



4 CHAPTER

What do other high school students know about consumer awareness?

We asked other high school students to share their favorite television commercials.

“I like the Super Bowl commercials. They show how much competition there is between companies.”

Senior, Utah

“I like the mayhem commercials the best.”

Junior, Missouri

“My favorite is the ‘Is it better to be faster or slower’ commercial.”

Junior, Tennessee

“I like the commercials with the baby talking about online investing.”

Senior, North Carolina

“I like the one where they ask the little kids questions and they come up with funny answers.”

Sophomore, Alabama

Consumer Awareness



of teens have placed an order online in the past three months.*



of teens say they are currently saving.*

MARKETING IS POWERFUL! Think about it—almost every single purchase you’ve made started with advertising. But be careful. As you learned in Chapter 4, debt is also marketed to you. Some salespeople don’t want you to think about the product’s total cost; they want you to think in terms of how much down and how much a month. Buyer beware!

*Marketingvox, Rand Youth Poll, Seventeen, Packaged Facts

Before You Begin



Learning Outcomes

Once you've completed this chapter's videos, you will be asked to return to this list of learning outcomes and place a checkmark next to the items you've mastered.

Section 1: Buyer Beware

- Identify ways companies compete for your money.
- Be familiar with marketing strategies that encourage people to go into debt or finance large purchases.
- Evaluate how peer pressure can affect spending decisions.
- Summarize factors that influence consumer decisions.

Section 2: Buyer's Remorse

- List five steps you should take before making a major purchase.

Section 3: Opportunity Cost

- Evaluate the role opportunity cost plays in purchasing decisions.
- Describe the effect of inflation on buying power.



Key Terms

Get to know the language of money.

- » **Branding:** The promotion of a product or service by identifying it with distinct characteristics (usually associated with public perception, quality or effectiveness)
- » **Brand recognition/awareness:** Refers to the public's ability to recall and recognize a brand by its logo, jingles, packaging, etc.
- » **Buyer's remorse:** Feeling regret or concern after making a large purchase
- » **Caveat emptor:** Latin term for "buyer beware"
- » **Financing:** To buy an item with credit; paying over time
- » **Marketing:** The process of communicating the value of a product or service to customers
- » **Opportunity cost:** Refers to the financial opportunity that is given up because you choose to do something else with your money
- » **Significant purchase:** An amount of money you spend, usually \$300, that causes some pain to part with



Measure Your Progress

Before watching the video, read each statement and select what you believe to be the correct answer. Then, after watching the video, return to this activity and correct your answers if necessary.

BEFORE & AFTER

1. What percentage of “90-days-same-as-cash” purchases are not paid in 90 days and convert to payments?
 25% 50% 75% more than 75%
2. The average cost of a 30-second television advertisement during the 2013 Super Bowl was:
 \$1 million \$2 million \$3 million \$4 million
3. The average American was exposed to almost 560 advertisements daily in 1971. Today that number is closer to:
 1,500 2,500 3,000 more than 5,000
4. A Harvard University study found that for every hour of television you watch each week, your yearly spending increases by an average of:
 \$50 \$100 \$200 \$500
5. The fashion category accounts for about _____ percent of teen spending.
 10 25 40 75



JOURNAL QUESTION: INTRODUCTION

How does advertising affect your buying decisions?



WHY ARE WE SO MARKETED TO?

The U.S. is the most capitalistic country in the world. Capitalism is an economic system based on a free market, profit motive, open competition and private ownership of the means of production. This market is driven by the economic law of supply and demand. Companies promote consumer demand by marketing their products.



TEEN SPENDING HABITS AT A GLANCE

- 55–60% of teens say their parents contribute more than half of their spending dollars.
- The fashion category accounts for roughly 40% of teen budgets.
- Approximately 79% of females and 76% of males shop online, and respondents indicated that roughly 18% of their spending is online.

2013 Taking Stock With Teens Survey, Piper Jaffray Companies

Section 1: Buyer Beware

VIDEO 1.1

The Most Marketed-to Culture in History

WE LIVE IN THE MOST marketed-to culture in the history of the world! If you are going to have financial peace, you are going to have to develop a resistance to that marketing. It's not

that buying things is bad. But buying too many things, with money you don't have, to impress people you don't really like—that's a bad idea.

