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The Value of Consumer Financing

August 2016

Promotional financing is offered by over 295,000 Synchrony partner merchants and healthcare providers nationwide across multiple product categories.[1] Credit card programs often offer promotional financing as a way to help attract and retain customers and help make purchases more affordable.

Promotional financing can include one of many different types of promotions such as:

- No Interest if Paid in Full within 6 Months ("deferred interest"),
- No Interest for 24 Months ("equal pay no interest"),
- Reduced APR Promotions with Fixed Monthly Payments
- Installment Loans (not a revolving credit card account).

Financing is a tool that can help drive incremental foot traffic and sales for retailers by **19% to 27%**.[2] It is also a tool that can be used to help drive customer satisfaction and loyalty with the brand. Promotional financing can help customers make their purchases more affordable with monthly payments—with the extra spending power and value they are looking for with their purchase.

Promotional financing can be particularly effective during major shopping holidays when shoppers may be looking to make larger purchases and are seeking different ways to pay for them. Advertising these offers can help retailers compete more effectively, maintain/increase market share and drive shoppers into their store to make a purchase.

> Synchrony Bank cardholders who used financing to make their purchase of at least $500 spent on average
> **35% more**
> than non-cardholders surveyed

Value of Promotional Financing

A recent Synchrony Financial research study conducted across 13 different product categories (including furniture, flooring, auto parts and service, consumer electronics and home improvement) asked consumers about their journey toward making a major purchase ($500 or more) and the role financing plays in their path to purchase.[3]

One of the key findings from this study was that Synchrony Bank cardholders who used financing to make their purchase of at least $500 spent on average 35% more ($547) than non-cardholders surveyed.[3]

Consumers find significant value in using financing as a purchasing tool. In fact, 89% of Synchrony Bank cardholders surveyed stated that promotional financing makes their purchase more affordable.[3] In addition, almost half of those surveyed stated that if financing were not available at the retailer when they made the purchase, they would have either abandoned the purchase or gone to another retailer.[2] This data makes it clear that financing helps close the sale, drives customer loyalty and creates an opportunity to maintain/increase market share.

> "When I apply for a store card it is likely I am making a large purchase, and getting a no-interest promotion is always helpful. That is a very appealing incentive to me."
>
> *—Kristy,*
> *Synchrony Financial*
> *Online Community member*

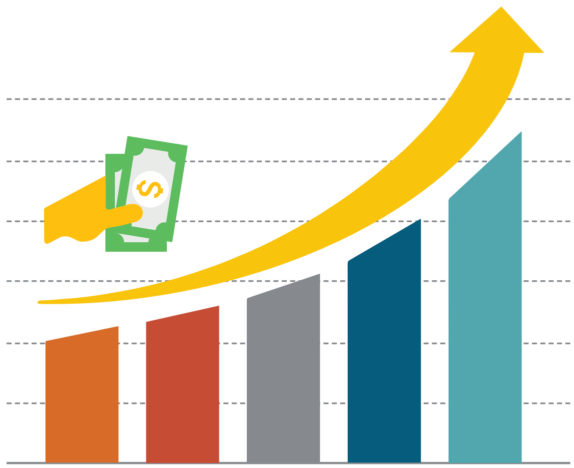
The incremental lift in sales attributed to promotional financing was also validated using analytics. Analyzing data from two Synchrony financing programs found that incremental sales range from **19% to 27%**.[2] The incremental lift observed includes increases in the following categories when compared to non-cardholders:

- Items per order
- Average ticket
- Repeat rate
- Sales per customer

Driver of Incremental Spend

Promotional financing can lead to:

- **Customers purchasing in more categories.** Customers with this added spending power may be more likely to make an additional purchase. For example, someone buying a new sofa may choose to add the coffee table to their purchase now that they are using promotional financing.[4]
- **Product upsell.** Customers may be more likely to purchase a higher ticket item as their perception changes on what they can afford since they can pay monthly. For example, a customer shopping for a new washer and dryer may opt to purchase the higher quality brand because of their new purchasing power.



