

How to Design Marketing Campaigns of Consumer Loan Products?----A perspective of Behavioral Finance

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ABSTRACT. To make people know more about themselves when making financial decision, this paper used the principles of behavioral finance to explain the possible biases they have. From a standpoint of a bank which is going to launch a new consumer credit product, catching the biases with consumers can help the bank to maximize their profit in an effective way. The paper analyzed the consumer psychology influenced by framing, anchoring and representativeness respectively to help such banks to generate more accurate marketing campaigns to improve their profitability. Finally, the suggested campaigns correlated to the biases were illustrated with the advertisement content, the interpretation of the product and the ubiquitous celebrity marketing.

KEYWORDS: behavioral finance, bias, framing, anchoring, representativeness

1. Introduction

1.1 Statement of the Topic

Why the consumers always buy commodities with better advertising content? How do people make decisions facing homogeneous products from different companies? Often, the answer is behavioral in nature. Actually, they are affected by frame effect---an important part of bias in behavioral finance. Behavioral finance is a subject which combined psychology and economics perfectly to reveal some phenomenon. Unlike the term “Homoeconomicus” proposed by Adam Smith, behavioral finance states that not every individual is completely rational in making decisions to maximize their utility and minimize their payoff in real life because of some bias and heuristics. It can not be more common for people to buy something in its highest price. Hence, to adjust such bias, this paper will try to design marketing campaigns to help a bank to maximize the take-up of a loan product using the perspective of behavioral finance.

1.2 Details of the Topic

Before the analysis begins, some specific settings and details to the topic are given to make the explanation more focused.

In China, many kinds of consumer credit product have come out. The popular ones like Ant Credit Pay(ACP) all provided an idea of “buy now and pay later” just like credit card. Also, the common convenience shown from the credit card and the products like ACP is also a solution to their prevalence. But there still exist some differences between the consumer credit product and credit card. First, the threshold for credit card is higher. Also, the credits of some credit card users are infinite with several equities such as discount for flights and so on. Although it seems that the credit card has higher level of security, there are more and more Chinese people especially the young tend to use consumer credit products instead of credit card.

So, let us give some assumptions. Suppose a commercial bank found its market share of credit card had fallen and it wanted to launch a consumer loan product competitive to ACP in the same market. To help the bank to achieve its goal, this paper will illustrate three applications from the perspective of behavioral finance to offer some suggestions of the market campaigns.

In this paper, the exposition will be launched the following structure: introduction of the topic, literature review, definitions of the biases and finally the applications.

2. Literature Review

Marketing campaign is a kind of method the suppliers use to promote products using different ways of media, the purpose of which is to maximize the take-up of their products. The types of media the suppliers usually use to advertise are television, radio, internet, etc. However, the demonstrations are included except the advertisement, like the video conferencing and other interactive techniques. When a company is having businesses in a highly competitive market or

franchisees, it will initiate marketing campaign to help it to build up brand awareness and to improve the sales. Various understandings and examples of marketing campaign from scholars were given. A reasonable marketing campaign requires the good knowledge of the current and potential customers. It also needs the information of geographical, demographic, psychological and behavioral of the consumers to make more detailed campaigns to make the largest profit.(Diana Prihoanca, 2014) To achieve the main purpose of the marketing campaign that is to enhance the organization and its offer, we have to treat the marketing campaign as a kind of strategy with long-term vision, communicating inside and outside to gain and incentive the sales in its field.(Adina Claudia Neamtu and Liviu Neamt, 2019)

From previous research, scholars also found that the advertising actually matters in marketing (Bertrand M et al,2010). In their article, the authors used the field experiment to figure out the relationship between the advertisement and the demand. Using the collected data and econometric methodologies, the paper concluded the results that the advertising content without the function of the product, extended deadlines, not reveal specific use of the loan and the attractive woman photos tend to increase the take-up of loans significantly.

3. Biases the paper examining: Framing, Anchoring and Representativeness

3.1 Definition

3.1.1 Framing

Framing is the first bias the paper tried to explain. Amos Tversky and Daniel Kahneman proposed the term “framing” with exploring how different phrasing affected participants' responses to a choice in a hypothetical life and death situation in 1981. They used different expressions when describing equivalent outcomes. For instance, the subjects were asked to make a choice between “Treatment A1: 200 of 600 people survive” and “Treatment B1: 2/3 of 600 people die”. Finally, treatment A1 was chosen by 72% of the participants with the positive framing. On the contrary, when the framing became negative with “Treatment A2: 400 of 600 people die” and “Treatment B2: 2/3 of 600 people survive”, only 22% people chose treatment A2 comparing to treatment A1, which are actually the same. To be specific, the framing effect is a cognitive bias where people decide on whether the options are presented in a positive or a negative way.

