



Currency of Persuasion:

Decoding Mental Budgeting for Marketers





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01

Introduction

In our youth, our mental model of finances was as one pool of money, and a shallow one at that. While living at home, we had only one or two expenses: indulgences and clothing.

That was it. One mental account. If this seems immature, it is. We mature.

Yet for 50 years traditional economic models base their predictions of consumer spending on this one-account model. This assumed that consumers' spending habits were only limited to the total amount, and all finances fungible; that is, could be moved around and spent freely on whichever decision presents itself as logical and reasonable.

Not so! Humans are terrible at this kind of rational behaviour. Instead we categorise our money, assigning a certain amount of funds into each category. A kind of budgetary conscience pulls us back from spending more, even if there are excess funds unspent in another. We are resistant to shifting these funds sideways, overspending or even underspending in each category.

This is mental budgeting, and knowing how it affects human spending can open up great opportunities for marketing and sales.

Mental budgeting

As we gain experience in handling money, our mental budget gains complexity. We might have categories such as Housing, Food, Transport, Clothing, Bills, Education and Entertainment.

Even more orderly minds may be break these down even further into smaller sections. Housing might now be Rent, Maintenance, Gas, Electricity, Water; Entertainment might be separated into nights in with a guest, nights out at the movies, or days out at sport.