- **Repeat sales.** Customers are more likely to return to the retailer for a second or third purchase. Having the retailer's branded card in their wallet reminds them of their positive experience with the brand. In fact, **68%** of major purchase shoppers say they are likely to use their card again on future purchases.[3] Giving shoppers the ability to better manage their purchase with monthly payments helps drive higher satisfaction with their shopping experience. Next time they consider a similar or complimentary category purchase, cardholders may first consider retailers with which they already have an established relationship. In fact, Synchrony Bank data shows that cardholders are twice as likely to be repeat shoppers as non-cardholding shoppers.[5]

39% of Synchrony Bank cardholders who made purchases in big ticket categories made repeat purchases over a three-year period.[5]

"If I am rewarded for my purchases, I am more likely to return, which means more shopping at the same retailer. It's a cycle, but a rewarding one for both the retailer and me."

—Holly,
Synchrony Financial
Online Community Member

Foot Traffic and Share

Promotional financing can lead to increased foot traffic and market share. Research shows that 80% of major purchase shoppers conduct online research before they visit a store.[3]

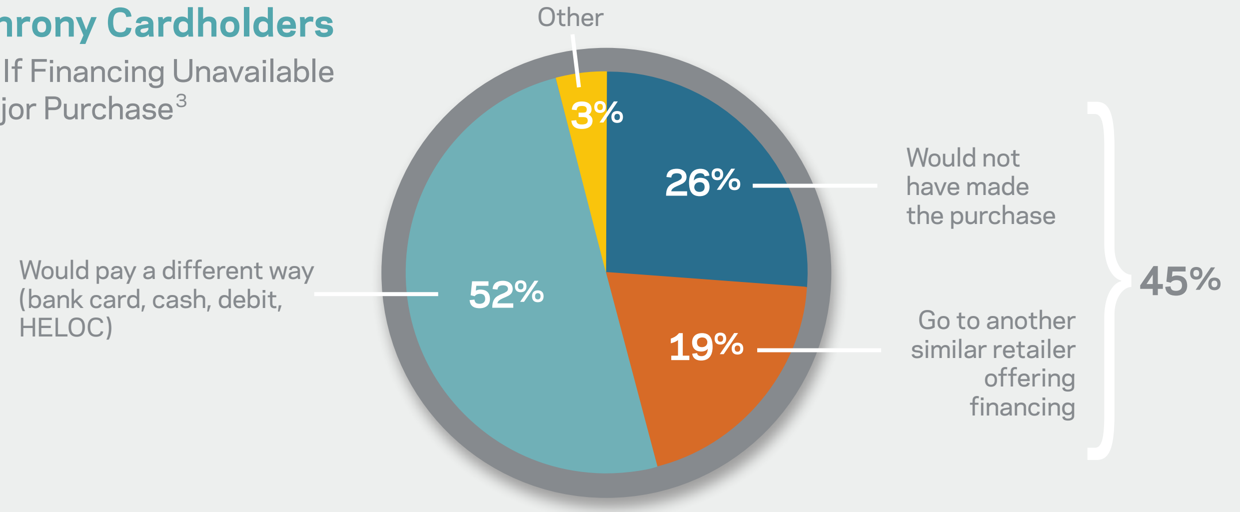
Three-fourths of Synchrony Bank cardholders surveyed say they "always" seek promotional financing offers when making a major purchase. Shoppers are clearly hunting for offers and value.[3] In fact, over a third of shoppers say they look for financing on the retailer's website[3] and for the large majority (77% of Synchrony Bank cardholders) promotional financing influences their final choice of retailer.[4]

This is why it is critical to showcase promotional financing offers early, often and prominently throughout the retail website experience. It may also be important for retailers to offer the customer the choice of promotional financing options, empowering the customer and driving a potential competitive advantage over other retailers.

Promotional financing can also help drive an increase in market share. 45% of major purchase shoppers surveyed said they would not have made the purchase or would have gone to a similar retailer offering financing if promotional financing was not available at the time of their recent purchase.[3]

% of Synchrony Cardholders

Actions Taken If Financing Unavailable for Recent Major Purchase[3]



Elements Needed to Help Develop a Successful Program

- Consumer choice and variety of promotion durations
- Monitoring the competition
- Advertising and offer strategy
- The role of your website and the associate
- Test and Learn/Key Success Metrics

Consumer Choice and Variety of Promo Durations

Analytical efforts have found that when retailers pulse longer-term promotional offers (18, 24, 36 month financing) in addition to their everyday value proposition, they can see an increase in customer acquisition over the length of that period.[6]

Research has also shown that offering a choice of two to three promotional financing offers (for example: No Interest if Paid in Full for 6 or 12 months) drives incremental consumer interest over featuring just one financing offer. For purchases up to $4,000, data suggests that consumers are looking for promotional financing terms anywhere between 12 and 24 months to pay off their purchase.[7]

In addition to financing, offering cardholders the choice of an immediate discount or a financing promotion for their purchase also can be appealing. This allows customers who don't want to use promotional, longer-term financing to still realize a benefit by using their store card to make the purchase, while those who want financing can leverage that choice.

