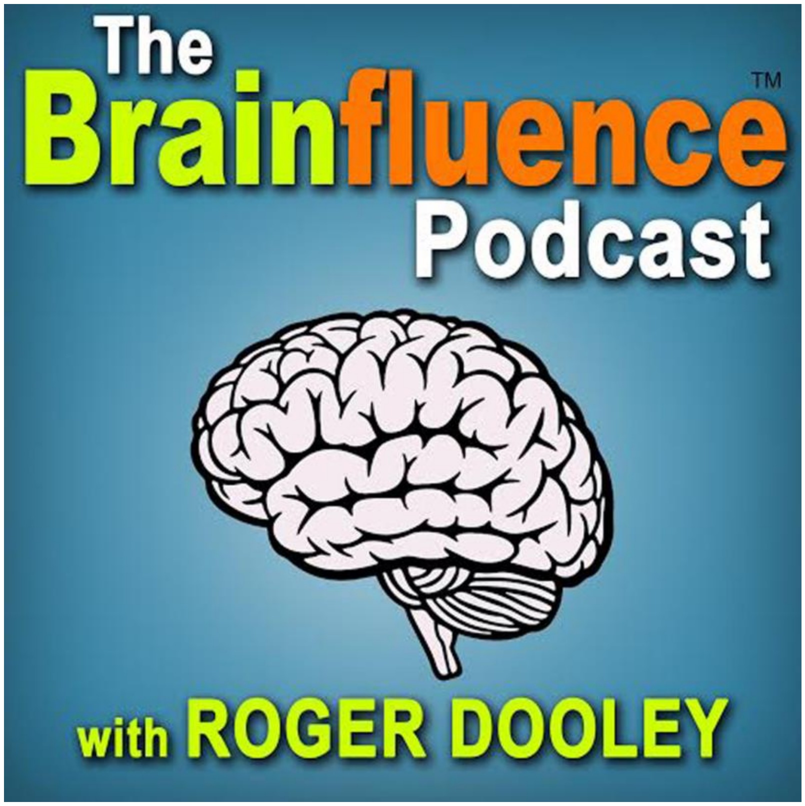
Ep #74: How to Sell to Tightwads, Spendthrifts, and Everyone Else



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With Your Host

Roger Dooley

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Welcome to the Brainfluence Podcast with Roger Dooley, author, speaker and educator on neuromarketing and the psychology of persuasion. Every week, we talk with thought leaders that will help you improve your influence with factual evidence and concrete research. Introducing your host, Roger Dooley.

Welcome to the Brainfluence Podcast. I'm Roger Dooley and today you are stuck with me alone, no guest. We're going to discuss a topic that's really interesting. I think it will also be very useful to many of our listeners. There are a lot of ways you can slice and dice your customers. You can divvy them up by demographics or various psychographic measures, but one thing that affects most of us who are trying to sell things is dividing them up in the way that they tend to spend money. There's been some fascinating research on this, starting with some work about seven or eight years ago at Wharton. They categorized people as either spendthrifts, or tightwads, or pretty much everybody else. As you might expect, the tightwads are those folks that hate to part with their money. The spendthrifts are those that like to spend money, and then the others are the ones that share some characteristics of both. As with most distributions, there's a continuum of values for each people's spending propensity.

In doing this podcast, I'm drawing on not only that research but some blog posts that I've done over the years at Neuromarketing and also a really good guest post at Neuromarketing by Jeremy Smith. We'll have all those linked in the show notes if you want to dig into this a little bit deeper and also look at some of the references behind this. We won't be doing footnotes on the air here, but you'll be able to find that via the blog posts.

Before we get into the tightwad/spendthrift issue, let's go back a little bit farther to something called the pain of paying. This was something that researchers discovered once they were able to actually do brain imaging of what was going on inside people's brains when they were presented with prices that were either appropriate, or bargains, or too high, or that seemed too high to the subjects. What they found was that people confronted with a price that was too high, at least in comparison to their expectations, actually experienced a sort of pain, and this was indicated by the pain center in their brain lighting up. This naturally was dubbed the pain of paying. It really influences a lot of issues, in particular, the tightwad/spendthrift divide. The way that researchers, the ones at Wharton, define tightwads are people who feel intense pain at the prospect of spending money. On the other hand, spendthrifts don't feel enough pain. They don't really feel an appropriate level of pain when they're confronted with spending money that they probably shouldn't be spending.