» “Caveat emptor” means _____¹.

» We're not saying that you can't have a good time with your money. Remember, we want you to _____² like no one else so later you can live like no one else.

» We want to sacrifice to win and then we want to _____³ the winning. There's nothing wrong with buying a good product.

- » A good salesman has a servant’s heart, knows how to sell, and is professional—all of which can make the whole process pretty _____₄.
- » Companies use every angle to aggressively compete for our _____₅.
- » Companies that are not sophisticated and aggressive in their marketing or do not have a marketing budget generally do not stay open.
- » Competition is _____₆ for the consumer dollar.



JOURNAL QUESTION: VIDEO 1.1

Why is it important for consumers to be aware of marketing tactics?



“He who buys what he does not need steals from himself.”

UNKNOWN



The Super Bowl is known almost more for its commercials than for the football game. The average cost of a 30-second television spot during the 2013 Super Bowl was \$4 million. These ads were viewed in roughly 53.3 million households.

USA Today



What’s Wrong With Financing a Purchase?

“What’s wrong with buying things on 12-months-same-as-cash?”

DAVE’S ANSWER: It’s a stupid idea. First off, if I buy the item with cash, I’ll get a better deal. Plus, if you play with snakes, you’ll get bitten. If they record your payment wrong and it’s late, they’ll backcharge you through the entire term of the

deal at about 24–38% interest. You’ll spend the next year and a half cleaning up this mess. It actually happened with one of our clients here. If you can’t save up and pay for the item with cash, you can’t afford to buy it!



VIDEO 1.2

Four Common Marketing Tactics

When you turn on the TV, listen to the radio, surf the web, or walk into the mall, you are stepping into battle—a battle for your dollars. Today, companies use every angle imaginable to aggressively compete for your money. The purpose of advertising is to inform, tease and persuade consumers to purchase products.

When you're aware of these techniques, you are more _____⁷ as consumers. Here are four common marketing strategies:

1. One of the techniques is _____⁸ selling. People who know how to sell spend thousands of dollars and hours sitting in a classroom learning how to talk to you—to serve you, to _____⁹ you in your decision to buy their stuff.
2. The second technique is _____¹⁰. They use money and easy payments as a marketing tool. They don't want you to think about how much something actually costs, rather how much down and how much per month.



THE ECONOMIC LAW OF SUPPLY AND DEMAND

The theory that, in a free market economy, prices are determined by the interaction of supply and demand; an increase in supply will lower prices if not accompanied by increased demand, and an increase in demand will raise prices unless accompanied by increased supply.



For every hour of television per week you watch, you spend an average of \$200 extra a year.

Harvard University



I Want to Buy Something, But Can I Afford it?

How do you know when you can afford something? When you have the cash to pay for it! Here are two common financing plans you should avoid:

90-Days-Same-As-Cash

If you pay within 90 days, there are no finance fees. But if you pay late, you will be charged interest for the entire 90 days. What if you have good intentions of paying it off before the 90 days is up? On average, about 80% of customers do not pay it off in 90 days. Life happens. The best intentions are often interrupted by life.

Zero Percent Interest

Look out for the 0% interest trap on car loans! The truth is that 0% financing is nothing more than a really good marketing tool. It has worked so well for the auto industry that other types of retailers, particularly in furniture and electronics, have adopted this method of marketing. In reality, less than one third of all consumers qualify for 0% financing. For the other two thirds, well, they've got you where they want you: in the store and wanting to buy. For those that do qualify for 0%, sellers often make up for the lost finance charges by increasing the price of the product.



JOURNAL QUESTION: VIDEO 1.2

What are some of your favorite brands (soft drink, clothing, etc.)? Why do you like them?

Three horizontal lines for writing.

VIDEO 1.3

Four Common Marketing Tactics (Continued)

3. Other media like TV, radio and internet use _____ to sell products. How does repetition work? In advertising, repetition means repeated exposure. Over time, repeated messages become familiar and accepted as true. Companies behind the ads are willing to pay for such repetition because it works!

