



## Are You a Tightwad or a Spendthrift? And What Does This Mean for Retailers?

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Men are bigger tightwads than women; younger people are more likely to be spendthrifts than older people; and the more educated a person is, the more likely he or she is to be a tightwad.

While "tightwad" and "spendthrift" are not exactly labels that most people would welcome in a discussion of their spending habits, they are valuable as predictors of consumer behavior.

Indeed, three researchers recently came up with a scale to determine the extent to which people are tightwads or spendthrifts -- and what the implications are for retailers trying to more accurately target potential buyers in their stores and on their websites.



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Scott I. Rick, a visiting professor of operations and information management at Wharton -- along with Cynthia E. Cryder, a doctoral student, and George Loewenstein, a professor of economics and psychology, both at Carnegie Mellon University -- have developed a [spendthrift-tightwad \(ST-TW\) scale](#) that measures "individual differences in the pain of paying." The researchers do this indirectly: Rather than asking respondents to comment on "the emotion they experience while shopping," which they may only have limited conscious awareness of, the respondents are asked to "indicate the extent to which their typical spending habits diverge from their desired spending habits." The results of this research are in a paper titled, "Tightwads and Spendthrifts," which will appear in a forthcoming issue of the *Journal of Consumer Research*.

According to the researchers, tightwads are defined as people "who feel intense pain at the prospect of spending money, and therefore tend to spend less than they would ideally like to spend." Spendthrifts "feel insufficient amounts of pain at the prospect of spending and therefore tend to spend more than they would ideally like to spend."

The scale is based on four questions that were posed to 13,327 respondents over a 31-month period ending in 2007. The respondents came from four groups: students at Carnegie Mellon or the University of Pittsburgh, parents of students, and staff members; readers of the *New York Times*; viewers of a nightly news broadcast in Philadelphia; and readers of Canada's *The Globe and Mail* newspaper. Many of the respondents participated in the survey through links included in news articles on related research by Rick and Loewenstein.

The questions, which were taken from an unpublished questionnaire developed a decade ago, asked participants to rank themselves as tightwads or spendthrifts on a scale of 1 to 11, to indicate the frequency with which they engage in certain spending behaviors, and to judge which of two hypothetical shoppers (a tightwad and a spendthrift) more closely resembles their own shopping behavior.

Responses were divided into three groups: tightwads, spendthrifts and a middle group called "unconflicted" consumers, those people who experience "a moderate amount of pain during the spending process and thus tend to spend about what they want to spend," says Rick.

"One of our major findings is that even though you hear a lot about overspending and undersaving, we found that tightwads overall outnumber spendthrifts by a ratio of 3 to 2," says Rick. "It did vary by samples, however. *New York Times* readers were very tight, but spendthrifts outnumbered tightwads in the

Philadelphia sample, which is possibly more representative of the country as a whole." (The "unconflicted" group was the biggest of the three -- 60% of the respondents -- but was not the focus of this research.) In addition to their observations about spending behavior related to gender, age and education level, the researchers note that tightwads in college "tend to select into more mathematical majors, like computer science and engineering."

Rick suggests that companies pay attention to the spendthrift vs. tightwad distinction as a way to better understand who their customers are. "For example, it could help stores determine which of their customers will be more sensitive to sales and/or to marketing schemes, or which customers are most likely to put items in their shopping cart online, but then not bother to check out. Our paper presents a scale that can diagnose those tendencies. The four questions can be easily administered online or even in stores as people are entering and leaving."

Generally speaking, Rick adds, tightwads are more sensitive to price while spendthrifts are more sensitive to attributes of the products themselves "and to how much pleasure they will get out of buying them. With tightwads, a store might want to emphasize how painless it is to pay for the product."

### **Massages and Overnight Delivery Fees**

As part of their research, the three authors conducted an experiment in which they framed the hypothetical fee charged to ship a product overnight in two different ways. Over a five-month period, 538 students were told that in exchange for completing a survey for Amazon.com, they could receive their choice of one of four DVD box sets. The set would be shipped, at no cost, within four weeks. A subset of the students were asked whether they would be willing to pay a "\$5 fee" to receive the box set by overnight delivery, while other students were asked if they would be willing to pay a "small \$5 fee" for overnight delivery. The researchers found that tightwads responded much more directly to the "small fee" -- they were 20% more likely to pay the "small \$5 fee" than the "\$5 fee" -- while spendthrifts were completely insensitive to how the fee was framed, and instead focused on how pleasurable it would be to get the product.

In a second experiment, the researchers varied whether a hypothetical massage priced at \$100 was framed as necessary to relieve back pain (utilitarian) or desired because it would be pleasurable (hedonic). Among the researchers' observations: Participants in the utilitarian condition found paying for the massage significantly less painful than did participants in the hedonic condition; tightwads found paying for either massage significantly more painful than spendthrifts; and overall, tightwads were significantly less willing than spendthrifts to buy a massage. This final difference, however, depended on how the massage was framed: Spendthrifts were 26% more likely than tightwads to buy the hedonic massage, but only 9% more likely to buy the utilitarian massage.

