rather distinct ideas.

Values are strongly held beliefs that guide our behavior and reflect what we think is right or wrong. Without examination and conscious effort, values are very difficult to change.

Attitudes are more flexible. Attitudes can reflect our current life situation, our likes and dislikes, and as such are not as deeply embedded as values.

A simple example of the difference between a value and an attitude is someone who values hard work and believes that hard work is the path to success. However, on a Monday morning, he doesn't want to get out of bed and go to work, because his current attitude toward work is less than positive. His attitude toward work may change throughout the day, but his value of hard work will remain constant.

Values usually influence our attitudes. Attitudes create an emotional reaction that leads us to certain behaviors.

VALUES > ATTITUDES > EMOTIONAL REACTION = BEHAVIOR

Understanding our values, and the resulting attitudes about money, helps us to understand our behavior; in other words, why we spend money in a particular way.

VALUES AND SPENDING

Our values about money influence the emotional reaction we have toward money. Sometimes, our attitudes, and the resulting emotional reactions, can get in the way of achieving financial success. The way to alter our attitude toward money is to understand the values that lead to those attitudes.

Our money values are influenced by several different factors:

Family

The family in which a person is raised usually has the greatest influence on an individual's values about money. Research finds



that we are more like our parents than we might think. Our tendency to spend or save, the way we manage money, even the brands we choose, are strongly influenced by the choices our parents made, while we were growing up.

Culture

An individual's values are also influenced by cultural values. America has a culture of spending instead of saving. Since the explosion of easily available credit began in the 1980s, our cultural tendency has been to "buy now, pay later." This has led Americans to owe approximately \$1 trillion in credit card debt.

Media

American movies and television shows are filled with images of "the good life." The lifestyles depicted are often far from our reality. Yet these images deeply influence what we value and how we judge our level of success.

DEFINING VALUES

"Your beliefs become your thoughts, Your thoughts become your words, Your words become your actions, Your actions become your habits, Your habits become your values, Your values become your destiny." – Gandhi

Defining personal values is one way we can get a better understanding of our spending choices. There are different ways to find out what is truly important to you—a key step to adjusting your spending habits is to ensure that your spending actually reflects your defined values.

In this exercise, we will follow the steps below :

- **Step 1:** Identify a time in your life when you felt the happiest:
 - What were you doing?
 - Were there others with you? If so, whom?
 - What in particular made this time happy?

- **Step 2:** Identify a time in your life when you made a difficult decision, but knew that it was the right decision:
 - How was the decision difficult to make?
 - How did you know it was the right decision?
 - Did you feel relief once the decision was made?

- **Step 3:** Identify a time in your life when you felt the most successful:
 - What happened during this period of time?
 - Did other people know about the success or was it a personal achievement?
 - What specifically made you feel successful?
- **Step 4:** Identify a time in your life when you felt the most satisfied and peaceful:
 - What was happening at the time?
 - Were there others with you? If so whom?
 - What in particular made this time peaceful and satisfying?
- **Step 5:** Using your experiences of happiness, certainty, success and satisfaction, try to describe in just a few 'value words' why each experience was truly important and memorable.

To help you get started, there's a list of common personal values on the next page.

Most people have between 3 and 7 core values. If you find you have more than 7, try grouping several together. For instance, the words *philanthropy*, *community*, and *generosity* could be condensed to "service to others."

Core Values:



- **Step 6:** Once you have defined your core values, think about the ways in which you choose to spend money.
 - Is your spending in line with your core values?
 - If not, what changes can you make to better align your spending and values?

