

## PROMOTIONAL GIFTING THE RIGHT WAY (Part II of II):

by [Steve Brown](#)

When last we left things on the 21st of this week, we covered the tactics and success rates of different types of promotions. We talked about how sequencing of gift amounts matter and the nuances of bank sweepstakes. Like a good bank promotion, we practiced a "teaser," where we talked about a future column in a variable reward structure and alluded to an extra gift. Today, we finish off on both of those points as we talk about a scientifically proven method to build deposit balances.

For starters, as any good animal trainer knows, giving a reward every time a desired behavior occurs is less effective than giving a reward randomly after the desired behavior. This works with kids, spouses and bank customers as well. For example, if you have \$50 to spend on a referral program and expect 5 referrals, offering \$10 per referral is less effective and will elicit fewer referrals than if you randomly offer \$25 twice over 5+ referrals. Psychologically, the anticipatory effect of a reward is almost as large a driver as the pleasure gained from the reward.

In terms of a proven method to build deposit balances, try this - take high value customers that have material (\$100k+) core deposits that have been with the bank for at least 6 months (newer customers are more impressed by gifts), but not more than 3Ys and that have other bank depository relationships. Send a random gift that has a media trend behind it in order to seem more relevant. Currently, our favorite is a gas card. If you go with this, offer 2 amounts, such as a \$35 and \$100 amount. Create an enclosed card that reads: "We value your business and want to thank you for banking at X Bank. We thought we would help take the sting out of rising gas prices. Please enjoy the enclosed gas gift certificate."

Next, send the lower \$35 amount out with the enclosed card, signed by the president of the bank and business development officer (try not to have just your development officer sign, as it builds the brand of the officer almost as much as the Bank). Five and a half months later, send the 2nd, higher amount out with a similar card and signature. As we pointed out in Part I, the size of the gift does have a positively correlated effect on outcome, in that if you reduced the amount, the result will also be reduced. This holds true up to about the \$100 level, where customers then start to feel that the gift amount is inappropriate and the impact of reaction starts to decrease. This finding varies of course, depending on demographics and doesn't likely hold true for private banking clients (although we have never tested) either, but you get the general idea.

The result of the promotion is that depending on your customer demographic and trend of interest rates, you will either gain an additional amount of balances (\$13k to \$26k+ on average) or lose fewer balances (due to decay), so the promotion will pay for itself in approximately 4 months (assuming a 2% comparative duration expense rate). In addition, as a bonus, satisfaction should increase, as your bank's brand becomes more important relative to other banks and the customer is also more likely to give you referrals.

When it comes to promotions, there are many ways to garner more effective results and we only presented one set of findings. If you would like to see the quantitative research behind some of these findings, please click <http://www.zoomerang.com/Survey/WEB22CLMR8GS2U/> to register your name

and e-mail and we will send you out the 50 page report next week. If your bank has had success with other promotions, we would love to hear about them, as we are always looking for additional promotional ideas to help fellow community bankers. Until then, we wish you the best of luck with your promotional efforts.

## **BANK NEWS**

### **PCA Changes**

A new report from the Government Accountability Office (GAO) indicates the Prompt Correction Action (PCA) framework for banks in trouble should be modified to improve its effectiveness. The GAO called current PCA effectiveness limited because it relies on capital levels, which can lag behind other indicators of bank health. The report suggested PCA be changed to incorporate the bank's risk profile into capital categories; increase ratios for each capital category; and include other triggers, such as asset quality or asset concentration.

### **ATMs**

After buying the ATM business from EDC and adding 3,700 machines, Cardtronics will own or operate over 41k ATMs across the country. By comparison, the largest bank network of ATMs is Bank of America at about 17k.

### **Industry Cuts**

Outplacement firm Challenger indicates banks have eliminated 11,400 jobs through May, a 21% increase over the same period in 2010.

### **Cash for Homes**

The National Association of Realtors reports 30% of all existing home sales went to all cash buyers in May, up from 25% for the same month last year and 12% from 2Ys ago. It was the 5th straight month that cash buyers accounted for at least 30% of home sales.

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