

I know it is hard to believe but Christmas is upon us once again. The bible has much to say about how people buy and sell to each other and financial responsibility. This short series deals only with the practicals, not because the spiritual side is unimportant (hopefully we agree it is paramount) but simply because we are entering the annual retail feeding frenzy and as the saying goes “forewarned is forearmed”.

For the next few weeks every retailer in this country will do everything they can to extract as much cash from us as they possibly can. This is of course true the whole year round but at Christmas they have us at a moment of weakness and they will exploit the opportunity as much as they can. The Christmas holiday period is often referred to as the “silly season”. There is a positive side to this in that many people show more goodwill than they otherwise would but there is also a negative side in that people throw caution to the wind and lose self discipline. This applies to eating and drinking and a general breakdown in moral behaviour but it also applies to spending habits.

As a result many people “wake up” in the new year with a sizeable financial hangover. The purpose of this series is to help us to be in the group of people who start the new year financially fit.

First we will talk about things to do and then next week we will deal with things to watch out for.

Things to do

- Work out how much you can afford to spend. Credit should not be an option.
- Plan how you are going to spend it.
- Credit is dead.
- Stick to your plan.
- Don't use credit.
- Do be wary of retail science. Generally we think we make informed rational decisions on what we need and how to spend our money. Sadly this is not true. Every day we are manipulated. If you think I am overegging the situation just ask yourself how many times you have come out of a store having spent considerably more than you had intended. Yes, there were good reasons for the additional spend (at least that is what we tell ourselves) but the truth is that we consistently find ourselves in the position of having spent more than we planned. Be aware that retailers and advertisers will do everything they possibly can to derail your financial plan and get you to spend more (much more on this next week).
- Do use price comparison websites to check out the price of more expensive items.
- Do use voucher code websites to get discounts.
- Do buy presents (Christmas and birthdays) whenever you see good value throughout the year – don't wait for the birthdays or Christmas and so be forced into buying at a high price to meet a deadline.
- Avoid credit like the plague (see if you can spot the theme on this subject).
- If you don't trust yourself with a credit card, draw cash for your purchase and leave the credit card at home. It's old fashioned but it works.

Beyond Christmas

Looking beyond Christmas, now is the ideal time to think of 2012. Have a plan and know what you can spend. To do this effectively you need a budget. Budgets usually work best when they are planned for a year. That way you have a financial plan you can work to. You won't have to hope you can afford something – you will know.

If married, agree the 2012 budget with your spouse. Financial planning is a team sport. Finances are one of the biggest issues that hurt marriages. Don't let yours be one of them.

Update your actual spend against your budget at least monthly so you know how you are doing. Even better, update your actual spend weekly so you can make sure you stay within your budgeted spend.

To create a budget and update the actual spend it helps to use software. There are several good packages available such as Microsoft Money or Quicken. If you would like one that's free and written in Excel (a programme most of us are familiar with) I have created a budget template you can use. It can be downloaded from the church website.

In summary: know how much you can spend, avoid credit like the plague, make sure you have a full tummy before you go shopping (I will explain why next week) and keep your wits about you.

Yours in the Christmas Spirit

Martin S-J

Last week we looked at some “do’s”. This week we look at some things to watch out for.

There are two groups of sellers to be aware of: retailers and advertisers. We will deal with advertisers as one group and then the two categories of retailers most likely to take your money this Christmas – supermarkets and product specialists such as sofa retailers or electrical outlets.

1. Advertisers

Advertising is a form of applied psychology. The job of the advert is to get you to buy the product regardless of whether you actually need it or can afford it. A key approach to buying is to realise that the minute someone tries to sell you something they are doing so for their benefit not yours. But of course they can't tell you this so they will make it look as though you will be much happier if you buy their product and the reason they are selling to you is for your benefit. It is your needs that will be met. How do they do this? Here are just some of the tactics they employ. In all of them remember that successful adverts are subtle. People like to think they are making up their own minds so advertisers excel in the art of suggestion.

- Appeal to authority – e.g. 80% of dentists use this product
- Weasel words – scientist says this product might be a cure for your condition. Note how the statement doesn't promise any result at all.
- Popularity – 90% of women surveyed said they liked the product; our most popular pizza. The message is – if other people like it so will you.
- Product placement – movie heroes use branded products. Ever noticed movie scenes where the camera angle clearly picks up the logo of the laptop the hero is using to save the world?
- Family values – family sits down and eats a particular cereal together in the advert. The message – eat this cereal and your family will be closer together.
- Suggested outcomes – guy uses a hair product and the ad ends with a beautiful woman draped over his shoulder. The message: use our product and beautiful women will find you attractive.
- Creating feelings by association – when selling a range of clothing designed to be cool in summer the ad has models on a beach in a cool breeze. The breeze creates the image of coolness in your mind but has nothing to do with the clothing.
- Misleading facts – now with only 5% fat. Yes, but what about the massive sugar or salt content?