An amount is set in our minds (if not on paper) for each category. Hand over more in a category and you'll get pushback and shame from your budget conscience.

We can't move the funds from one category to another, but we can recategorize the items. If you have run out of your Confectionary budget, you might still reach for a protein chocolate bar and file it under 'Health'.

An experienced mental budgeter will also include an amount for abstract goals, like future education or saving for house.



The flaws in mental budgeting



Mental budgeting can have its own erratic set of behaviours and errors, and can lead us to some odd and counterproductive decisions.

One is that we can't spend more even if we need to. An experiment discovered that if people lost a \$10 ticket to a concert, only 46% would dip extend the entertainment budget to buy another ticket. But 88% of those who lost an unallocated \$10 note on the way to the theatre would happily buy the ticket.

It's the same lost \$10, but in different categories. We have an aversion to overspending in the same category, but are okay if that \$10 was unallocated.

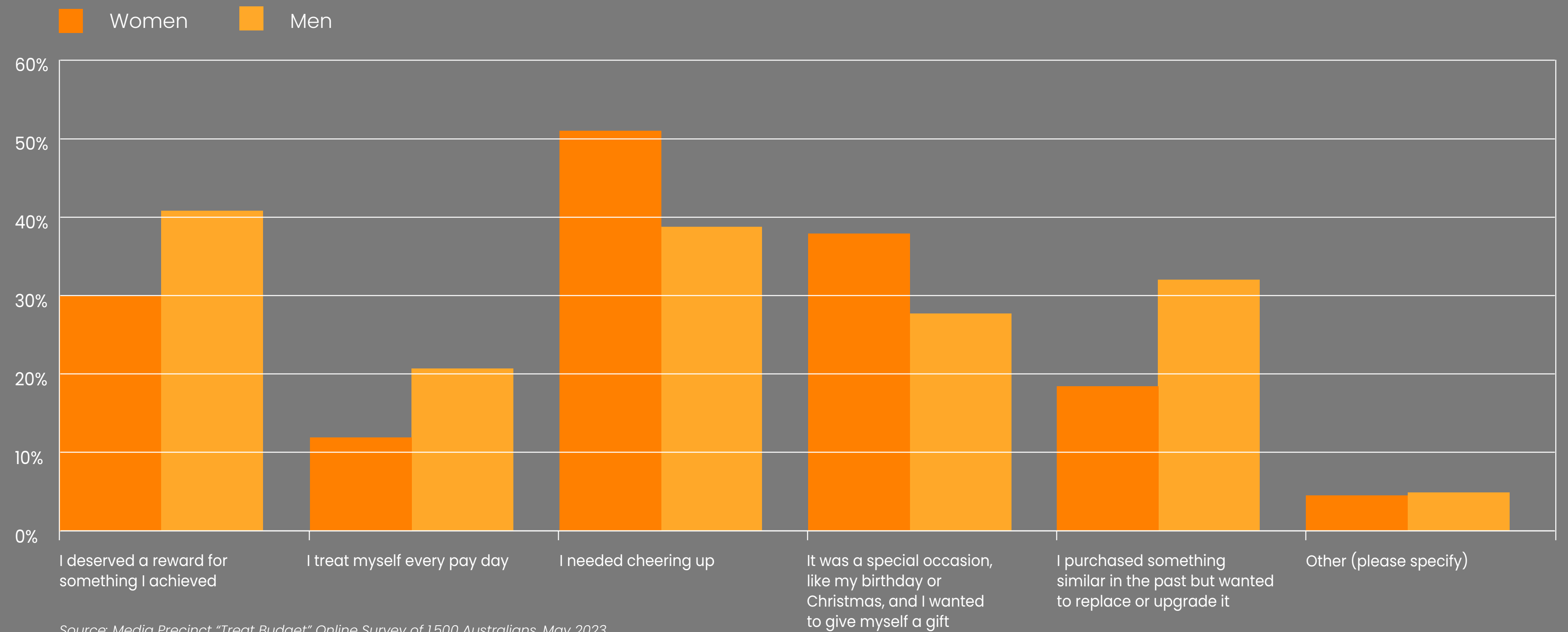
Underspending can cause errors too. Economists Heath and Soll give the example of a man who has his heart set on a particular pair of slacks, and allocates their cost to his clothing budget for the day. However, when he gets to the store, the slacks are not available. Instead he sees a sweater for the same price – a sweater that he does not want or need – and buys that.

