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The Art and Science of Discounting

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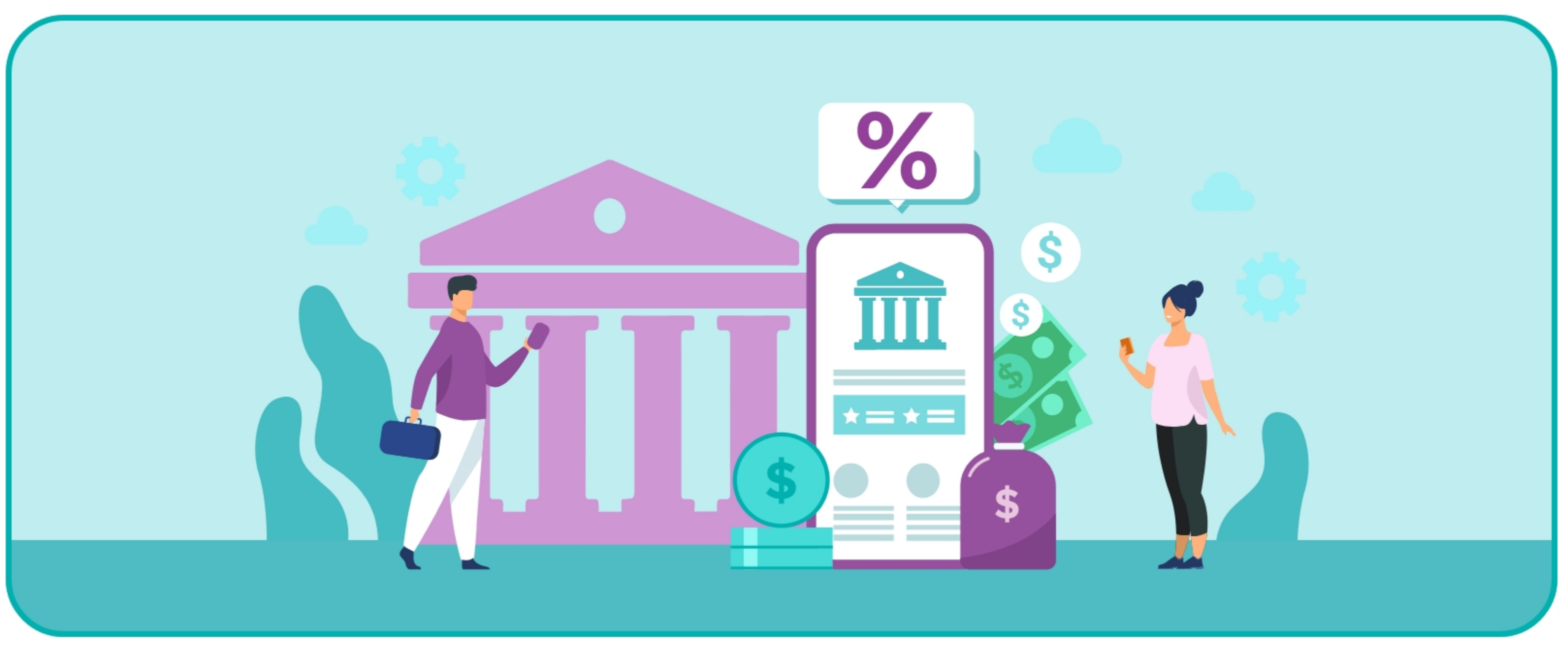
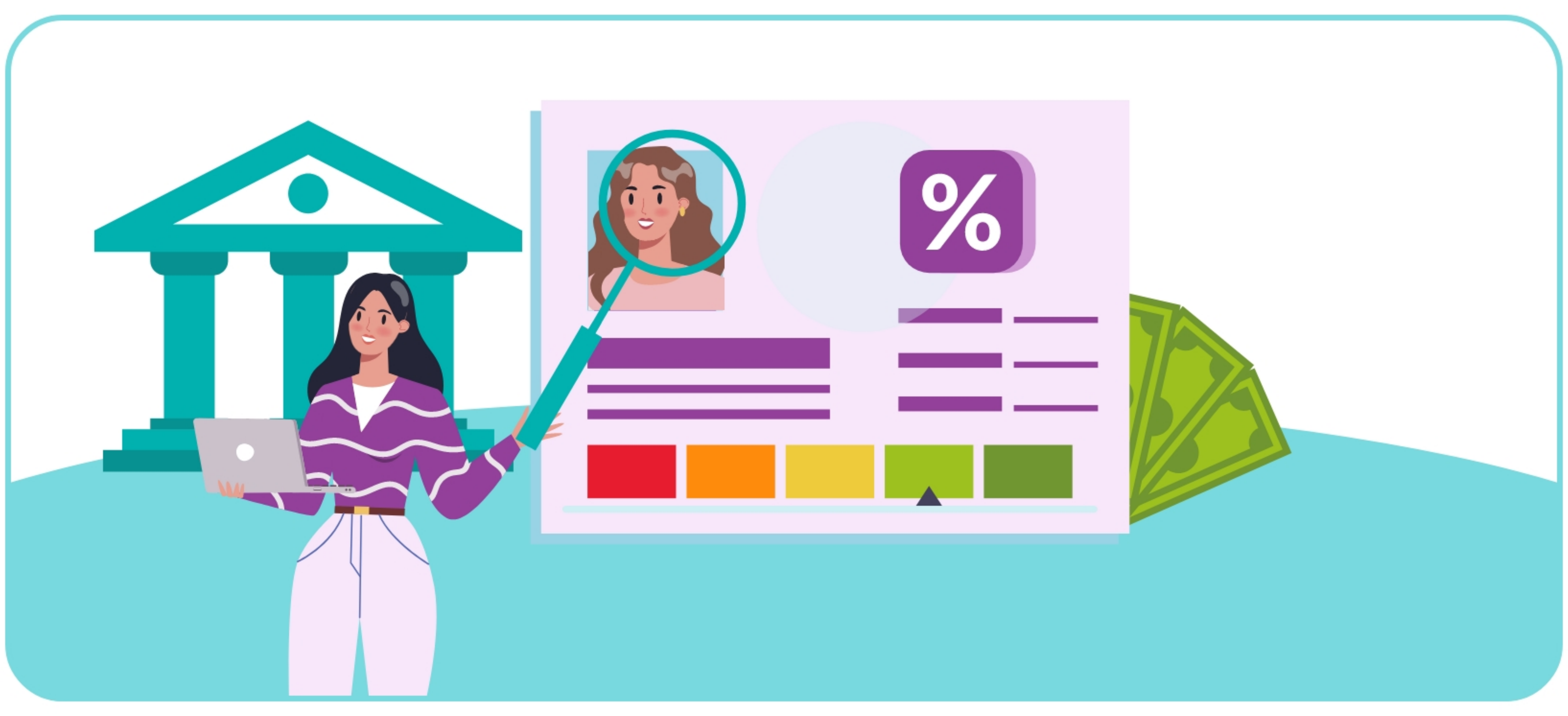
The strategy of offering discounts on pricing is as old as the history of formal business. After all, what is more attractive for a customer than a part of the price being shaved off, resulting in saved money. Even in the modern digital era where customer expectations have changed considerably, financial concessions are still effective. But as banks gear up to contend with increased competition for share of wallet, can they improve the discounting approach to be more effective?



