EXPERIMENTING WITH PROMOTIONS TO DRIVE BEHAVIOR

by Steve Brown

One of the things we like about surveys is what they can tell you about changing customer habits. Take for instance a survey of banking customers by J.D. Power and Associates. It found that despite all the training, cross selling reminders, a reduction in foot traffic at the branches, automation and information available to customer facing staff - a whopping 57% of customers who purchased an additional banking product did so at a bank they did not consider to be their primary one. Bankers had the data, smiling faces, training and support available, but customers decided to buy somewhere else. Of note, customers that went somewhere else said they did it because they received a promotional offer (like a gift card) that made the decision easy for them to act. That makes sense at some level, when you consider other studies over the years have found people in general prefer to receive an instantaneous reward, rather than a delayed one (like on the next visit). Of importance, however, these studies also find that when it comes specifically to financial products, people in general tend to respond better to a monetary offer when they are reviewing a product or service that is focused on functionality; and a non-monetary offer when they are looking at products or services that are more self indulgent in nature. Whether it is a fond memory of some event in the past, the holidays or who knows what, people like to receive gifts. As for the gift giving bank, promotional giveaways serve many purposes that include boosting brand exposure, the ability to create a special marketing event, increased tangible value for the customer and an inexpensive yet memorable way to market. These can all be quite beneficial to the bank when done correctly and customers appreciate the effort. Even using small and inexpensive promotional items can serve to get otherwise staid customers off the dime and moving. To see who was doing promotions out there and what they were pushing, we hit a few large bank websites and took a peek. On the consumer facing page at Chase, the pitch that immediately rolled in front of us was for a Sapphire credit card. Here, the bank was offering double points and a fee waiver equal to $95 for the first year. On the business-facing side, Chase was offering 3 months with no monthly service fee for enrollment in Premium Payroll, as well as making a pitch for 50bp off the variable interest rate for a business line of credit (for lines of $10,000 or more). Meanwhile, on the Wells Fargo business tab, we found a promotion of $500 offered as a rebate for businesses that switched over to merchant services from another provider. The offer indicated it would "cover most, if not all" of the transfer fees, while the fine print on the page further indicated the rebate amount would be determined by eligibility and actual costs incurred in an amount equal to the lesser of the qualifying switching expenses or maximum rebate of $500. Given this, it seems the business may be receiving nothing more than a new merchant relationship without having to pay switching fees to leave the old one. The pitch must be somewhat effective for the bank, as it has been on the site and running for awhile. We enjoy the promotional prowess of the banking industry and think it is an important tool to drive changes in customer behavior. Experts say U.S. businesses spend a combined $20B per year giving away promotional items in order to drive more business and get customers to change. People usually respond positively when offers include a promotional item, with response rates of nearly double those that don't offer such an item. Our advice on this front for all community bankers is to watch the rules, make sure to have proper disclosures and make the promotional item something of interest, but not all that expensive. It should have a decent shelf life, reinforce the brand and focus on driving the behavior you are seeking - buying a specific good or service of yours. Tinker with it as you have fun experimenting and before long you will find something that does what you seek.

BANK NEWS

Boom Times

Low rates have led the MBA to increase its estimate for 2012 refinancing activity to $870B, or $200B more than predicted at the end of last year. That is good news for many banks, whose earnings are being driven by refi activity.

Debt Bid

The Supreme Court upheld bank's rights to use their debt (instead of just cash), as currency in bankruptcy auctions. The ruling allows secured creditors to use the money they are owed to buy assets in bankruptcy in what is called a "credit bid."

Flood Insurance

The House votes today on the Senate approved version of HR 5740 that extends the National Flood Insurance Program for another 2 months. The Bill would also provide a phase out of premium subsidies for 2nd homes in flood zones. Without passage, the National Flood Insurance Program would end at midnight on Thursday.

Dismissed

Gibraltar Private Bank & Trust ($1.6B, FL) let its founding CEO go given his ties to a lawyer convicted of running a $1.2B Ponzi scheme.

ATM ADA Suits

The American Banker tells the story of First Commonwealth ($6B, PA) that had 2 of its 120 ATM machines fail to meet the new ADA Mar. 15 compliance deadline. The bank is being sued by a law firm that is seemingly specializing in targeting banks that are non-ADA compliant. The firm is working a class action suit and has named 16 other, largely community banks, in the suit.

Shorter Shadow

A Deloitte study shows the "shadow banking system," composed of money market mutual funds, commercial paper and securitizations, totaled $9.5T at the end of 2011. That is about 50% below the peak reached in 2008.