Thus, to satisfy his mental budget nerve, our buyer not only failed to get new slacks, but also wasted money on a sweater he didn't need.

How do we justify our treat spend?



Men rationalise their treat spending. Women are more likely to be emotionally driven.



04 How we shop

As marketers, we like to think that our work was done in the advertising. That consumers saw our commercial, made a list with our item on it, went to the shops and, with the focus of an archery champion, homed in on our product and rushed it to the counter.

Instead, very few of our purchases are planned down to the brand level. 30% of our spend is focussed exactly on a particular brand, but 59% of our spending is not. That 59% is mentally budgeted into categories with no particular brand in mind. We make a vague list of requirements, and have a spend limit

on various categories, then go to the shops and submit ourselves to the whims of the moment when we get there, up to that budget limit in each category.

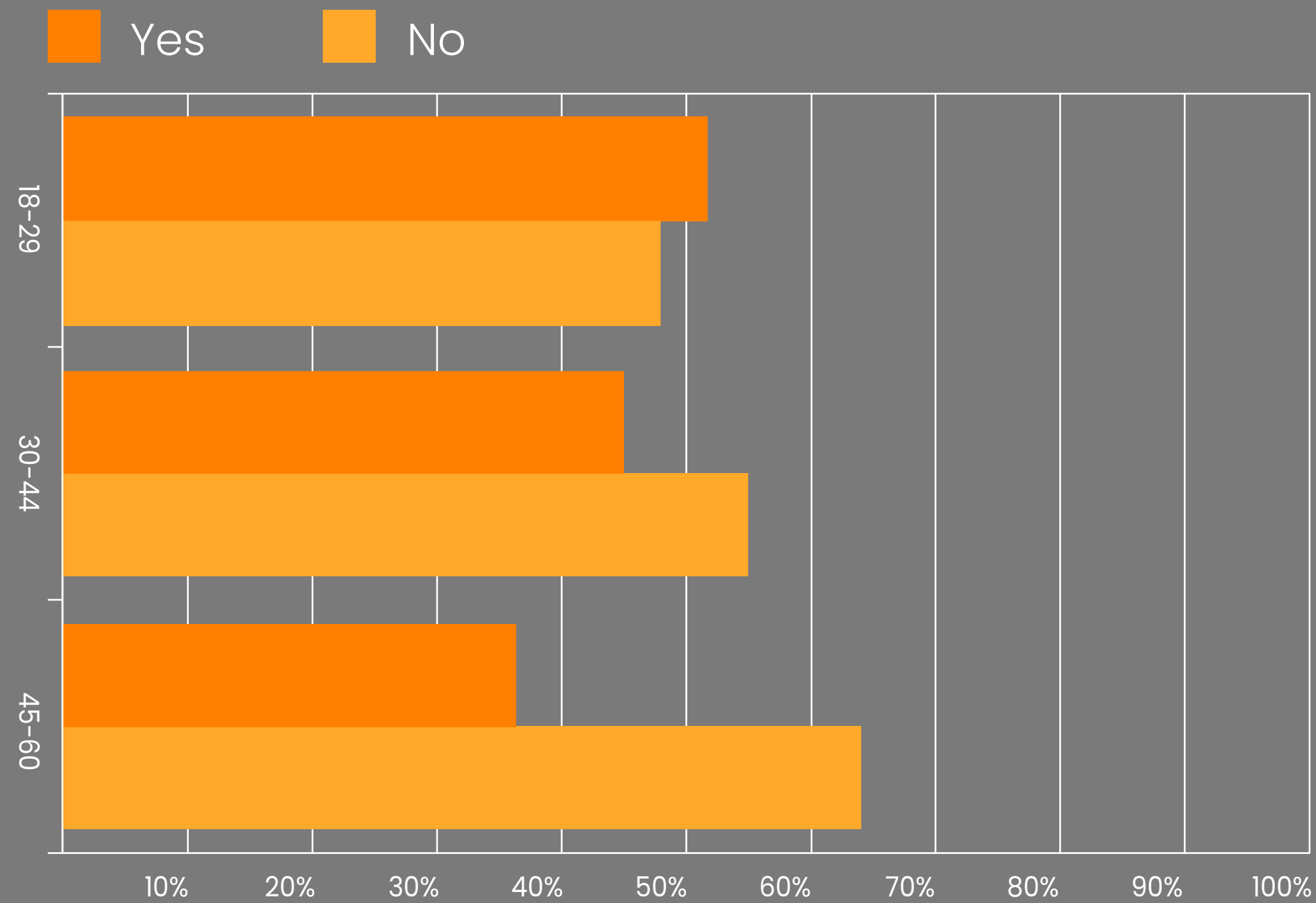
Knowing that their efforts to promote their brand often go out the window once the consumer hits the store, plenty of producers shifted their promotion budget to focus more on in-store purchases. If your product looks as good as what the customer had in mind to fulfil a need, and has a slight edge on the competition (eg. price, size or convenience), then they will buy yours instead of theirs.



Do we have a set treat budget?