COMMON PERSONAL VALUES

Access	Devoutness	Humility	Rigor
Acceptance	Diligence	Independence	Security
Accountability	Discipline	Ingenuity	Self-actualization
Accuracy	Discretion	Inner Harmony	Self-control
Achievement	Diversity	Inquisitiveness	Selflessness
Adventurousness	Dynamism	Insightfulness	Self-reliance
Ambition	Economy	Integrity	Sensitivity
Assertiveness	Effectiveness	Intelligence	Serenity
Balance	Efficiency	Intellectual Status	Service
Beauty	Empathy	Intuition	Shrewdness
Being the best	Enjoyment	Joy	Simplicity
Belonging	Enthusiasm	Justice	Soundness
Boldness	Equality	Leadership	Speed
Calmness	Excellence	Legacy	Spontaneity
Carefulness	Excitement	Love	Stability
Challenge	Expertise	Loyalty	Strategic
Cheerfulness	Expressiveness	Making a Difference	Strength
Clear-mindedness	Fairness	Mastery	Structure
Commitment	Faith	Merit	Success
Community	Family	Obedience	Support
Compassion	Fidelity	Openness	Teamwork
Competitiveness	Fitness	Order	Temperance
Consistency	Fluency	Originality	Thankfulness
Contentment	Focus	Patriotism	Thoroughness
Continuous	Freedom	Perfection	Thoughtfulness
Improvement	Fun	Positivity	Timeliness
Contribution	Generosity	Practicality	Tolerance
Control	Goodness	Preparedness	Traditionalism
Cooperation	Grace	Preservation	Trustworthiness
Correctness	Growth	Professionalism	Truth-seeking
Courtesy	Happiness	Prudence	Understanding
Creativity	Hard Work	Quality	Uniqueness
Curiosity	Health	Reliability	Unity
Decisiveness	Helping Society	Resourcefulness	Usefulness
Democracy	Holiness	Responsibility	Vision
Dependability	Honesty	Restraint	Vitality
Determination	Honor	Results-oriented	

ATTITUDES AND SPENDING

As defined earlier, attitudes about money are more flexible than our values. Our attitudes are more closely aligned with our current life situation and daily experience, rather than our history.

Many different factors influence our attitudes about money. If we can recognize what's "pushing our buttons," we can work to reduce the impact of these factors and our emotional reactions. This will help us change our behaviors and realize our financial goals.

THE EFFECT OF ADVERTISING ON SPENDING

Experts estimate that the average consumer is exposed to anywhere between 250 and 5,000 advertisements daily. This includes ads on TV, on the radio, and as popups on our computers and phones. Advertising can be as glaring as billboards lining the highway or as subtle as product placements in movies and TV shows. With the amount of advertisement we are exposed to daily, there is no doubt that it has a major influence on our spending habits.

The influence that advertising has on our spending starts early. By the time children are 3 years old, they are not only able to recognize brands, but they have already developed strong value judgments as which brands are "better" than others. Short of living in a cave and cutting off all communication from the outside world, what can we do to combat the influence of advertising?

To Fight the Enemy, You Must Know the Enemy

Sun Tzu's *"The Art of War"* states "So it is said that if you know your enemies and know yourself, you can win a hundred battles without a single loss." The best way to combat the influence of advertising on our spending is to understand the tactics advertisers use to get us to buy. Advertisers use "psychographics" the study of personality, values, opinions, attitudes, interests, and lifestyles, in order to create a psychological connection between their product and us.

Buying Stuff = Happiness

Advertisers are constantly barraging us with images of happy, healthy, smiling people using their particular product. This creates a psychological connection in our brains, linking personal fulfillment with their product. These connections are so ingrained in our psyche and culture, we base an individual's worth, including our own, on the stuff that we have.

Pretty People

There is a reason that celebrities and beautiful models tend to appear in commercials. Research has shown that we are more likely to comply with a request from an attractive person. Thus, when an attractive person is shown using a particular product, we are more likely to desire that product for ourselves.

Scarcity

Humans are strongly motivated by the idea that we might lose out on a resource or opportunity. This instinct comes from a time in human history, when resources needed for survival, such as food, water and shelter, were in short supply. Advertisers use this hardwiring to trigger our desire to buy: by selling things at a discounted price, offering items 'for a limited time only' or offering only a limited supply. This creates a sense of urgency and triggers the fear of loss in the primitive part of our brains. We are motivated to purchase the item, whether we need it or not.

THE EFFECT OF SOCIAL SITUATIONS ON SPENDING

The social situations we're in can significantly affect our purchase behavior. Have you ever been out to dinner with a friend and found yourself arguing about who is going to pick up the check? In many cases, the social pressure we feel from our peers may cause us to spend (or not spend) depending on the situation. In addition, the situation - the atmosphere, our mood and self-concept—will also affect our tendency to spend.

Familiarity and Peer Pressure

We are more likely to purchase items from people we know. For example, you are more likely to purchase something at a friend's party than from someone you don't know. That is why companies like Tupperware, Pampered Chef, Avon, Mary Kay, and many others, rely on in-home parties to sell their products.