In general, the framing effect has consistently been shown to be one of the largest biases in decision making in several empirical works.

3.1.2 Anchoring

The Anchoring effect is a crucial bias that causes us to rely on the first piece of information we are given about a topic especially in financial decisions.

When we are facing some commodities, it is unavoidable to make an objective judgment since we tend to interpret new information from our experience related to it. Here, Daniel Kaneman and Amos Tversky, who were the first to introduce the theory, defined the former experience people have as a reference point, or starting point.

The first mention of anchoring bias was in a 1958 study by Muzafer Sherif, Daniel Taub, and Carl Hovland. They ran a study in psychophysics, a branch of psychology that investigates how we perceive the physical properties of objects. They used the term “anchor” to describe how the presence of one extreme influenced judgments of the other objects. However, it wasn't until the 1970s that Daniel Kahneman and Amos Tversky introduced the anchor-and-adjustment theory in order to explain this phenomenon.

3.1.3 Representativeness

The representativeness heuristic is a common information processing error in behavioral finance theory, occurring when the similarity of objects or events confuses people's thinking regarding the probability of an outcome.

It is one of a group of heuristics (simple rules governing judgment or decision-making) proposed by psychologists Amos Tversky and Daniel Kahneman in the early 1970s as "the degree to which an event (i) is similar in essential characteristics to its parent population, and (ii) reflects the salient features of the process by which it is generated". The findings of their experiment (we will go through a more simplified one in the section 3.2.3) supported the authors'

predictions that people make predictions based on how representative something is similar, rather than based on relative base rate information.

3.2 Why do the biases matter in this paper

3.2.1 Framing

One bias this paper tried to use to design the marketing campaigns is the framing effects, like gain or loss advertised in some certain financial cases.

Generally, the purposes of marketing are taking information and framing the products in the most effective way. About the framing effects, the perception and the memory are influenced by the way the information presented. That is the reason why the financial decisions will be affected by frame. In short, framing is not about what it said but how it said.

For example, parking lot A charges \$7 per week for parking fee which sounds a little bit expensive and people will quit. However, parking lot B said they charge \$1 per day which sounds more reasonable and probably more people will pay for the fee. These two parking lots charge the same amount of parking fee and the charges are not given in a totally similar way. Hence, the two parking lots are expected to have different take-up with the effect of framing. Suppose a driver who earns \$1 per day but only \$5 per week (he works five days a week), how will he make the decision? Of course he should park in parking lot B since it seems he may lose \$2 if he park here a whole week. From the previous example we can discover the relationship between marketing and framing clearly.

Framing is in fact a template organizing various pieces of information and that is what marketing campaign designing of loan product needs. As for consumer loan products we have in the paper, positive framing effect can increase the take-up of loans of people, which can leave a good impression of the products in people's mind. People absolutely prefer the ones presenting more possibilities to gain money instead of a loss although in fact they know they will probably lose money.

3.2.2 Anchoring

Not only the way the information presented will have impacts on consumers perception, but the first impression they have on the specific stuff matters. The reference points are more likely to be the indicators of the homogeneous products they first meet. How do the most of consumers react or economically, how will the consumers decide on their willingness to pay to maximize their utility, actually depends on the first time they heard of this kind of commodity. So, if they are required to choose one loan product like the bank in this topic is going to be marketed, consumers will compare such products with homogeneous ones like Ant Credit Pay and Jingdong Baitiao, which have come out, for example. As a result, to maximize the take-up of loans, the important way is to interpret it skillfully making it seems cheaper and more cost-efficient than ACP. If people make the comparison, the opportunity that the new product wins is larger.

3.2.3 Representativeness

Representativeness may lead people to make decisions facing information they are familiar with although they do not actually know does the information work on this new product or state.

Consider a girl called Susan. She is a 25-year-old master in economics. Also, she likes sports. If we are given two options: the first one, she is a clerk in a bank and the second one is that she is not only a clerk in a certain bank but also a member in a gym. So how will people make the choice? Intuitively, the second option will be the choice of most people. However, if you judge it logically, what will you find? Think of a simple theorem in statistics, the probability the variable falling into a set is larger than into a subset of it. Hence, we regard the outcome of Susan's behavior as a variable, the second option is the subset of the first one obviously. Theoretically, we should choose the first one instead of the second one because of the higher possibility to win.