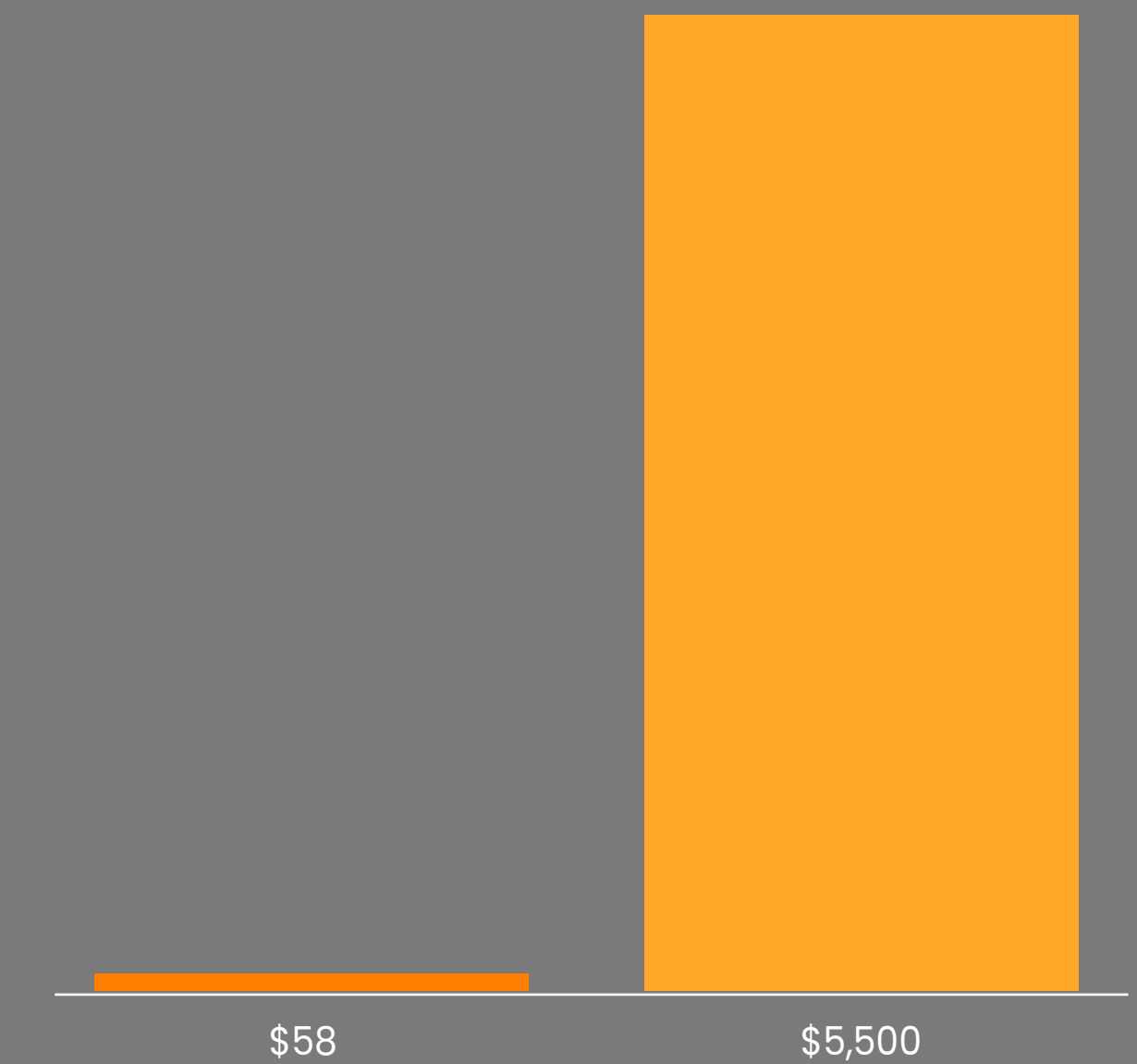


Younger demographics are most likely to have a set amount. Older demographics are less likely to set a firm amount.



Average treat spend

Budget setters Non-budget setters



05

Discounts



Research has shown that in-store price promotions may tilt a customer towards one product over another, but not affect the overall basket spend in the store. That is, it does no good to the store itself to offer a discount – their overall spend will not exceed their mental budget, so will remain the same.

As product marketers, it is important to know in which category your product sits in the prospect's mind, and aim to be better at fulfilling the function of that category than other options in the store.

Given a discount, shoppers who already buy your product will “stockpile” that item until their mental budget for that category is depleted. Some may even set their new budgetary estimate to the discounted price and be reluctant to buy it at full price.

This makes price promotion more expensive and less effective than we might imagine under the traditional economic model of consumers. Your intention in offering a price discount is not to increase volume, but to entice customers to try a new product. Your competition is not necessarily against other brands of the same product, but other options in the same mental category.

If you have little cakes to sell, you might have a hard time competing with other cakes in the ‘dessert’ section. But if you pit your little cakes against other options in the ‘Snacks’ section, or even ‘school lunches’, and make a good offer, then a shopper might try your little cakes.

Marketing to a budget

To work with the customer's mental budget, it is important to know in which category your product sits, and whether it outperforms in that category.

If it can't, help the customer to mentally switch your product to another category.

For example, is an educational toy in the Education or the Entertainment category? If a customer has already spent exhausted one budget, they may still buy your toy and call it the other.

Knowing your category can bring success. Not doing so can bring disaster.

Danish butter cookies Royal Dansk come in a tin, and all the biscuits are very presentable in frilly little paper cups. These are a long way from the family food budget, and tap straight into the budget for treats and entertainment.

