

PROMOTIONAL GIFTING THE RIGHT WAY (PART I OF II):

by [Steve Brown](#)

Today is the first day of summer so it is appropriate to talk about bank customer gifts. The season usually triggers a rash of promotions and this one is no exception. Chase is giving away \$500, First Tennessee is giving away \$100, Webster Bank \$150, TD Bank is giving away a Nook, Zions a sweepstakes for \$5,000 and Wells Fargo is drawing for a new Nissan LEAF car. While all these promotions work to varying degrees, the question is which one is the most effective? Sweepstakes, for example, happen to be an economical way to change behavior or gather information if the required action is easy (like just signing up electronically). For more complicated efforts, such as account opening or branch switching, a high value gift works best (like an iPad2) followed by cold hard cash (yes, in many cases customers value a product more than cash, even though they may have the exact same value). One scientifically proven method to build deposit balances and customer satisfaction is rarely tried, but we often recommend it to banks as it is a differentiator - the surprise gift.

By way of background, there is also a wrong way to gift. Usually, when a bank gives a gift, followed by a gift of lesser value (such as \$100 for the first referral and \$50 for the second), the promotional sequence has lower effectiveness and ironically often serves to hurt customer satisfaction. Conversely, a gift sequence of rising sequential value usually does the opposite and is a much larger driver of both behavior and satisfaction. This occurs even though the total value of the rising sequence is less than the declining sequence. Human psychology being what it is, the anticipatory effects of getting another gift of greater but unknown value often outweigh the perception of value. Finally, a gift where you ask for something in return, such as information or action, might illicit the desired behavior, but it usually comes at a cost to satisfaction. Customers usually understand that a gift with required action is not a gift, but an implied marketing agreement. They may do the action, but there is little goodwill build up.

To understand the more effective way to gift, a couple of key points are worth noting. First, while no surprise, it is important to keep in mind that the larger the gift, the greater the satisfaction and the greater the probability of any requested action. Giving away a common item like a t-shirt or water bottle works, but it has a perceived value of less than actual value. Conversely, a hard to get item or an item that is desired, considered a luxury or denotes status usually has a perceived higher value. This is why private VIP events, sold out concert tickets and limo rides can have a higher than actual perceived value. iPad2, the most common bank gift these days, still fall into this category, but its value is declining fast.

The bad news about sweepstakes is that customers value the sweepstakes at its perceived expected value (the cost of that item times the probability of winning). This is important, as the extent customers change behavior or gain satisfaction is proportional. The good news is that customers often have an inflated probability of winning and thus have a higher than actual expected value. For example, giving away \$40,000 to a 1mm customer base elicits about the same as giving away \$1.08 of action (not much), but better than the actual expected value of 4 cents. When deciding on a promotion, ask yourself what is the guaranteed value that would require someone to react with the

desired behavior. If the answer is \$5, then you can work backwards from there as a perceived expected value target.

Like a good promotion, we are going to build the anticipatory effect and continue this discussion at a later date. Also like a good promotion, we are not going to tell you when we will run it (we will tell you it will be in the next week) because, as we will discuss, variable gifts tend to illicit greater satisfaction once received then known gifts. Finally, like a good promotion, we will provide an unexpected value by giving away the results of bank research that quantitatively defines many of the promotion values we have discussed. Stay tuned as we try to increase your promotional effectiveness this summer.

BANK NEWS

M&A

Susquehanna Bancshares (\$14B, PA) will buy Tower Bancorp (\$2.6B, PA) for 1.5x tangible book (in stock & cash).

Small Biz Lending

A survey by Barlow Research finds 48% of businesses with revenues between \$100k and \$10mm do not need additional financing and only 19% have applied for additional credit in the past year. Meanwhile, 31% of small businesses report using personal savings more often than a credit card. The survey also found out that the average small business will apply for credit at 1.3 banks.

Customer Service

A poll by Spectrem Group finds 40% of high net worth people expect financial professionals to call them back within 2 hours.

Bank Board Diversity

The Greenlining Institute finds that bank boards are 80% white and 80% male. The Institute named Citi, Wells and Comerica as 3 large banks that are doing a good job with board diversity.

Chase Savings Boost

The Bank started a sweepstakes promotion this month that enters accounts into a \$500 gift drawing each time they make a \$500 or greater deposit or a \$500 monthly transfer into an eligible savings account.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.