Now, the research involved surveying about thirteen thousand people, and what they found was interesting. First of all, about a little more than half the people, actually about sixty-one percent of the people fall into neither end of the spectrum. They're the ones who are relatively normal in terms of their spending propensity, but about fifteen percent of the population are spendthrifts and just about a quarter of the population are tightwads, which is really significant. If you're trying to craft a marketing campaign, this means you've got three distinct groups of people that may react to that in a different way, and they found a few interesting characteristics as well about the nature of these people.

Spendthrifts were much more likely to carry credit cards than tightwads. Naturally, as you might expect, their debt was higher, and spendthrifts tended to save less too. Again, none of this is too shocking. There were some gender differences and other demographic differences. Females were about equally likely to be either a spendthrift or a tightwad, where males there were about three times as many tightwads as spendthrifts. Tightwads, those frugal spenders, are more likely to be older and better educated, and oddly, perhaps, they are more likely to have majored in humanities and social sciences. The spendthrifts, which again, seems a little counterintuitive, were more likely to have majors in engineering and the natural sciences. You think of these sort of rational type majors and that's actually a little bit more likely to involve a spendthrift personality rather than a tightwad personality.

One of the challenges we face as marketers is that all these people tend to look alike whether they're in your store or arriving on your website. There's no real easy way to discriminate between these folks. Now, the way the researchers did it was gave people a survey or questionnaire, and after evaluating their answers to a series of questions they put people into these different categories. I guess if you are able to do that, then that would be fine. In most cases you don't have the luxury of having your customers complete a survey before even trying to sell to them, so we'll skip that possibility and look at a few other ways you can do it.

One, of course, is to simply define your business and your brand at one end of the spectrum. If you are a luxury goods maker for example, you are not going to be dealing very much with a tightwad end of the spectrum, because if you're selling extremely high end apparel, or luggage, or watches, your products are not going to represent a good utilitarian value in most cases. You're sort of defining which end of the market you're going to deal with. In a similar vein, Walmart undoubtedly has pretty high appeal to tightwads, because their appeal is constantly on price. They offer the lowest prices, and that's what they hammer on. At the same time, the customer experience is pretty minimal, so they've defined their business around that end of the spectrum. You can do that too, whether it's your website or your brand, but you may not want to. You may find that you want to appeal to really all ends of the spectrum, perhaps under different circumstances, and of course remembering that most people fall into that middle ground.

A few ways that you might be able to discriminate between different types of buyers and then offer different kinds of appeals, and we'll get into what those appeals should be in a couple of minutes, one would be to use special landing pages and ads on a website. For instance, if you are driving traffic with pay per click ads, some of these ads could be very sort of value oriented, and value is something that definitely appeals to these tightwad buyers. Showing that they have a discount or that in some way they're getting really great value for their money is how to appeal to those folks. If somebody clicks on an ad where it leads with twenty-five percent off today only, then there's a chance that that person has some tightwad characteristics, and you want to tailor the landing page to that same message and that same kind of approach. On the other hand, if you're selling a service, a massage for example, and you're emphasizing the sort of hedonic aspects of it and people are clicking on an ad that does that, then you don't want to take them to a page necessarily that then says and twenty-five percent of on this. You want to keep emphasizing that hedonic application. That would be one way of doing it.

You can also look at people's behavior. If you happen to have a mechanism where people sort your products, and there's an option to sort by price, on travel sites you see that a lot, you can sort the hotels by proximity to a location or by their price, then folks who immediately sort by price quite possibly have some tightwad elements going, and therefore your subsequent ads to those people may want to emphasize those same kind of tightwad type things. Beyond that, sometimes you can just use a different timing approach. For instance, you may have a big sale at one point in time where you're going to draw some of those tightwads out. At other times, you may be emphasizing the high quality of the products that you're selling, and in those cases maybe you'll get a little bit more of an appeal to the spendthrifts who just really want the best possible experience, the best possible product, and aren't that concerned about price. With that said, let's look at some of the very specific ways that you can appeal to each type of buyer.

Let's look first at spendthrifts. Now, these folks are only fifteen percent of your total market, so in absolute terms that's not a very big number. On the other hand, they may be some of your best customers, because they are free spenders and can be persuaded, perhaps without too much difficulty, to buy something that will make them feel good, make their lives better, and so on. Let's look at five different things that you can do to appeal to the free spending spendthrift customer. The first is to appeal to their hedonistic and utilitarian tendencies. Now, to put that in plainer English, hedonistic tendencies would be sort of a pleasure seeking tendency, and the experimenters used the example of a massage that was described in various ways. One was that it would be a very pleasurable experience. That would be the hedonistic. Then, it was also described in other situations as a way to relieve pain, that's more utilitarian. Indeed, the hedonistic approach worked very well with the spendthrifts, but also, they were more likely to buy even when it was described in utilitarian terms. Ideally, if you can describe how good your product is, and in particular, how it will it make the purchaser of that product feel or benefit, that will work well with the spendthrifts.