Australian shortbread Mac's also come in a tin that suggested quality, but inside was no presentation at all – it was just a plastic bag of loose cookies. It was therefore not cheap enough for the family food budget, and not presentable enough to be Entertainment. No surprise that I soon found them in The Reject Shop as a failed product.



Let's say you supply cured meats. To hit the 'lunch for the family' section, your competition is whatever else might go into a budget sandwich for the family, so make it competitively affordable.

If your ham is particularly good quality and expensive, then this is a challenge for your consumer. They need to work within their family lunch budget for this ham plus whatever else goes into a sandwich. Bread, cheese, tomatoes, lettuce...

A big pack of expensive ham packaged for family lunch won't do – this item alone will blow out the lunch budget.

You want people to buy your ham, so you could...

- Market it to grown-ups
- Package it in smaller amounts so it doesn't break their lunch budget.
- Don't pretend to be cheap – package it as premium.

This will all allow our consumer to either relocate your ham away from the regular food budget, and into the Treat budget for themselves.

Include a few sliced olives, fine cheese or pâté. Now it becomes a presentable platter and is now in the fresh category of the Entertainment budget, for guests.

What do we spend our treat budget on?



Clothes, electronics, alcohol and big ticket items are the main items we buy as treats. Women major on clothes and beauty items, and men on electronics and alcohol.



07

Post-essentials budget

Once the standard shopping budget is spent, shoppers with some disposable income left switch to an additional budget for unplanned pleasure-items and adventuresome purchases. As if there is a special budget beyond the others labelled 'unspecified treats'.

There are reasons why so many small treat items are placed near the register in shops. One is that kids will grab them and make a fuss, and the other is that the customer might still have a few dollars left in the mental account, so pick up a small item as they stand in line. The gondolas full of half-price chocolate are right there as you make your way to the checkout.

Often, though, people will spend from this budget for the sake of novelty: Curiosity and adventure.



How does treat budget setting affect our choice?



Budget-setters are more likely to see snacks, or homewares and electronics as treats. For those who don't set limits, alcohol, experiences and big ticket items are categorised as treats.



08 Gifts

If the person is buying a treat for themselves, customers may reach for an item at a low price out of novelty. A lower price helps justify the purchase and mitigate the risk of misadventure.

But buying a gift for others has a different dynamic, as consumers tend to spend full-price, even the deluxe version.

The social factor here is that people are not buying your product, they are buying social points with their friends.

A budget gift is low-effort and cheap. Not highly regarded by either the giver or receiver of the gift.

Whereas paying full-price on an item that the receiver likes (but wouldn't normally buy for themselves) gains more social points.

But an item that is special, rare, deluxe or took effort to acquire is worth significantly more socially. You have gone out of your way to make sure that a valuable gift ends up in their hands, and that gains people's attention and appreciation.

It turns out that money CAN buy you love, but it is never on discount.



Key Takeaways for Marketers

1. Identify and segment your target audience

Understand the behaviours, preferences and needs of your customers. This segmentation will allow you to tailor marketing efforts more effectively.

2. Use consumer insights to refine your product or service

Refine your product or service offering to address the specific needs, pain points and desires of your customers. For example, the treat budgets insights show that:

- Consumers allocate treat budgets differently
- Treat budgeting isn't a one-size-fits-all. Women are more emotionally-driven and men are more rational. Marketers can apply this to the way that a product is categorised or branded.
- Consumers allocate funds to indulgences within their means
- Marketers can capitalise on this by positioning certain products or experiences as "affordable luxuries".

3. Use insights to determine pricing strategy

What do you know about how your customers make decisions? Find your target customer segment in the treat budget research and think about how you can position your product with these behavioural insights.

4. Let the insights guide your messaging

Tailoring marketing messages and offerings to specific customer segments will improve the effectiveness of your communication. Ensuring you have multiple creative assets focused on different purchasing triggers will have with better resonance with consumers' unique preferences.

Need help? Get in touch.

We specialise in working with clients to gain deeper insights through our understanding of how your customers act to give you a competitive edge.

Gain a better understanding of your target market and discover how you can tailor messaging to connect with customers to put your brand ahead of competitors.

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To better understand how your clients think, feel, and spend, get in touch with our Research team today

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