SunTec

6 Tips to Help You Up Your Pricing Game

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Just a one percent increase in pricing translates into an 8.7 percent in operating profits. And yet, more than 30 percent of the pricing decisions made by organizations every year, fail to deliver the best results.

Pricing for goods and services is a critical component of any go-to-market strategy as it has a direct impact on revenue, profitability and even brand perception.

For the banking sector the right pricing is key to better profit margins. Competition from fintechs, increasing cost of funding, decline in lending margins and regulatory driven reductions in card and other fees have all impacted banking profits. Over the years, the regulatory framework has tightened considerably, making old tactics such as hidden costs or passing costs on to customers obsolete. Today banks find themselves grappling with eroding customer loyalty as well.

Modern customers today have a range of options to choose from and also have the option of comparing services and pricing models across banks to make decisions that work best from them. Under these circumstances, banks must focus on using data driven smart pricing models to drive profitability. Here are a few tips for banks looking to improve their pricing strategies.

Introduce Middleware to Handle Pricing

There was a time when "fixed price" was the norm. Today, given the complex market structure banks operate within, a one size fits all approach to pricing is bound to fail.

Fortunately, the technology platforms to create dynamic pricing strategies exist today and are available for banks to leverage. But in order to use technology to improve dynamic pricing strategies, banks have to first address the challenge of legacy processes and systems. Despite the push to digitally transform, the banking sector has been slow to digitalize. As a result, they are now saddled with legacy infrastructure cannot deliver new pricing strategies like relationship-based pricing, differential pricing, or dynamic pricing. Large scale infrastructure transformation is a time-consuming and cost-intensive process. Many banks are now aligning with technology partners to bring in middleware that works independent of the core to provide the agility that banks need to meet customer expectations and respond flexibly to market trends.

Finetune Customer Segmentation

Traditionally, banks used simple logical customer clusters like geography to price products. Advanced data analytics and emerging technologies like Artificial Intelligence and Machine Learning can transform customer segmentation and facilitate smarter and more effective pricing strategies.

Banks must also invest in comprehensive data analytics solutions that can collect and analyze customer data to provide meaningful insights on their price sensitivity. Using these advanced analytics technologies banks can now hyper segment their customers on the basis of factors like personal interests, purchasing behavior, willingness to pay, current financial situation. Customer profiles can also be regularly re-evaluated against new data to ensure pricing offers are relevant and dynamic.

Consider Holistic Customer Value

Pricing strategies must be designed to extract the optimum economic value from each customer.

Customer segmentation is the first step and must be complemented by a holistic understanding of the value proposition of each customer. To this end, the pricing solution must consider both the risk profile of the asset being priced as well as the customer's willingness to pay. All price components such as transaction fee, late fees, credit interest, debit interest, penalties, overdraft must be mapped against the customer profile to understand their value perception. To find an optimal price structure the banks will need to quantify the perceived customer value for each product component, including free services, and then price the product according to different segments. Some assets may be priced low if they are critical to acquiring or retaining customers.

Others that do not generate large scale customer interest can be priced higher to generate more revenue. A detailed understanding of price elasticity is critical, particularly for products with thin margins. Smart pricing strategies should also consider the competitive landscape by constantly monitoring the competitors' prices as well as the competition's response to their own pricing moves.

Balanced Promotional Offers

Most banks offer promotional rates to drive deposits which may result in increased cost of funds. The interest on deposits to be paid out should not undermine the net interest margin. A robust pricing solution can help banks continue with their targeted offers without undermining the interest margins.

Customer Retention

The end objective of any bank is to retain customers and pricing strategies must help them achieve this. Fair and transparent rates coupled with relationship-based pricing and engaging benefits and loyalty management programs can go a long way in ensuring lasting customer engagements. The rewards for privileged customers could be better rates, lower fees, more free limits or even a personal advisor, based on conditions like the overall funds under management with the bank or subscription to multiple products from the bank.

Focus on People and Ownership

Software is only part of the smart pricing solution. Often, vague pricing policies, lack of ownership and undertrained employees undermine technology investments made by the organization. Banks must focus on developing and training their employees to minimize revenue leakage due to human error. Well defined processes, transparent reporting and user-friendly dashboards could help teams stay updated on pricing policies. Banks must also restructure their hierarchies for the current market scenario where competition is fierce, market disruptive and customer behavior evolving. In the traditional cost and pricing model, pricing came under the purview of the finance or risk management departments. But given the modern complex context, myriad departments like sales, marketing and customer intelligence are increasingly being given a seat at the pricing table. Banks must take steps to establish a centralized authority with representation from all stakeholders to better manage pricing decisions and avoid detrimental pricing.

The modern banking landscape is complex and fast evolving, necessitating quicker and more sharply targeted go-to-market approaches. Today the technology to improve pricing strategies is easily accessible and must be leveraged to ensure profitability. A good software defined solution can orchestrate a complex pricing mechanism seamlessly by leveraging data. Smart pricing is a fundamental go-to-market capability, which if done well can generate significant returns for banks.