Monitoring the Competition

To stay competitive with other retailers, it is advisable to monitor how your competitors are using promotional financing:

- What promotional financing offers do they have in place all year round?
- What offers are they promoting during peak holidays and how are they pulsed throughout the year?
- How long do other retailers typically pulse offers and how does it differ by type of product being sold?
- What do they require for customers to be eligible to take advantage of promotional financing? Is it based on minimum purchase amount or are specific products featured?

Advertising and Signage

Research conducted by Synchrony Financial found that among those shoppers who did not finance their purchase, only **36%**, on average, said they were aware that the retailers offered a store credit card with promotional financing offers.[3]

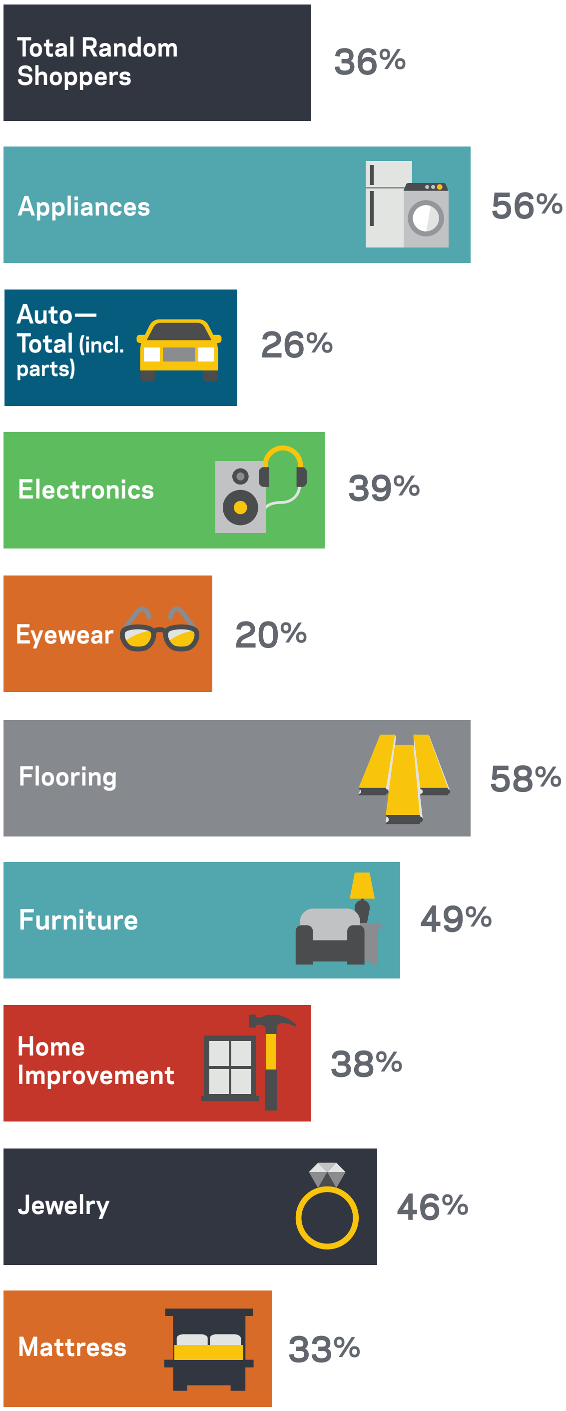
In addition to the role of the sales associate, it is important for retailers to have signage in-store to create awareness and help inform the consumer purchase decision.

