

Smart Consumer Spending

Advanced Level

As a consumer, you have a nearly endless set of ways you can spend your money. Every purchase impacts your budget, whether it is a small item, such as a latte, or a major item, such as a new car. Before you decide to spend your money, you should understand how that decision fits within your overall financial plan. Managing your money continuously through life is the way you will reach your financial goals and ensure your well-being.

The **planned buying process** is an essential consumer skill for managing your spending decisions. It helps you think through the details of a purchase, from your initial desire to buy to your satisfaction after the purchase. This process is an ongoing cycle. This process is particularly important for purchases of **durable goods** such as automobiles, cell phones, computers, furniture and other items that you expect to own and use over an extended period of time. Durable goods are typically among the more expensive items you purchase and as a result have a larger impact on your budget. Therefore, you are more likely to be satisfied with your purchase decision if you invest the time to evaluate the item through the planned buying process.

Items that you purchase can typically be divided into two categories: durables and consumables. A **durable good** provides a stream of services to the user over a period of time and does not quickly wear out. Automobiles, clothing and cell phones are good examples. A **consumable good** is consumed in the present, such as food, fuel, and cosmetics.

Cycle of Planned Buying



Name at least one durable and one consumable item that you have recently purchased.

Durable

Consumable

Let's explore each component of the planned buying process.

Prioritize Wants

Your present self-impacts your future self. Thinking through the consequences of your spending decisions will help you determine how you should spend your money and stay within your budget.

Start with the basics: you need a place to live, food to eat, clothes to wear and transportation to get to school or work. You can spend your entire budget just on these items or make some tradeoffs (for example, less expensive housing, cheaper car, and fewer shoes) and have money left for other things. But, nail down the basics first. After these needs are met, how much money do you have left? This is money you can spend on your wants. Most people want more things than can afford. A commitment to spend within your budget forces you to prioritize your wants.

**Buying is not saving –
when you buy
something on sale,
you aren't saving
money, you are
spending it.**

Ask Yourself:

- What wants are most important to you?
 - Analyze the opportunity cost of various things you'd like to purchase to determine which ones would give you the most satisfaction.
- How many of your wants can you afford to satisfy?
 - Examine your spending plan to determine if you can afford the desired item(s) or if you can afford lower-cost versions of the items.
 - Consider how the purchase of each item impacts your ability to achieve your financial goals. Would it make sense to delay purchase but set a goal to save money to purchase the item in the future?
- Are there temporary or external factors influencing your desire for this item?
 - Personal – Are there personal factors influencing your choice? For example, are you grocery shopping while hungry? Are you feeling emotional at the time of a purchase?
 - Social – Is your desire to have an item influenced by what your peers have? Has advertising on social networking sites, television, or other media influenced your desire to have an item?

Conduct Research

Investment helps manage risk and uncertainty. Investing in product research will help you find the option that works best for you and will reduce your risk of being unsatisfied with the purchase.

Smart shoppers use a variety of sources to research a product before buying. Consider the following sources of information:

- The seller – the seller is often a source for lots of useful product information. But, a seller wants to make a sale, and for that reason should not be considered an objective source.
- Consumer Reports – Consumer Reports is a magazine that publishes reviews and comparisons of consumer products and services based on results from their unbiased in-house testing facility.
- Product reviews – There are many sources for product reviews including online reviews, reports from qualified parties that evaluate a specific type of product and opinions of other purchasers (often readily available through online forums).
- Appropriate licenses – When researching and evaluating services, make sure the seller has all appropriate licenses. Doctors, lawyers, contractors and other service providers must register with a state or local licensing agency.

Consider your purchase options:

Use a variety of sources to research the cost of each of your options. Consider the following:

- Used vs. new – Is there an option to buy used? Used items are typically less expensive. Are there advantages and disadvantages of buying used vs. new?
- Store vs. name-brand – Is there an option to buy a store brand version of a product sold under a more recognized national label? If so, what is the difference in price and quality?
- Where to purchase – Where you purchase an item can make a difference in the price. For example, groceries purchased at a convenience store are usually more expensive than groceries purchased at a grocery store.
- When to purchase – Sometimes the price of items varies depending upon the time purchased. For example, winter clothing is usually discounted in the spring. New cars are least expensive at the end of the model year. Retail stores usually have sales around holidays. Airfares are often highest around major holidays.
- Do-it-yourself – Can you save money by doing it yourself? Do you have the resources (such as time and skills) for the DIY project? Don't forget to include the cost of materials in your calculation.

Regardless of the source, be a critical consumer and evaluate product reviews. Ask the following questions:

- What is the source/author of the review? What biases might the source/author have which would influence what they wrote?
- When was the review published? Is this a type of product that changes frequently? If so, is the review out of date?
- Is the review primarily comprised of fact or opinion?