Discounts in the Digital Era

Banking is no longer the stable, staid business it used to be. The emergence of fintechs and digital natives have changed the sector forever by offering innovative and highly personalized on demand banking. Traditional banks, once secure in the knowledge that they were the only options for customers' financial needs, must now focus on winning and retaining customers in a highly competitive market. Winning new customers is easier said than done. It is time consuming and expensive, and banks cannot ignore existing customers when it comes to their business development and growth strategies. Rebates and concessions are an effective way of engaging existing customers and encouraging them to try new services. They are also a good way to attract potential users to the business. An impressive 59 percent of people surveyed by Deloitte said the discounts on purchases was a nice to have feature that they considered when choosing a credit card.[1] And 47 percent said that discounted introductory interest rate was a good feature to be considered.



A Dollar Saved is a Dollar Earned

Evidently discounts still hold considerable merit for any organization trying to grow its business. But not all concessions are created equal. Some may be quite unprofitable and if allowed to remain in a bank's portfolio, they can have an adverse impact on the business. Banks reward customers on the basis of positive financial behaviour. But there may instances where the customer continues to get rewards like discounted interest rates even though they don't maintain a minimum balance. This revenue leakage can be very damaging for the bank in the long run.

Right now, banks are focusing on revamping their pricing strategies to transition to innovative, personalized value-based pricing models. And assessing their discounting approaches to ensure greater profitability is an important part of a value-based pricing roadmap. The key to implementing an effective concession strategy lies in treating them as investments. Organizations must routinely review their investments to weed out ones that have become irrelevant or unprofitable. This approach must be extended to discounts as well. Banks must evaluate the rebates in place to understand their impact on profits, and other strategic priorities. There is no downside to removing unproductive ones, even with existing profitable customers. Even discretionary discounts must be implemented after careful analysis of their impact, must be implemented on a temporary basis, and must be monitored to ensure they remain profitable.

The Discounting Transformation

As with most things in the world of business in the 21st century, effective use of technology is critical for ensuring effective discounting practices. Advanced analytics solutions will give banks valuable insights on how their concessions are performing, customer engagement and more. Predictive analytics will help identify the right segments to target with relevant offerings to drive sales and customer loyalty. A technology powered data driven foundation is key to an effective discounting strategy. Data analytics and Artificial Intelligence platforms are today an integral part of most organizations' digital transformation roadmaps. It is important for banks to extend these platforms to discounting strategies as well. A data driven scientific approach will help weed out inefficiencies and help the bank implement highly profitable deals that will ensure better ROI and customer loyalty. An effective technology platform can also identify, monitor, and address instances of revenue leakage. This will not only save money for the bank, but also influence customer behavior by tying discounts with responsible financial management.

But it is important to remember that this transformation is not just about technology. For decades deals and concessions have been implemented on a discretionary basis and have been kept running without change for long periods of time. Sales and operations teams will need to be trained on the financial impact of inefficient rebates. A discounting transformation initiative must have the buy in of the senior management to be effective.

Winds of change are blowing over the banking sector and age-old ways of functioning no longer hold any value. As the world recovers from the COVID 19 pandemic, banks must ramp up their transformation roadmaps to ensure agility, resilience, and renewed profitability. Inefficient discounting approaches will hold them back from running profitable operations. Now is the time to invest in revamping existing discounting frameworks for long term competitive advantage.