

Bank Drives to Success by Steering Clear of Car Dealer Cash Incentives



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25-30% growth in loans in the first year alone .

Summary

Client Profile

Commercial and consumer bank in the Midwest with assets in the billions, a strong retail presence, and competitive auto lending rates.

Situation

The bank wanted to avoid the pervasive industry practice of using cash incentives or deeply discounting rates to win financing business from car dealers.

Solution

Built personal relationships with dealer finance managers, using a points-based incentive program that awarded valuable merchandise and travel packages for new loan contracts.

Results

Solid: 25-30% growth in loan contracts, expansion into new geographical markets and a monthly average of 2,000 new loans.

Competition is fierce among banks in the auto-lending arena. At any given car dealership, a finance manager might assign a loan to at least 10 different financial institutions and, in some cases, as many as 30. Interest rates appear to be the greatest driving force in this decision. Yet, other influences also come into play in a finance manager's choice to assign a loan to a bank—most notably cash incentives.

Cash incentives are pervasive in this industry and the execution is simple. Banks send checks directly to dealer finance managers' homes in exchange for their loan business. This enables the bank to add new customers – the car buyers – and build a customer base of dealerships. . . all without the cost of bricks and mortar expansion. Generally favorable response from dealer finance managers motivates banks to use cash incentive programs as an integral part of their marketing strategies.

Competing hard against easy cash



One Midwestern bank, however, viewed cash incentives as incompatible with its approach to business. And the bank's lending rates, while competitive, were rarely the lowest in the market.

An alternative strategy was needed to win business from dealerships in spite of offering rates that were the same or a bit higher for an essentially similar product. The bank asked Loyaltyworks to help with a solution.

After taking into account the preferences of the target market, Loyaltyworks designed a points-based incentive program to attract dealer finance managers and reward them with non-monetary awards, ranging from brand name merchandise to luxury vacation

packages. Once the participant sent the bank a specified number of contracts for the month, he/she received points for any additional loans given to the bank that month, with the number of points determined by the loan dollar amount.

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“It opened doors for us where we had no market presence.”

- Bank Vice President & COO

Besides being more cost-effective than cash, a program centered on earning premium items has a stronger impact by providing a longer “shelf life” for the reward and the potential to share it with family and friends.

Points drive motivation and loyalty

Finance managers kept tabs on their point balances through Loyaltyworks’s proprietary WebRewards™ technology platform. They logged on to a customized program-branded Web site, where they also linked to the awards catalog and had the option of redeeming their points online.

Relationship building was vital, so Loyaltyworks urged the bank’s sales staff to make the rewards program a topic of conversation during routine calls. For instance, if a finance manager expressed an interest in earning points for a family vacation package, the salesperson kept that goal “top-of-mind” on subsequent calls by asking the manager about his or her children and their thoughts on going to Disney World.

To further strengthen the personal connection and involve families in the awards program, finance managers received contest mailings and monthly point statements.

Results to take to the bank

After two years in the program, the bank had enrolled 1,300 finance managers, representing about 750 dealerships in eight states, producing approximately 2,000 new loans monthly – the vast majority attributed to the program.

The resulting 25-30% growth in loans in the first year impressed but didn’t surprise the bank’s VP. “We’re a bank,” he explained, “and as usual, we take a long, hard look at numbers before making a move. We agreed to the program because we thought it could deliver results. And we were right.”

The bank’s other marketing initiatives quickly paled in comparison, and within months, were displaced by the program developed in tandem with Loyaltyworks.

Loyalty program communication materials

Along with program strategy, development and execution, Loyaltyworks also created a series of communication pieces to introduce the program to participants, create and sustain excitement, and motivate action.

Award catalog



The Awards Collection catalog, filled with brand name merchandise and travel options, was used to encourage members to enroll in the program and set goals.

Promotion summary

The promotion summary provided the finance managers with an easy-to-follow overview of the program – getting enrolled, earning points and choosing rewards.



Statement stuffers

Point summary statements, including bi-monthly promotional inserts, were mailed directly to the finance managers’ homes.

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