4. When it comes to marketing they also use product _____.

Types of Product Positioning

» Brand Recognition: When marketing causes you to position a product in your mind to be associated with a certain _____.



JOURNAL QUESTION: VIDEO 1.3

Describe one way advertising has played a role in something you've purchased.

Three horizontal lines for writing.



Have you ever wanted to know what was really important to someone? Look at their checkbook entries. Are they spending a lot on "stuff" like entertainment, clothes, friends, etc.? People spend their money on things most meaningful to their heart. "For where your treasure is—the money you spend or save—"there your heart will be also" (Matthew 6:21).



25% of Christmas shoppers will still be paying off the bills come next Christmas! The average consumer takes at least six months to pay off holiday bills.

The Wall Street Journal

If a \$1,200 purchase is charged on a credit card at 17% interest and only the minimum payments are made, it will take almost 20 years to pay it off and will cost an additional \$2,076 in interest, bringing the total cost of that \$1,200 purchase to \$3, 276!

The Wall Street Journal

VIDEO 1.4

Types of Product Positioning *(Continued)*

- » **Color:** Color _____¹⁴ when you're doing product positioning. Color has an impact on consumer reaction to a product.
- » **Shelf Positioning:** Companies pay for prime shelf position in stores. It's a _____¹⁵ shelf position. It is meant to influence *impulse buying*.
- » **Packaging:** The _____¹⁶, the look and the feel of the package are all meant to have an impact on you.

There's no reason to be paranoid. But marketers are very sophisticated—so we should at least _____¹⁷.



JOURNAL QUESTION: VIDEO 1.4

Have you ever bought something you thought would make you happy, but in the end it didn't?



The average consumer mentions specific brands over 90 times per week in conversations with friends, family and coworkers.

Word of Mouth Marketing Association

Consumer reviews are significantly more trusted—nearly 12 times more—than descriptions that come from manufacturers.

eMarketer



Teens have cited “friends” as the strongest influence over their purchase decisions for the duration of our survey history, but “internet” is quickly rising in profile. Approximately 53% of females and 52% of males indicate that social media impacts their purchases, with Facebook being the most important, followed closely by Twitter and Instagram. But the popularity of Facebook is waning among teens, with 33% citing it as the most important, down from 42% six months ago.

2013 Taking Stock With Teens Survey, Piper Jaffray Companies

Section 2: Buyer's Remorse

VIDEO 2.1

Significant Purchases

Your body goes through physiological changes when you make a significant purchase. You sweat. Your eyes dilate.

Your pulse rate changes. Proteins and endorphins are released.

- » A “significant purchase” is normally anything over \$_____.¹⁸
- » Buyer’s _____¹⁹ is when you wake up the next day and regret your purchase.
- » We all have that spoiled, grocery store kid living inside of us. His name is _____.²⁰
- » When it comes to spending, adults devise a _____²¹ and _____²² it.
- » When it comes to big purchases, the right way to do it is to _____²³ _____²³ and pay cash.

JOURNAL QUESTION: VIDEO 2.1

Can you think of anything in your home that was bought but never or rarely used?



The average U.S. household has 52 unused items around the house worth a total of \$3,100.
eBay/Nielsen Survey



Describe a money goal that you currently have.

“Saving up enough to buy a nice used car.”

Sophomore, Kansas

“Saving \$20 per week.”

Junior, Washington

“I’m trying to save up \$800 for a new set of tires.”

Senior, Massachusetts

“My current money goal is to pay off my car and save more money for college.”

Junior, Pennsylvania

Section 3: Opportunity Cost

VIDEO 3.1

Develop Power Over Purchase

Because it's always easy to spend more than you make, you must develop _____ over _____. It doesn't matter how much money you make. If you have a spending plan and power over purchase, you can win with money.