Social Class

Our social class has an influence on our spending attitudes. Have you ever experienced a time when you received a significant increase in income, only to find that your spending also went up? This may be because of your perceived change in social class. A social class is a group of people who have the same social, economic, or educational status in society. The higher our socioeconomic status, the more expensive the cars, houses, clothing and food we buy.

Atmosphere

Most of us have had the experience of being in a department store and finding it extremely difficult to locate the exit. This is not an accident. The longer you are in the store, the greater the likelihood that you buy something. Retailers control the lighting, layout, music, temperature and even smell, to entice you to buy. This manipulation of the environment is called “atmospherics”.

For many people, shopping is not only an act of necessity that allows them to purchase what they need, but also a form of entertainment and social interaction.

THE EFFECT OF SELF-CONCEPT ON SPENDING

Each of us carries a set of beliefs about ourselves. This set of beliefs is known as our *self-concept*. Generally speaking, we act in ways that are consistent with our self-concept. For example, a person who believes that they are a good cook is more likely to prepare food for a party than someone who believes they are a bad cook.

Acting in ways that are contrary to our self-concept can lead to cognitive dissonance which is really just the stress we feel when confronted with two or more contradictory beliefs or values. Because we subconsciously go to great lengths to avoid stress, we will act in ways that are consistent with our self-concept about money. For example, if you think of yourself as a saver, you will most likely feel some stress when you take money out of savings for a purchase. If you think of yourself as a spender, you may be more likely to give yourself permission to make impulsive purchases.

Examining and recognizing our self-concept around money can help us avoid behavior that is keeping us from reaching our financial goals. A “spender” who makes a conscious effort to change their self-concept to that of a “saver” will find it much easier to save for their goals.



MAKING A CHANGE

Once we have a greater understanding of our values, and the factors that affect our attitudes about money, we can then decide if we need to make a change to reach our financial goals.

LEARN TO SAVE

Saving is critical to achieving our financial goals. But for many, saving money is a challenge. Surveys show that Americans have one of the lowest savings rates among industrialized countries.

Financial experts, families, friends and even strangers will encourage us to save, before we pay our bills. Many of us, however, don't follow this advice. Instead, we pay our bills first and find that by the end of the month, there is little or no money left to save.

So what can we do to become "savers"? Here are some tips to help you get the most from your paycheck:

1. **Pay Yourself First:** Instead of using your whole paycheck when creating your budget, designate 10% for savings **first** and create your budget based on this lower amount. One of the best ways to do this is to have that 10% deposited directly into a savings account. You'll find that you will be able to adjust your spending to live on the reduced amount. If you don't see it, you won't miss it. If you are burdened with significant amounts of debt and are unable to save, you may want to seek the help of a professional.
2. **Learn to love saving.** You may find that watching your money grow and saving for future purchases will be more satisfying than spending impulsively. Change your self-concept from one of "I love spending" to "I love saving."
3. **Align your spending with your values.** If you find that you are spending more money than you want on items like entertainment, eating out, clothes and other "wants", review your core values. If "entertainment" was not one of your top values, why would you spend a lot of money on it? Find the things that truly matter to you and demonstrate this with your spending.
4. **Be aware that we are highly influenced by advertising.** Think about the following before you buy:
 - a. Why am I here?
 - b. Do I need this?
 - c. Will I really use this product?



- d. Are there underlying motives for making this purchase?
- e. Do I own anything else that provides the same use?
- f. Did I feel a need for this item before I saw it in the mall?
- g. Am I motivated to buy this because I like the setting I saw it in?
- h. Did the salesperson influence my desire for this item?
- i. Where will I put it?
- j. What is the financial cost of this purchase and can I really afford it?
- k. What if I wait?
- l. What else will I have to give up to afford this?
- m. What are the other costs of this purchase? (Will it start an argument with my spouse? Make me feel guilty? Do I need to buy other matching items?)
- n. How do I feel?



Understanding your values, attitudes and emotional reactions can help you change your behaviors. Defining your values helps you make money choices that work toward your goals. Being aware of the things that impact your attitudes can help you change your behavior. And building your savings can relieve stress, allow you to plan for your future and help you avoid impulse purchases. All of this will help you understand why you buy and make the choices that will allow you to meet your financial goals.

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