Both the \$5 fee study and the massage study support the researchers' hypothesis that spending differences between tightwads and spendthrifts will be smallest when situational factors -- such as the way a fee is framed, or whether or not something is described as an investment -- diminish the pain of paying. In other words, says Rick, when the situation makes spending painless or less painful, tightwads and spendthrifts start to look similar, "but if you start cranking up the pain, then you start to see big differences between tightwads and spendthrifts."

The implications for retailers, Rick says, is that despite talk of overspending and undersaving, "there is a surprisingly large portion of people -- tightwads -- who have the opposite problem, i.e., not spending enough. They are generally spending less than they want to. This is obviously a big market that retailers should explore. We have found ways in this paper to make tightwads behave like spendthrifts -- by for example, adding the word 'small' to a fee, or by taking a massage and framing it as an investment rather than as a recreational activity." Retailers, he adds, should focus on approaches that would mitigate the pain of prices. "By doing this, they attract tightwads, but also they don't push away spendthrifts. This is because spendthrifts don't care so much about the pricing, but focus instead on the pleasure."

Retailers should also try to find a way to analyze consumers, whether it is by administering the survey or looking for something else in their behavior that is predictive of the type of purchaser they are, Rick says. "We know that surveys aren't always possible to do. Certain click patterns may be particularly diagnostic of the pain of paying. Do tightwads abandon filled-up shopping carts? Do they sort by price instead of

attributes? When shopping for airline tickets, do consumers indicate whether price or more hedonic concerns (e.g., number of stops, departure/arrival times, type of seat) are a priority? Such information could serve as a valuable proxy for one's ST-TW score."

If companies can "customize their advertising based on what they know about their consumers," it would help them spend their marketing dollars more wisely, Rick adds. "Spendthrifts don't focus on the spending side of the equation but instead on how wonderful they will feel when they buy this product. I have noticed this on television. Commercials that focus on the attributes of the product -- or how you will feel while consuming it -- but don't mention its price, likely appeal most to spendthrifts, whether that is the intent of the advertiser or not. Commercials that emphasize low prices and savings likely appeal most to tightwads. Such commercials are probably not all that appealing to spendthrifts."

Rick also notes that additional research he has done looks at spending by category. "Different categories are more and less painful. Clothes are very painful for a lot of people to spend money on, as are things that are consumable, such as taxi cab rides and restaurant meals. People ask themselves what they are getting for their money, since once they eat a meal or are driven to their destination, there is nothing more to consume. In these categories, you tend to see spendthrifts and tightwads spending very differently. But with items that are more investment-oriented, like a home or car or washing machine, the two groups tend to be closer together."

### **Painless Ways to Pay**

The researchers looked into whether spendthrifts generally outspend tightwads by asking respondents to report their total savings and current level of credit card debt. Among their findings: Tightwads are about as likely as spendthrifts to abstain from using credit. Among credit users, however, spendthrifts are three times more likely than tightwads to carry debt. Spendthrifts are not only more likely to be in debt, but they also carry more debt. The researchers also examined savings. Among their findings: Spendthrifts are more than twice as likely as tightwads to have less than \$10,000 in savings. Tightwads are more than twice as likely as spendthrifts to have more than \$250,000 in savings.

In addition, the researchers found that these differences could not be explained by differences in income. The income distribution among tightwads is very similar to the income distribution among spendthrifts, suggesting the observed differences in savings and debt are primarily attributable to different spending habits.

The authors also note that the existence of "so many people in our sample of more than 13,000 who experience the pain of paying intensely is counterintuitive given the incredibly low rates of saving in the U.S. How can the two phenomena be reconciled?" They offer three possibilities: One is that their samples are not representative of the population. Another is that it "is simply difficult for many people to make ends meet, given uninsured health problems, the high cost of child care, dental work, transportation and other routine expenses." The third is that, although many tightwads feel more pain than they would like, far fewer experience as much pain as they would need to experience to ensure sufficient savings.

Finally, another explanation "for the coexistence of widespread undersaving and tightwaddism could be that many retail environments provide increasingly painless ways to pay. Paying with credit, for example, can now be done with a single mouse click or a single tap of a key fob." Payment modes that diminish the pain of paying likely produce effects similar to the "small" \$5 fee, namely making tightwads behave as spendthrifts and encouraging undersaving.

### **Frugal People vs. Tightwads**

The existing research in this area includes a number of scales, although none that distinguish tightwads from spendthrifts, Rick says. "The concept our scale is most closely related to is frugality, but it is also distinct from it: If you are a tightwad, you don't spend because you find the prospect of spending painful. But if you are frugal, you don't spend because you enjoy saving. Frugal people really love to save."

The researchers also found that happiness is positively related to frugality, although this observation is not included in the paper. "The more frugal you are, the happier you are. With the tightwad scale, tightwads and spendthrifts are equally happy. But the ones in the middle -- who are neither tightwads nor spendthrifts -- are the happiest. Why? Tightwads are frustrated because they aren't spending enough on

things that would make them happy. Spendthrifts are spending too much, more than they want to, so that makes them unhappy. If you are in the middle, you don't have this strong inner conflict."

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