Identify features specific to the product and compare across your options

- **Safety** –
 - What are the safety ratings of an item and how do those ratings compare to competing products?
 - Has the product had any recalls? A recall results from discovery of a safety issue. The remedy for the consumer as a result of the recall will vary depending upon the type of product and the severity of the safety issue but could include repair or replacement of the item or refund of the purchase price.
- **Expected durability** – How long is the product expected to last?
- **Maintenance** – Will the product need any maintenance during its lifetime? If so, how often should the maintenance occur? If applicable, how much will the maintenance cost?
- **Hidden costs** – Will you need to purchase extra items such as batteries or other accessories in order to use the product?
- **Warranties** –
 - Does the product come with a warranty? If so, what is covered and how does that warranty compare to warranties from similar products?
 - Can you purchase a warranty for an additional cost? If so, what is the cost and what is covered under the warranty?
 - What process should be followed if the warranty needs to be used? How long does it take to return the product to the owner?
- **Environmental impact** – What is the environmental impact of the product? Are environmentally-friendly versions of the product available?
- **Organic** – Is there an organic version available? Be aware that these products are typically more expensive than your non-organic options.

What is one item or service you typically purchase that you could do-it-yourself instead?

Consider practicing the “rule of three” by comparing at least three alternatives before making a purchase.

Product Price

Product prices may vary widely across sellers and across different versions of the product. An important step in the research process is to gather information about price. Keep in mind that many products have different versions with different product features, each of which impacts the total price. Televisions, computers, refrigerators and cell phones are good examples of products with different versions.

To find the right product at the right price, rank the priorities of different product features and determine if each product option has that feature. Then determine which option provides the most desired features for the lowest cost:

| | Option 1: Price: | Option 2: Price: | Option 3: Price: |
|--------------------------------------|--|-----------------------------|-----------------------------|
| Rank features in order of importance | Place a ✓ if the option includes that feature. | | |
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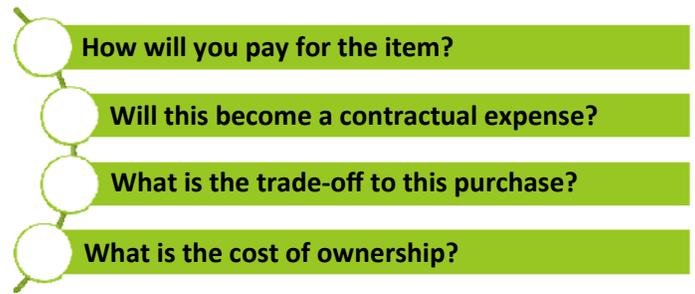
Why might two individuals prioritize features of the same product differently?

Spending Plan Evaluation

Key principle: Before making the purchase evaluate your spending plan.

Consider the following:

- If it is a large purchase that exceeds your spending plan, how will you pay for this item?
 - Savings – Will you use current savings? Or, will you delay purchase and set a goal to save so that you can purchase the item in the future?
 - Credit – If you decide to use credit to finance the purchase, shop around with different lenders to find the credit terms that best fit your needs. Make sure to consider the long-term implications of paying the loan back.
- Will this become a contractual expense? If so, can you afford this ongoing expense in the future?
- What is the trade-off to this purchase (what could you do with the money if you don't purchase this item)? Is this the best use of your money at this point in time?
- Cost of ownership – Consider the total cost of owning and maintaining the product. For example, if you purchase an automobile, consider the cost of insurance, fuel, licensing, maintenance and repairs.
- Cost per use – Consider how much you will use an item and if the cost of the item is worth the use you will get from it. For example, the cost per use of a \$100 prom dress that will be worn once is \$100. The cost per use of a \$100 pair of jeans that are worn once a week for a year is \$1.92 per use. This concept is important when entering into contracts. Consider if you will use a product enough to make the commitment of a contract worth the money or if you would be better off paying per use. Before committing to a year-long gym membership you should probably consider if the membership cost is reasonable on a per-use basis. If you think you may not use the membership often, perhaps a pay-per-visit option (if available) would be the smarter purchase.



Make the Purchase

Key principle: When making the purchase, make sure you feel comfortable with the company and sales personnel and confident they will deliver what they promise. Before exchanging money, evaluate the seller to be sure you are buying from a reputable source. Check the company's history with the Better Business Bureau. Ask for the seller's refund, return and cancellation policies.

Some purchases such as automobiles allow you to negotiate with sales personnel over the purchase price. The key to successful negotiating is preparing yourself in advance with accurate information on all variables of the purchase.

If purchasing online, consider the following tips:

- Use only secure sites indicated by a URL starting with https:// ("s" for secure).
- Use a credit card instead of a debit card.
- Review shipping policies and costs as well as return policies before placing your order.
- Keep copies of all purchase documents.

If you are unsatisfied with your purchase, you have a right to seek **redress** (the process of righting a wrong). There are steps to take depending on the purchase. Most retail stores have return policies that may or may not require the purchase receipt. Other "big ticket" purchases may have laws protecting the consumer in the event of product defect or the seller's failure to deliver as promised.