Another way that you can increase your sales with spendthrifts is to emphasize credit options, or even provide those, so that they can delay payment but not gratification. There's a significant difference in the propensity for credit use with spendthrifts, and therefore, if you take credit cards make that obvious. If you offer some kind of a time payment plan or perhaps spreading a payment over several months, then do that. That will work well with the spendthrift customer. The language, interestingly enough, is not all that important. They found that some little language tweaks were very important for tightwads. For instance, describing free shipping, or describing shipping as a small fee, or a fee really didn't make any difference with the spendthrifts. We had mentioned instant gratification. That's something that is particularly important to spendthrifts. If you can offer them something immediately, or at least very quickly, that's going to be very effective. If they can drive that new car right off the lot, that will appeal to a spendthrift. I'm sure that some Amazon purchasing behavior is driven by their not quite instant but very quick gratification, where somebody can place an order and they know that within twenty-four hours or forty-eight hours it's going to be on their doorstep.

Something else that you can do when you're selling to spendthrifts is improve your revenue, and in particular, your margins with options. Spendthrifts aren't quite as sensitive to extra cost options if they think it's going to make their product or their experience better, so if you can, offer these spendthrifts an upgrade, or perhaps several ways that they can make their experience even better. That will, I think, really be a mutual benefit. Obviously, if you can sell an option or two, that's higher revenue and hopefully it doesn't decrease your margins. Also, it should increase the customer satisfaction with the product itself. In Jerry Smith's article he has a couple of other suggestions for how to sell to spendthrifts. He points out that they respond to emotional advertising, and they really aren't in to analyzing it with a lot of cognitive processing, so emotional ads work. Also, kind of in that same vein, pictures are an important part of selling to spendthrifts. The pictures actually increase the emotional power of the ads and hence their effectiveness with spendthrifts.

Okay, now let's look at how you can sell to tightwads. This may sound like a tall order, because you're trying to convince people that don't really want to part with their money to do just that. It's important to focus on this group, because they represent roughly a quarter of your potential customers. They can be convinced to part with their money if you do it correctly. The first strategy, and this is verified by the researchers, is that you want to make your price appear to be a bargain. If you can offer a discount, that's great. Another way of doing it is to translate the price in to something that seems smaller. For instance, instead of telling somebody that a product is one hundred and twenty dollars a year, break it in to ten dollars a month or thirty-three cents a day. By making that number seem smaller, it will be a less painful process. Again, we're talking about that pain of paying that is particularly sensitive in these frugal buyers. You want to minimize the pain they're experiencing, and by both giving them bargains and also by making the prices seem lower you can do that.

Another way of avoiding pain is by not using incremental pain points. If you've ever been to a sushi restaurant, that is a painful experience and

I'm sure particularly painful for tightwads. You have to make a lot of choices, and every time you get a little piece of fish it's another five dollars or more. That is a more painful process than, for instance, simply paying a fixed price for an entire meal, or all you can eat, or whatever, where you make once decision once, and you're done. If you keep saying, "Well, okay, now you need to pay for this, and now you need to pay for this other thing," that's going to be particularly bad for tightwads, because all you're doing is creating increased pain points.

Another thing that you can do is use bundling. Some work by George Lowenstein at Carnegie Mellon University showed that it was less painful for people to buy things when they were combined in a bundle, primarily because it was a little bit tougher for them to sort out the exact value. For instance, instead of leather seats on a car being two thousand dollars, if they were bought as part of a three thousand dollar bundle that included a few other features, this was less painful. They couldn't directly compare the cost of those seats to say, "Well, I could buy nice leather couch for my home for less money than that," so if you have the option, consider bundling. That's also avoiding that sort of sushi style pricing where you keep having to go back for more money every time the customer wants another feature.

Now, with tightwads it's also important to appeal to needs that they feel are important. A spendthrift might be enticed by something that was merely pleasurable or desirable, but that is not the tightwad mentality. For instance, going back to that massage example, tightwads spent nearly as much as spendthrifts when the massage was described in terms of relieving back pain, because if your back hurts, it's not merely a luxury to get a massage if you'll get relief. With these people you want to emphasize the really important benefits, not just how nice it is, but what they're going to get out of it and how that's going to solve their pain points, whether those pain points are literal or more of a mental pain point.

