

# RELATIONSHIP BASED PRICING: NEW MANTRA FOR CUSTODIANS OF CUSTOMERS' FINANCIAL DREAMS!

## IT'S ALL ABOUT RELATIONSHIPS!

There was a time when you had to be the manufacturer to sell a product or service, not anymore! Today with the concept of 'shared core competencies' or in other words outsourcing, the world is soon transforming into a marketplace where essentially 'customer-owners' and customers are the only two entities that matter. Welcome to the world of relationships with technology as the enabler...

The scenario is even more pronounced in case of banks and other financial institutions. Progressive banks are leaving no stone unturned in order to exploit the relationships they have already established with customers by not just catering to their banking needs but all their financial services requirements. They have begun to realize that it is the customer relationships that hold the key. The financial product can be created overnight even by an outsourcer but you need to own the customer, thought to finish.

That is not all, Mutual Funds, Brokerage Funds and similar non-banking players on their part have entered the once sole domain of the banks. They have altered the rules of the game and in some cases even rewritten them.

I see more relevance than ever in the words of Danish-U.S. industrialist, Knudsen William, "in business, the competition will bite you if you keep running, if you stand still, they will swallow you".

## 'PRICING' IS A COMPETENCY

Financial products are sometimes priced at a loss. Mostly unintentionally, than as a strategy because of constraints in visibility to the important interrelationships of price and volume and volume and cost with respect to each customer. The account manager is sometimes unaware of the whole picture, a picture that will enable him to identify if a customer is profitable or not.

For example, most banks operate their credit card division as a totally separate business unit. If a customer service representative checks up on a customer on the IT system and only sees part of the customer information such as checking, savings, ATM, auto loans etc., but cannot help with credit card issues, then the bank does not know what value the customer is bringing to the table. Hence the representative will not be able to know what price the customer needs to be charged to make a profit or what discount he needs to be given to be retained and get a larger share of his wallet.

Firms that are still doing business the 'conventional' way, treating both their 'profitable' and 'non-profitable' customers in the same manner, are at an extreme competitive disadvantage.

Today, customers, predominantly corporate and high value are asking one question "What Is In It For Me (WIIIFM)? And banks that



K Nanda Kumar, President & CEO, SunTec

are able to address this concern convincingly will take home the lion's share of business.

It is in this paradigm that I see pricing, Relationship Based Pricing (RBP) to be precise becoming a competency for the banks. This in other words could also be called personalized or customized or dynamic pricing. The RBP framework gives the bank visibility to a number of criterion in real time that includes past purchases of the customer across the product line, value of transactions till date and so on enabling them to do informed-pricing. The banks repeat and high value customers could be charged less. Or people that demand more customer service could be charged higher and so on.

Corporate and high value clients will applaud the shared benefit of RBP and will welcome the ability to control cost of services through aggregating more business with one bank. For mass-market consumers, straightforward and predictable pricing is more appropriate at this point in time. Here, a RBP solution can be used to manage loyalty programmes and in streamlining existing price structures which I will draw your attention to later.

To put in place an effective RBP framework, banks have to have technological infrastructure in place. To move from a product-

“SunTec did not jump on to the Relationship Based Pricing (RBP) bandwagon. We created it. Today, across the globe, industry leaders and innovators have endorsed our concept.”

oriented business model towards a relationship-based model, banks will need to use sophisticated intelligence and technology. This demands substantive business transformation in strategy, organisation, processes, P&L structures and more. Banks will need to automate the relationship analyses capabilities.

RBP enables banks to take informed pricing decisions based on the entire value the customer brings to the table and the cost of providing a particular service. RBP will have dramatic effects on a financial institution's ability to maximize profits in the next decade. With rising quality and satisfaction levels, I see, the importance of pricing as a market differentiator strengthening even further.

#### **CUSTOMER STICKINESS, LOYALTY? RBP IS THE ANSWER.**

Retaining your customers is a lot less expensive than getting new ones. So how do you keep them coming back for more? They will, if they perceive value. Mark my words; it's about what the customer perceives. Even if your competition is offering a particular product at a lower cost, if the customer perceives that he is getting the best deal for a product bundle he will not move on.

Leading institutions are pursuing this through innovative product bundling, by providing tailor made product packages for specific customer segments. These strategies on one hand help retain the customer and make him perceive value while on the other it ensures profitability to the bank.

Pardon the platitude, but I think the burger tells a story! Burgers as you may be aware essentially consist of a bun (bread), patty, cheese, melted butter, mayonnaise, salt, pepper and veggies. Each of the ingredients of the burger has a price but the price of the burger as a product is much more than the total price of each of the individual ingredients. That's the power of product bundling.

Now if you had a framework that calculated the price of the product based on the costs of the ingredients, market dynamics and the customer's relationships with your company on one hand and empowered your customer to pick and choose the ingredients in his burger on the other, you have a differentiated product for your customer at a price that he perceives is value for money.

Another dimension to the ability to price based on the cost is if you have a view to the 'price sensitive products' in the bundle, which your RBP framework gives visibility to. Like bread for instance. You could charge a lower price for these price-sensitive products giving your customer the perception that the entire bundle is competitive and value for money.

Based on the RBP framework the banks can also look at providing bulk discounts and progressive discounts to their loyal customers.

Airmiles here is a classic example. Assume a customer gets airmiles that he can redeem for holiday tickets at the end of the year and periodically for some gifts. During the year he will try and travel the same airline, occasionally he may be flying at a higher price, perhaps at the end of the year he would have spent more than what he would have if he had used different airlines. But he is willing to stick-on, as he perceives a higher value to the entire deal.

Financial institutions realise the impact of customer retention on market dynamics, that rewarding customers for continued loyalty and their individual value offering is integral for sustaining profitable relationships. This is driving them to increasingly focus on delivering an innovative customer experience – one that targets unique segments and emphasizes convenience, service and value. RBP is their enabler!

#### **SUNTEC: LEADING FROM THE FRONT!**

SunTec did not jump on to the Relationship Based Pricing (RBP) bandwagon. We created it. Today, across the globe, industry leaders and innovators have endorsed our concept.

Our customers include some of the world's largest and best-known financial institutions for whom we have been able to deliver extraordinary value.

#### **IF NOT NOW, WHEN? IF NOT US, WHO?**

While Relationship-Based Pricing is still in its formative years banks that have implemented them are reaping rich dividends and bear testimony that the future holds immense potential.

By providing relationship-based pricing, and proactive offers and treating the customer as one entity, based on the whole picture you stand to increase their satisfaction with your organization and improve their loyalty. On your plate there is more profit, the visibility to invest on your profitable customers and devise strategies to make your non-profitable customer profitable.

Well, Knudsen William had just two options in mind: Stand still or keep running. We at SunTec offer you a third. Take off with us and leave the competition behind! ■

**SunTec**  
The Transaction Billing Company

#### **CONTACT:**

K Nanda Kumar, President & CEO  
e-mail: knk@suntecgroup.com