The Science of Negotiating

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At a time when the banking sector is reeling from unrelenting competition, and unprecedented disruption, banks must focus on profitability and improved revenue margins. Negotiations for best prices is an integral part of the banking process, but unstructured discounts granted by sales executives may result in substantial revenue leakage. At the same time, banking must move to customer centric, relationship-based and value driven models to ensure customer satisfaction and loyalty. Establishing negotiation weightage principles or rules can help banks ensure profitability and include the customer in the decisions, thereby offering a transparent and personalized experience.

Negotiating for the Segment of One

Today, banking is increasingly moving to relationship-based models in which the customer is at the heart of all engagements. And the focus has shifted from products to the value delivered to them. When it comes to transactions, the smoothest or most frictionless ones are those where the price paid by the customer matches the value delivered by the product or service. This value and price synchronization is crucial to ensure customer satisfaction, greater upselling and cross-selling and a long term mutually profitable relationship.

But how do both parties arrive at a price that is deemed equal to the value delivered by the product or service? Pricing today is rooted in relationships and is personalized for a “segment of one” rather than being a one size fits all figure. And negotiation is an integral part of the final pricing of any banking offering. Consequently, a relationship-based approach custom designed for a customer to deliver the best value at the best price must be available. Personalization and transparency will define relationship-based discounting in the years to come.

Tech Platforms for Managing Deals and Discounts

Like pricing and offers, discounting too should be managed on a state-of-the-art tech platform that can standardize practices including managing the discounts that are offered. Deal management alongside pricing and revenue management platforms can be used to establish the range of negotiability based on pre-decided rules and conditions.

This brings us to the question of how the bank decides the best possible price and the range of discount to be offered to specific users. This is generally determined by the product owner, who sets the standard price for each product. Once the standard price has been defined, the product owner can specify how the price can be negotiated during the sales process. This can be defined using a set of value-driven weightage parameters, which can vary for each customer segment. Against each parameter, the product owner will be able to specify the commitments expected and the discount that the customer will get if he meets the expectation. An overall boundary can also be fixed by the product owner to avoid over-discounting. These parameters can include factors like account balance, volume of expected business from the customer, transaction value, etc.

For example, a European financial services company defines their discount weightage parameters as number of transactions for a month, average monthly balance in current or savings account and bundling or willingness to do more business including payrolls and factoring. The negotiation conditions are set as:

- If the number of transactions is committed between 50-100, then, offer 10% discount.
- If the average monthly account balance is more than 2,000 EUR,then, offer an additional 15% discount.
- If the customer is also taking factoring services, then offer an additional 15% discount.

Considering the above rules defined by the product owner, the customer becomes eligible for up to a total discount of 40% which is arrived by taking all the above weightage parameters into account.

With this deal management in place, the sales manager has the freedom to try different offers and price points within a larger pre-defined framework. The process is structured and is based on a standardized process which includes multi-level approvals. This model ensures customers are not given a higher or lower discount. It is purely based on the value the customer provides to the bank.

Defined commitments are tracked periodically. In case of non-adherence, various actions such as reverting them back to the standard rate card (after providing alerts), levying additional charge to the customer etc. can be pursued.

Greater Transparency to Establish Trust

Platform based deal management gives the customer control over their banking, ensuring they receive personalized prices. Banks can ensure relationship-based, value driven banking as prices and discounts are based on the customer’s engagement with the bank. Since the platform eliminates discretionary or arbitrary discounting, it is also highly transparent and ensures the customer has complete clarity on the discounts offered. The module also de-risks the deal process as the negotiation is closely aligned with the customer's business and requires them to formally approve the final discount offered. There is little possibility of defaults under these circumstances, and this mitigates the risk of revenue loss for the bank.

Moving to relationship-based customer centric pricing, negotiation and discounting models is the way forward for the banking sector. And managing negotiation and discounts with a best-in-class deal management platform can make them more efficient, seamless, and transparent. Banks have the option to work with experienced third-party vendors to deploy revenue and deal management systems without touching their legacy cores. With such a platform in place, banks can ensure hyper-personalized and transparent negotiations leading to greater profitability and customer delight.