2. Supermarkets and Department Stores

How does this happen? Here are a some of the tricks supermarkets use to extract as much cash from you as possible:

- a. Smell of the store – supermarkets fill their stores with the scent of fresh bread. Why? Because it makes you want to buy more food. The defence against this is to have a full tummy when you go shopping.
- b. Layout of the store - Have you ever noticed how basics like bread and milk are at the back of the store? This is because retailers know the longer you are in their store the more you will buy. The store is designed to tempt you with as many “special offers” as possible between the time you enter and the time you leave. Also, those of us who try to watch our weight know all too well the army of temptation waiting for us at the tills and at the end of each aisle. This is called impulse buying. You didn't go into the store to buy a chocolate but it's right there and easy to get so let's pick up one up.
- c. Position of products - Retailers know you are most likely to buy products positioned at eye level on the shelf. Therefore, they will position at this height the products on which they make the most profit. Another very sneaky product position trick is called Triangle Balance. This trick recognises that the eye focuses on the centre of a picture. So when setting perfumes for you to look at on the department store counter they will have the highest profit products in the centre. They will try to make these larger or taller than others so they stand out.

There are many other tricks used as well as these – I have listed these just to give you a taste of what advertisers and retailers get up to. None of these tactics mean that the product is necessarily bad and should be avoided. However, if you are to make informed buying decisions you have to look past the suggestions advertisers are trying to plant in your mind and look at the functionality and value of the product.

As I said last week: know how much you can spend, avoid credit like the plague, make sure you have a full tummy before you go shopping and keep your wits about you.

Yours in the Christmas Spirit, Martin S-J

We have looked at things to do and ways in which advertisers, supermarkets and department stores try to manipulate you. This week we look at the phony sale. These are frequently used by sellers of high value items such as furniture and home entertainment equipment (e.g. TVs, hi-fis).

Does this offer sound familiar? The sofa was priced at £1000 and now it's only £500 – that's a saving of 50%. Wow – what good value! Surely it's a good idea to buy it now before the deal ends. And they are offering interest free credit for 4 years – a bargain!

Think again. The days when sales were genuinely used to clear out slow moving stock to make way for new stock are long gone. What retailers do is deliberately mark up their stock by extraordinary amounts such as 400% and leave it on display for say 1 month to establish the price in the mind of the consumer (a trick called price establishment). So an item they paid £500 for they will sell at a price of £2,000. After 1 month they will put it on sale for "just" £1,000. Their plan was always to make their target profit of 100% while the item was on sale.

But they aren't finished with you yet. For good measure they throw in the illusion of scarcity. Scarcity says – if you don't act now you will miss out. Does the expression "Sale must end this Weekend" sound familiar? Why must the sale end? Are they going to run out of stock? Not at all. What they are trying to do is get you to buy now rather than put it off. The truth is there are "sales" on a regular basis.

What about the free interest? Yes, it's true – there is no such thing as a free lunch. Avoid credit like the plague. Firstly, the cost of the credit is built into the price – even the sale price, so you can only imagine how extortionate the pre-sale price was. Secondly, they are selling you into a life of financial slavery. Once you have debt that you are paying off you are trapped. The longer you have to pay it off the more you are trapped.

So, what to do? Never buy sofas on these deals again? Actually these kinds of deals are probably a good way to buy a sofa. No, I haven't forgotten everything I have just said. Use the deal to get maximum value by doing the following:

1. Research on the internet what products of the style and quality you are seeking are selling for so you know what the price range should be.
2. Be aware that if the product isn't marked down then it is probably pre-sale and the price may be extortionate.
3. Ignore the pre-sale price as utterly irrelevant. The only price worth evaluating is the sale price for that is its real price.
4. Recognise that price and value often have nothing to do with each other. That is, because an item is expensive doesn't mean it is actually worth that much.
5. Avoid debt at all costs – never accept the credit package, even if it is interest free. See if you can use this to bargain for something extra like free delivery.
6. Watch out for insurance upselling. If the product is the good quality the retailer says it is why does it need to be insured against falling apart?
7. Be aware that the next sale is just around the corner. Don't buy something that is "best fit" now because it is such a good price. Be patient and wait for the next opportunity.

I wish you a wonderful Christmas and hope that you have a great financial start to 2012. Once again - know how much you can spend, avoid credit like the plague, make sure you have a full tummy before you go shopping and keep your wits about you. A quick reminder – if you like you can download a budget template in written in Excel from the church website to help you draft your 2012 budget.

Yours in the Christmas Spirit,

Martin S-J