In our topic, if the bank can link the launching loan product to something that will make it seem more attractive, or to have higher profit for consumers, the take-up of the loan should perform better. Just like some names representing good luck in Chinese or some celebrities who are infectious can drive the enthusiasm of the consumers on consumption.

4. Applications in Marketing Campaign

4.1 Advertising content---framing

Advertising is the necessary literal process if the bank wants to make the loan product known to consumers. The most direct way the target herd can touch the product must be advertising content, which will leave a deep impression and a positive frame in their minds if the content is attractive enough. It is highly related to framing effect in behavioral finance.

Since the special kind of the loan product launching, the majority of the consumers should be the university students. In order to target the advertisement more precisely, making the most of them know more about the product is essential. For example, the WeChat, QQ and Weibo or other social media the majority of them are using now will be good choices. Also, the purpose of the product should not be presented too straight forward. This kind of presentation of advertisement can leave an impression that the product is friendly and considerate to people.

The advertising content also has a lot to do with the framing effect in marketing campaign. According to Marianne Bertrand et al, advertising content significantly affects demand. The advertising contents persuades people to purchase by appealing to intuition instead of ration peripherally. It decides how much it can exist in consumer's subconscious and a high proportion may lead to higher take-up of the loans.

4.2 The interpretation of the interest rate----framing and anchoring

How to interpret the interest rate skillfully making the product is not so costly as others?

The loan product Ant Credit Product (ACP) in China can teach us a lesson. It advertised that the interest rate as service charge and also interpret the rate differently. Let us do some calculation. For example, suppose you bought an iPhone 11 which cost you ¥5999. But you did not have so much cash or balance in your account, you decided to pay off your bill in three months using ACP, with the so called service charge of ¥449.92 in total, which sounds not so much and most of the students can afford---only ¥150 extra and ¥2149 in total per month. However, using the formula in finance, we know the IRR is actually 1.15% per month! And then, it is easy to get the rather high annual interest rate, 14.6%! That is in fact twice as much as the interest rate of credit card in China. Anyway, ACP is successful to make use of the framing and anchoring in the psychology of consumers. They interpret the interest rate in a "less" way and help people to compare ACP with credit cards. It is normal that people intuitively think the interest rate is $\frac{¥449.92}{¥5999} = 7.5\%$ without some precise calculation in finance.

It is not encourage to launch such a high interest rate loan product which may force more and more usury in China, harmful to the economy and the normal life of families. Nevertheless, the idea of ACP is reference-worthy! If our bank can play some tricks on the interpretation like what ACP has done, the take-up of the loan may higher. Also, recently, the fact of the high interest rate of ACP has been revealing by consumers. The real interest rate of ACP should be a reference point of consumers and if we could have a lower real interest rate in our product, that will become a competitive advantage.

4.3 Celebrity marketing --- Representativeness

It can not be more common that many advertisements add celebrities. When the familiar faces to the consumers are presented on the screen, the percentage of conversion is likely to increase. It is the fastest way that the companies associate the products to the mind of targeted consumers, where they can construct the endorsement of the product quickly if they can see the idols or the person they admire in the posters.

In fact, the common situation we mentioned has a lot to do with the representativeness heuristic in behavioral finance. The consumers can be guided by the celebrities to purchase commodities.

In our topic here, since the product is financial, an influential financial celebrity will be better, since such influential people may have experience or successfully in investment or financial management which can help consumers to be more convinced. And the gender does not matter because of the neutrality of financial product. However, the involvement of a celebrity can range from an explicit to implicit endorsement of a product, which means the bank can try to advertise that the celebrity has bought the product earning a lot or just use the reputation of the celebrity. In the certain circumstance, the latter one should be more available, an influential financial celebrity represents the high quality and profitability of the product in terms of the consumers.

5. Conclusion

In conclusion, the three biases and heuristic we have examined in this report, framing bias, anchoring bias and representativeness heuristic are highly correlated to the marketing campaign of the consumption loan product. The advertisement content is the performance of framing effect, the interpretation of the product is not only a concretized

form of framing but a form of anchoring. For the ubiquitous celebrity marketing, it is an externalization of representativeness since it can give consumers a guide through influential people.

Around the financial environment we are living, we are facing many anomalies when making decisions. Although the assumption of economy and finance is that people are all rational, in reality it often does not work. We are influenced by numerous biases and heuristics psychologically without concerns, that is the reason why the suppliers may seem to have the ability to read and control our minds and the information asymmetry happens.

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