Having power over purchase involves following these steps:

1. Wait _____ before making a purchase. Take the time to consider whether it is a need or a want. And make sure you've budgeted for it!
2. Consider your buying _____. No amount of stuff equals _____ or fulfillment. People sometimes get _____ and _____ confused. You buy fun, but you can't buy happiness. Happiness is where you are right now. Claim it for yourself!
3. Never buy anything you do not _____. Particularly financial products like insurance or investments.
4. Consider the "_____ cost" of your money—which means that money spent *here* cannot be spent *there*. Whenever you make a choice, you must pass up other opportunities. Take your time and make the right decision.
5. Seek wise _____. Young adults who are not yet married should find an accountability partner—someone with whom you can discuss big purchases. Once you are married, you should seek the counsel of your spouse.



Budget Builder

Thinking about making a significant purchase? You'll need to save up for that! Go to foundationsU.com/6 to add a sinking fund to your budget.



"Many a man thinks he is buying pleasure, when he is really selling himself to it."

BENJAMIN FRANKLIN
Author, inventor and political theorist



OPPORTUNITY COST

The true cost of something in terms of what you have to give up to get the item; the benefits you would have received by taking the other action.

If you follow these steps, you will limit your spending and make purchases that you're proud of—and you will have financial peace.

* **NOTE:** You'll learn more about investing and retirement planning in Chapter 8.



JOURNAL QUESTION: VIDEO 3.1

Explain why it is important to develop power over purchase.



“A budget tells us what we can't afford, but it doesn't keep us from buying it.”

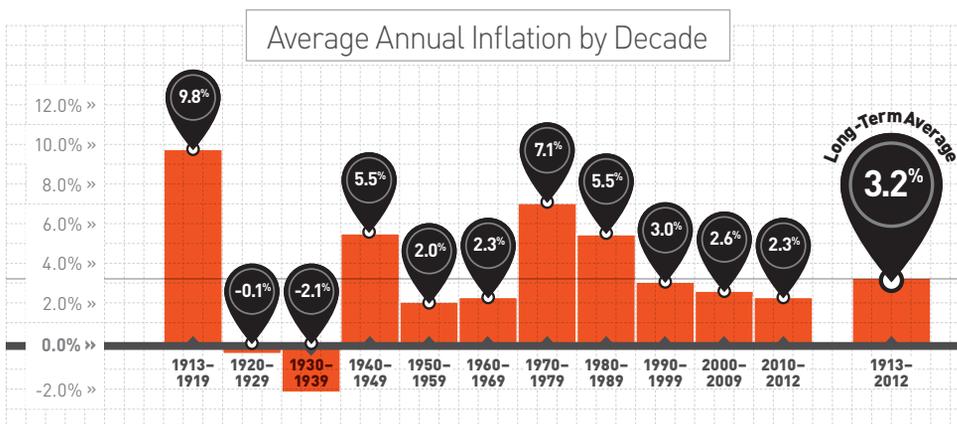
WILLIAM FEATHER
American publisher
and author

How Does Inflation Affect Your Buying Power?

INFLATION can be described as the persistent increase in the cost of goods and services or the persistent decline in the buying power of money.

Regardless of how you describe it, inflation basically means your dollars buy less than they used to. You must consider inflation when planning for future expenses, especially retirement. So what should you do?

1. Pay attention to the long-term rate of inflation. This can make inflation trends more predictable.
2. Be sure to consider inflation in your investment planning.
3. Factor a realistic inflation expectation into your financial planning. For instance, what might you expect your cost of living to be by the time you retire?



Chapter Summary



Check for Understanding

Now it's time to check your learning! Go back to the *Before You Begin* section for this chapter and place a checkmark next to the learning outcomes you've mastered. Review the *Measure Your Progress* section and correct your answers if necessary.



Build On What You've Learned

Describe three instances where peer pressure has influenced your decision about a purchase.

3 Times Peer Pressure Influenced Your Purchasing Decision

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Take Action Challenge

Imagine that you inherited \$5,000. Come up with three things that you could do with the money. Then describe the opportunity cost of each choice.

You inherited \$5,000!
Now what are you going to do with the money?