One other surprising thing the researchers found was that tightwads were very sensitive to very small changes in language, in particular, they described the shipping costs in a couple of different ways, either as a five dollar fee or a small five dollar fee. Describing that same amount of money using the word "small" actually increased the response rate among tightwads. It didn't make any difference with the spendthrifts. A five dollar fee was a five dollar fee, they didn't really care, but for the tightwads just that one change made a difference. There's a lesson there too, because if you can incorporate a language change that helps you with one customer group but does not hurt with the other customer groups, then that's a good thing to do. Selectively doing things like describing a fee as small may provide an across the board benefit for you.

Now, in his article, Jeremy also recommends using value propositions to sell to tightwads. That's pretty much the guaranteed best approach. Something else that he suggests is sometimes adopting a little bit more of a negative emotional signal. In other words, instead of telling people you deserve, or this is the best for you, talk about things like losing money hurts. The other thing that I think is probably a very good strategy is to use things like numbers, data, charts, metrics, because the tightwad tends to be a more analytical, value oriented buyer. This type of evidence will almost certainly help you persuade that buyer, because other evidence that we've talked about is that credibility is increased by a chart no matter what.

Chances are that chart may not hurt you too much with a middle of the road buyer, but it will definitely add credibility to your value proposition with the tightwad. Probably the only caution I would have on using this kind of evidence throughout is that the emotional buyer, that could include the spendthrift or perhaps some of your more middle of the road buyers, if you give them a bunch of data it may knock them out of that emotional decision making process and get them to start thinking about it, which usually is not a good thing, but for your tightwads, definitely try and bolster your credibility with this hard data.

Now, for your last group, the average buyer, that middle of the road buyer, there's not exactly a well-defined strategy. You may learn what works well through testing different appeals. Chances are it's going to be a mix of emotion and more metric messaging. It could be that, depending on the product, more of a value emphasis or more of hedonistic emphasis may work. That's something you're basically going to have to find through experimentation. One thing that works with this group is guarantees, free returns, warranties, and things like free shipping. These things generally work across the board, and in particular, this group will be affected by these. I know that based on my personal experience there's always a great benefit from offering free shipping when you normally charge for shipping.

Now, before we leave this it's also important to note that even though the researchers were able to sort of categorize the subjects into one of the three groups, I think that that grouping probably varies at times by the sort of product. In other words, there may be certain products that aren't particularly important to me where I'm going to be a frugal buyer. In that case I'll be a tightwad. If I'm buying something totally utilitarian like trash bags, then I'm probably going to buy the least expensive thing that looks like it won't break. On the other hand, if I'm buying a set of cufflinks, that is going to be much more of a hedonistic purchase for me where I'm going to be less driven by the deal of the day than whether they have an artistic appeal, or an emotional appeal, or whatever.

Similarly, the same product may function in different ways for different people. For some people a car is basically transportation. It's a utilitarian device. They want a cost-effective solution that's going to get good gas mileage and so on. For them, they may be somewhat of a tightwad when it comes to that kind of a purchase, where for other folks, their car may be a visible status symbol. It may be how they want other people to see them. In that case, that person is likely to be a spendthrift. Even though we're talking about the exact same product category, automobiles, they may behave differently. Of course, within those groupings, you may have individual products that fit one spectrum or the other. For example, an expensive sports car will probably not sell to tightwads very often, while a minivan with sort of minimal performance characteristics is probably going to be a choice of tightwads rather than one for hedonistic spendthrifts.

The final piece of advice I have, which I always append to just about every piece of advice that I give, is to test. Don't assume that you know your market, or that because something worked for somebody else it'll work for you. Every market is different, every customer group is different, and so on. Use these ideas as a starting point, not an end point, for determining your marketing plan. I hope you've enjoyed this. This is kind of a different session than usual since you're just listening to me. If you like, feel free to leave a comment as to whether you want more of these or whether you'd like me to get back to guests as soon as possible. I really do enjoy talking to some of the really brilliant people we have on, so we're going to continue to see a stream of great guests, but I also do enjoy these sessions once in a while, so feel free to leave a comment. Also, if you would, drop by iTunes and leave us a review there. That'll help other people discover the Brainfluence Podcast. Now, we'll have links to all the content that I talked about, the various blog posts, both by me and by Jeremy, on the show notes page at rogerdooley.com/podcast. Thanks for listening, and we'll see you next week.

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