

SALE, SALE, SALE!

by [Steve Brown](#)

After Christmas sales are almost as much a part of the holiday tradition as a tree and the carte blanche to grab some extra helping of Christmas dinner. However, running promotions aren't without their costs. Big discounts on services or products, either fees or rate, or high rate promotions on deposits all hurt a bank in several ways. Many of these ways we have written about in the past. Since we have covered why discounts/promotions attract the wrong type of client (those that value price before service) and we have said how promotions "train" customers/employees to be more price/discount sensitive, we haven't covered how customers change behavior based on certain pricing techniques.

While big discounts/promotions can work wonders to increase production numbers in the short-term, they also can hurt the image of a bank's brand. Research shows that discounting goods can lead consumers to expect permanently reduced prices, which in turn can stifle sales when the items do return to full price. Consider why today is one of the biggest shopping days of the year, as consumers have put off specific purchases in anticipation of a price break thereby robbing a store of precious margin.

For those that do want to run product discounts or promotions, we offer some tips on how to maintain profitability culled by the latest research and bank experience. For starters, if you are going to advertise a promotion, saying something is "free" rather than "reduced" erodes brand value the fastest. Once customers know that you are willing to give something away, it is hard to get them to ever pay full price for that item again. Remember, "Free checking" started off as a promotion and is now a permanent fixture in banking.

Another idea is if given the choice between expressing a discount as a percentage or a dollar discount, choose the dollar discount. Percentage discounts, such as "Open an account and we will reduce fees by 23%", isn't as memorable as, "Get \$9 off fees when you open a New Saver's Bundle." For similar reasons, hard-to-calculate discounts like 19% do not drive down consumers' price expectations as much as simple discounts like 25% or 50%. The take away here is that banks should stick to dollar price promotions unless they want to tout a large, whole number percentage discount. Here the research shows that both can be effective.

Finally, the best advice on sales from top performing bankers is to know what you are doing. While all sales and price promotions hurt a brand to some extent, some can be profitable. The trick is to understand how a promotion will affect future profitability before you run them. The more price sensitive the customer, the more a promotion will drive sales. In these cases, profitability is easily measured since a promotion will cause a higher dollar volume of sold product, just at a lower margin. For low price sensitive customers, a promotion may not drive volume and will only end up hurting the brand in the long-run. One key aspect of promotions is having the ability to segment the customer base. For example, running a e-mail promotion to help small businesses has shown to be effective over the past several months, while it has not been for high net worth individuals. The difference is that these different market segments face different elasticities of demand, and as such, react to price reductions in different ways.

If you are going to run a promotion, here is the simple rule of thumb - if you are prepared to monitor, analyze and learn from the promotion - go for it. Any value lost in brand or margins will hopefully be made up in educational value. If you are not prepared to be quantitative about your price promotions, then stick to marketing on service only. This will not only give you a far smaller chance of hurting your bank's brand, but it will also allow your shareholder's to gain a little extra return to take advantage of other retailer's sales.

BANK NEWS

Retail Sales

Sales prior to Christmas were running down 24% making this shopping season one of the worst on record. Luxury goods and electronics were down the most at an average of -30%.

Backdating

The OTS' West Region Director, Dochow, is under investigation for allegedly helping IndyMac by backdating \$18mm in capital received in May as part of the Company's 1Q capital ratio, boosting appearances weeks before the thrift was seized.

Performance

The median percentage of non-performing assets vs total assets for US banks more than doubled from 5.76% in 3Q07 to 12.95% in 3Q 08.

Global M&A

After 5Y of growth in merger volume, 2008 acquisitions dropped nearly 33% to \$2.89T with over 1.1k previously agreed deals canceled. Specifically, US volume fell 38% this year with the 4Q closing out 55% below the same period in 2007.

12 Days of Christmas Costs

Despite disinflation, this year's price tag topped \$80k at \$86,609, a 10.9% increase from 2007. Turtle dove prices jumped 37.5%, partridges up 33.3% and don't forget the pear tree, up 33.3% to \$199.99. French hens, golden rings or geese instead, the only items to drop in price this year.

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