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HIGH-DEFINITION NEWS

Can Marketers Encourage Saving The Way They've Driven Spending?

By Clark Crowdus

Here's a college entrance exam analogy puzzler to consider: uncertainty is to security as consumption is to...savings. Savings *is* security, but the trouble with saving money is: we don't do it. That's the bad news.

The good news is that marketing can change that.

Some in the private sector may balk at marketers trying to stimulate saving. After all, if everyone started saving, many countries might be thrust into recession. True, but what about striking a balance?

And in light of recent information about savings rates, it might be a good idea to put the power of marketing to work for saving, because the US is awash in red ink. And other developed countries are headed in the same direction.

The US Commerce Department recently reported that as 2005 ended, American consumers were *saving nothing*. The US Federal Reserve Bank estimates that the personal savings rate of consumers could now be in the negative, marking the first time this has happened since the Great Depression.

Savings rates—defined as a nation's total personal income less consumer outlays—are dropping rapidly worldwide. A recent survey by the Organisation for Economic Cooperation and Development notes that in the past decade, saving rates in Europe are down 30%. In Japan, they are down 65% and in the United States, down 75% and now in negative territory.

What's Been Done

Fortunately, in the US there is good infrastructure already in place to incent savings, and it covers the full spectrum of economic classes.

The US government offers a total of US$150 billion in tax savings to Americans each year though a growing number of tax-deferred or tax-advantaged vehicles. For instance, Health Savings Accounts (HSAs), Section 529 College Savings Accounts, Roth 401(k)s, and other savings accounts which work well for middle- and upper-class savers.

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For lower-income Americans, the federal government also offers the "Saver's Credit," which reduces taxes for people making less than US$50,000 annually. More importantly, many state governments are getting into the act and are helping disadvantaged or poor Americans eliminate debt and then begin saving through counseling and incentive programs.

But even with all these choices, Americans *still fail to save*.

This then, presents an opportunity for marketers to show what they do best: change consumers' attitudes and behaviors.

Consumer products marketers in particular find themselves in a rare moment in their business, a time in which the marketing function can do well by doing good and putting its power to work to encourage savings.

Private Sector Innovation

In the private sector, and particularly in banking and payments, there is true innovation going on. For example, Bank of America offers customers a debit card account where the bank rounds each purchase up to the next dollar and automatically deposits the change into a savings account. The bank then matches the savings amount up to a modest limit.

American Express offers a credit card product that deposits 1% of all purchases into an insured savings account with a return of 3.5%.

Focused strictly on helping families *save money for college*, Upromise members receive free rebates from participating companies ranging from 1/3% to 10%. Rebates are deposited directly into Section 529 plans set up for the member's children. Participating companies include more than 15,000 grocery and drug stores, 8,500 retail stores, 7,000 restaurants, 100 online stores, and 50,000 realtors.

The principles that these and other companies offering similar products are using originate from the idea of automatic payroll deductions. For example:

- **Saving money that consumers never see**—When employees sign up for automatic payroll deductions into long-terms savings vehicles, it's as if they never had the money; thus, there is no temptation to spend it.
- **Creating accounts without customer initiative**—The creation of a side account that the customer contributes nothing to, but might eventually become attracted to.
- **Repackaging the charitable contribution**—Taking a page from the fund-raising manual of charitable organizations, merchants could make a donation *to customers* in a way that keeps them coming back. Charity begins at home, right?

Virtually any business with high consumer transaction volumes and access to point-of-sale networks can conceive programs along these lines.

For example, if your supermarket receipt showed that a portion of your savings *on merchandise* had been deposited into a special interest-bearing savings account in your name or associated with your frequent shopper card by the store—just as one typically sees *purchase-related savings* highlighted on the receipt—you might not think too much of it. But after a few weeks or months, when the change has become say US$100, you might be motivated to sign up and retain the cash as savings vs. "rebating" it directly into your pocket.

Terms and conditions would lock the money up for quite a while, but think about how, over the long haul, it would be a great savings vehicle. Supermarkets with banks as co-branded partners would truly be providing a value-added service to consumers—and to the nation.

The possibilities are infinite.

Collective Action

What marketers can do *collectively* is to create an atmosphere where saving is desirable and where people begin to *believe they can save*. And it's not as if the incentives and products aren't out there. What's missing is the proper amount of education and awareness of how important saving is.

The Ad Council has shaped thinking and behavior on many critical social issues for generations of Americans via *pro bono* public service campaigns. Among other noteworthy campaigns, it has helped reduce drunk driving (remember "Friends don't let friends drive drunk"?); increased awareness of the need to donate to worthy educational causes ("A mind is a terrible thing to waste"); and during World War II increased the nation's workforce while redefining women's role in it ("Rosie the Riveter").

Perhaps this is the right time to mount a national campaign about saving with messages tailored to different economic groups to increase savings. Other organizations could also get involved: Clearly banks, merchants, independent business associations, chambers of commerce, and others have a long-term stake in the outcome. And the nice thing is that other than the administrative costs, the "cost" is borne by the consumer.

Marketers are renowned for getting people to open their wallets. Now maybe we can encourage consumers to close them a little, too.

Your feedback is welcomed and should be directed to Clark Crowdus, Principal, High-Definition Consulting Group at clark@high-def.biz.

Resources:

The following resources are recommended by High-Definition Consulting Group:

White Paper: European Central Bank "Comparison of Household Savings Ratios for Europe, the United States and Japan"
http://www.ecb.int/pub/pdf/other/comparisonhouseholdsavingseuusjpnen.pdf

Web site: Bank of America "Keep the Change" account
http://www.bankofamerica.com/deposits/checksave/index.cfm?template=keep_change

Web site: American Express "Savings Accelerator" account
https://www124.americanexpress.com/cards/loyalty.do?page=one&Onepagesource=OneBasics

Web site: Upromise, a consortium of companies working to help families save for college http://www.upromise.com/8740.do

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