Retailers should consider leveraging multiple channels to promote financing during the holidays and throughout the year:

- Circulars
- Newspapers
- Websites
- Paid Search/Online Displays
- Radio/TV Spots

% Who Were Aware That Financing Was Available

Of those major purchase shoppers who did not use financing



This chart shows that among survey respondents who do not have a Synchrony Bank credit card, just 36%, on average, said they were aware that financing was available for their most recent major purchase.[3] If just 10% more of shoppers became aware and took advantage of the offer, knowing that cardholders spend 35% more than non-cardholders, this could lead to a 15% to 25% sales lift.

Creating awareness for the consumer can play an instrumental role in making the retailer the brand of choice. This can be particularly important during the holidays when multiple retailers are competing for share and trying to drive foot traffic to their stores.

Role of the Web and the Associate

There is an opportunity to make every customer aware of the financing offers available by integrating promotions and everyday offers online and by having the sales associate mention promotional financing early and often to every customer that walks through the door.

80% of major purchase shoppers start with online research, and one in three research financing options online.[3] It is important not only that financing information is easy to find on the website but that the offer is compelling and the value proposition is clearly communicated.

Roughly a quarter of Synchrony Bank cardholders in big-ticket categories applied online at home or on a mobile device during the first quarter of 2016.[8] This behavior has grown over the past few years, making the online integration of credit offers even more important today.

The associate plays a very important role in the purchase decision. A Synchrony Financial study shows that 64% of major purchase shoppers state that the in-store visit had a greater influence on their purchase decision than their online research.[3]

In addition, the majority of Synchrony Bank cardholders say they applied for the store credit card in-store with the associate's help.[3] Associates that offer financing early and often to every customer can help influence the consumer's decision to purchase additional items or even upgrade to a higher quality item.

The associate must be knowledgeable about how financing works:

- What offers are available?
- How does financing work for the consumer and what are the terms of payment?
- What minimum purchase amounts (or product types) are required to be eligible for financing?
- Overcome objections
- Communicate financing opportunities to all customers

Test and Learn/Key Success Metrics

Throughout the year, there are opportunities to pulse and test different promotional offers and minimum purchase amounts. Testing different promotional financing offers and spend thresholds allows retailers to measure their impact and see how financing is contributing to the bottom line. As a result, there may be opportunities to re-evaluate the promotional mix and adjust strategic direction.

Some key metrics to measure are:

- Increase in customer acquisition
- Conversion rate
- Product/category mix
- Number of items per order
- Average ticket
- Sales per customer
- Margin

After controlling for seasonality, if there is a significant lift in some or all of these metrics, the retailer can weigh whether to incorporate successful offers into their everyday strategy or leverage them periodically to help increase share and drive incremental sales.

Conclusion

At the end of the day, promotional financing is one very important tool in the sales toolbox. Promotional financing can help drive tremendous value for both the customer and the retailer. Shoppers receive the extra spending power and time to pay off their purchase, while the retailers can see incremental traffic and spend as well as an increase in customer loyalty and market share.

"Time and time again we see that our partners are able to meet their growth objectives by deeply engaging and supporting the financing program as a tool that sharpens both the front end of the business—traffic, as well as the back end of the business—customer loyalty. Now more than ever, retailers should consider promotional financing as a critical business strategy."

—Glenn Marino,
CEO Payment Solutions, Synchrony Financial

Sources:

[1] Synchrony Financial S-1 Filing, Payment Solutions & CareCredit # of merchant/provider partner locations

[2] Analysis of two Synchrony Financial Client credit card programs, 2014-2015

[3] 2015 Synchrony Financial Major Purchase Consumer Study

[4] 2013 Synchrony Financial Major Purchase Consumer Study

[5] March 2016 Synchrony Financial Cardholders Lifecycle report, Payment Solutions Cardholders Only

[6] Synchrony Financial Analytics, 2015

[7] 2013 Promo Financing Consumer Research Study

[8] Synchrony Financial Channel of Application Report, January–March 2016

Focus on what really matters.

Synchrony Financial is one of the premier consumer financial services companies in the United States. Our roots in consumer finance trace back to 1932, and today we are the largest provider of private label credit cards in the United States, based on purchase volume and receivables.

About Synchrony Connect

Synchrony Connect is a value-added program that lets Synchrony Financial partners tap into our expertise in non-credit areas. It offers knowledge and tools that can help you grow, lead and operate your business.

Grow
Marketing, analytics and research expertise to help you drive business growth

Lead
Tools for leading your organization and developing yourself as a leader

Operate
Best practices around business strategy and optimizing cost

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