OPTION 1

USE \$5,000 FOR: _____
 OPPORTUNITY COST: _____

OPTION 2

USE \$5,000 FOR: _____
 OPPORTUNITY COST: _____

OPTION 3

USE \$5,000 FOR: _____
 OPPORTUNITY COST: _____



Big Ideas

The following Big Ideas are intended to provide clear focus and purpose to the lessons. Read each statement and think about how what you've learned will affect your current and future decisions. Then, in the space provided, write an "I believe" statement for each of the Big Ideas.

» Don't buy things with money you don't have.

» Develop *power over purchase*.

» Consider the *opportunity cost* of your purchases.

Money in Review

Matching

Match the following terms to the correct definition below.

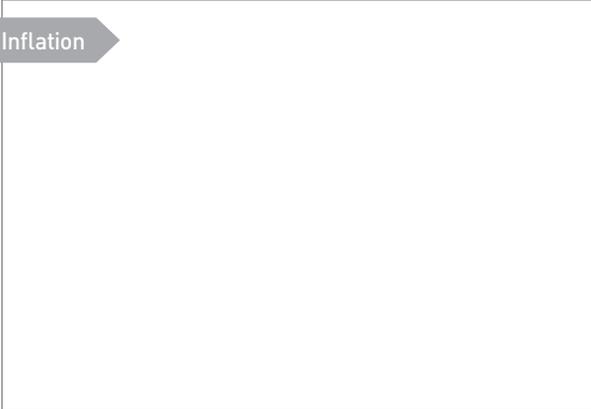
A Opportunity Cost	D Buyer's Remorse	G Marketing
B Significant Purchase	E Financing	H Brand Recognition
C Branding	F Caveat Emptor	

- | | |
|--|---|
| 1. _____ To buy an item with credit; paying over time | 5. _____ Refers to the financial opportunity that is given up because you choose to do something else with your money |
| 2. _____ The promotion of a product or service by identifying it with distinct characteristics (usually associated with public perception, quality or effectiveness) | 6. _____ Feeling regret or concern after making a large purchase |
| 3. _____ Latin term for "buyer beware" | 7. _____ Refers to the public's ability to recall and recognize a brand by its logo, jingles, packaging, etc. |
| 4. _____ An amount of money you spend, usually \$300, that causes some pain to part with | 8. _____ The process of communicating the value of a product or service to customers |

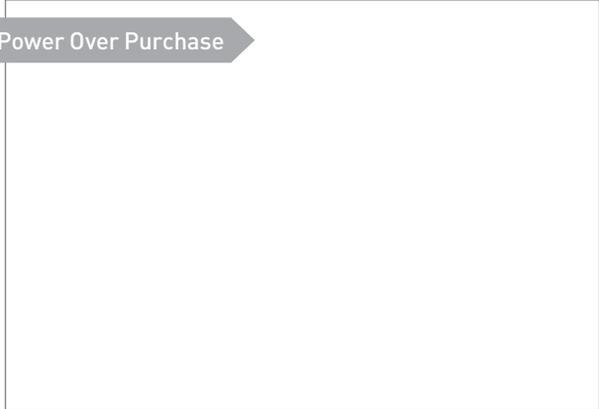
Illustration

Draw a picture representation of each of the following terms.

Inflation



Power Over Purchase



Multiple Choice

Circle the correct answer.

9. As a consumer, you should consider inflation in your investment and retirement planning.
 A True
 B False
10. If you don't have cash on hand, financing a significant purchase is a good option.
 A True
 B False
11. Which of the following is not a need?
 A Food
 B Housing
 C Eating out
 D Utilities
12. The purpose of advertising is to:
 A Inform the consumer
 B Tease the consumer
 C Persuade the consumer
 D All of the above
13. Which of the following is not a common marketing strategy?
 A Providing financing options
 B Making the customer do product research
 C Personal selling
 D Repetition

Short Answer

Respond in the space provided.

14. Explain why financing a purchase is a bad idea.

15. Why should you always consider the opportunity cost when making a significant purchase?

16. What are the five steps you should take before making a significant purchase?

17. What effect does inflation have on purchasing power?

18. Summarize factors that influence consumer decisions.

