

## THE CUSTOMER CENTRICITY IN BANK PRICING STRATEGY

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**The old rules about how customers value products and services are out of date. Loyalty is hard to come by. Technology makes it easy to have multiple financial relationships. To drive customer loyalty and profitability, banks should understand their “willingness to pay” better.**

Proper pricing may be an important key to customer relationships and the bottom line. A PwC analysis of the factors contributing to profitability shows that a 1% change in the price of a product or service can move profit margins up to 4 times more than a similar increase in sales volume. Likewise, a 1% change in price can lift profitability twice as much as a 1% change in fixed costs and 1.5 times more than a 1% adjustment in variable costs.

The analysis also shows that raising volume only goes so far, and since banks have squeezed out many costs, that option might not be especially viable, either.

So price might be the best avenue to success. However, banks can't simply raise prices and expect customers to stay in line. That's why leading banks are exploring holistic, data-intense, customer-centric pricing strategies – ones that help them attract and retain customers while building profitability [4].

The consumers, their perceptions about the products and services and the level of the request are found in the final price of the service. The consumers of the financial services perceive harder the value and the quality of what they bought, because of the lack of information, of some aspects less visible of the services and of the consequences in the future which some of them have. As a consequence, their request is less elastic than the one of the material goods, for which the relation quality- price and costs is easier to determine [2, p.4].

For banks, the basis for an effective pricing strategy is recognizing how customers make decisions.

Bringing the customer dimension into the equation means that pricing becomes:

- **Differentiated**—based on customer attributes (needs, product usage, price sensitivity, risk profile and value to the bank);

- **Holistic customer view**—shows what a customer is charged for using banking products and services [3, p.5-10].

To create effective pricing models, banks must utilize in-depth data relating to:

- Client risk
- Costs associated with delivering products and services in each of the channels
- Client motivation for buying products and services
- Elasticity of pricing in different markets [1, p.6].

Depending on the banking regulations in effect in a country, it's possible to segment the market into very small groups and offer products tailored to the needs and interests of those groups — as well as their willingness to pay. Different pricing strategies can be used to price either retail or corporate customers:

- Retail pricing tends to be segmented, and typical pricing criteria include risk profile, lifetime customer value, potential value of total customer wallet, propensity to buy, price sensitivity, churn probability and transactional behavior;

- Corporate pricing usually relies on service level agreements that are proposed and negotiated depending on customer needs (which bundle best fits these needs) and characteristics (payments volumes, domestic versus international, industry). Bundles can include volume discounts on payment fees.

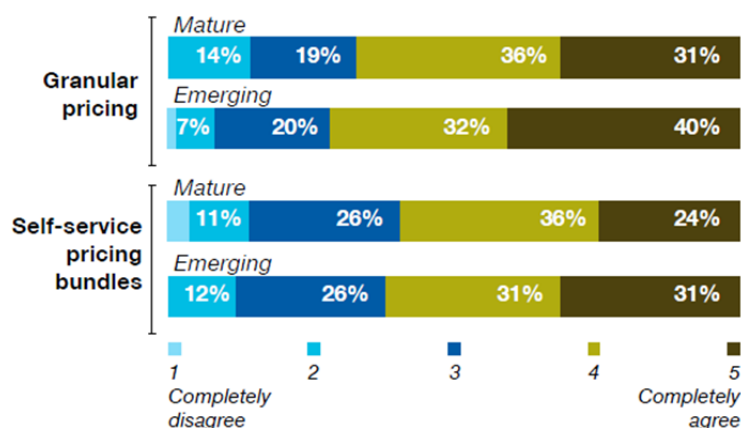
Additionally, other pricing criteria may often need to be taken into account (for example, pricing conditions relative to a marketing campaign). This means that a specific pricing policy may be applicable only for a limited period of time and only in specific geographical areas or branches.

One of the most important ways for banks to gain information from the customers is online banking. It provides the competitive edge to the financial institution and beyond budget cuts, the current economic downturn represents an opportunity for smart IT investment [3, p.5-10].

Few banks have consistently used pricing as a competitive differentiator in their client relationships. More often than not, they have priced products and services by merely following or matching their local competitors — much like gas stations on opposing street corners. To effectively price their services, banks need to move beyond a “one-size-fits-all” pricing model and toward more innovative models — ones that take into account factors such as risk and client need, as well as those that offer client choice and flexibility.

According to IBM survey, approximately 25 percent of banks in mature markets and 28 percent in emerging markets currently employ standard “across-the-board” pricing regardless of the client relationship. Reflecting a future move toward more innovative pricing, only 13 percent of mature and 12 percent of emerging market banks plan to retain “across-the-board” pricing.

Indeed, more than 60 percent of bankers believe that pricing innovation will help build client loyalty and improve profits in the new environment (Figure 1). Banks in both markets are looking at more granular pricing and self-service bundling. To achieve more granular pricing, banks will have to segment their clients to accommodate varying risk profiles and differing abilities to pay. We believe banks will also offer self-service pricing bundles as an option to empower clients to choose price, channel and level of service.



## Figure1. Innovations in pricing

When asked what additional information was needed to effectively price services to better meet client needs, more than 70 percent of bankers identified the need for more client-level risk information – followed by information on the cost of service and price elasticity of the market.

The good news is that these barriers to acquiring the data necessary to enhance pricing models are within the banks' control. Banks can overcome most of these challenges by investing in infrastructure to analyze the vast volumes of data they have collected to date [1, p.7-8].

To design and implement winning customer-centric pricing programs, successful banks will engage the entire enterprise– leadership, information technology, sales and marketing, and more.

The issues to examine include:

- Pricing strategy
- Transaction and customer analysis
- Pricing operations
- Data management and technology
- Organizational alignment
- Monitoring and continuous performance improvement

Knowing your customer is just the beginning of the process. Banks that create ongoing, effective pricing programs that convert data into meaningful action will be better positioned to use pricing to their competitive advantage [4].

### References

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