Smartphones And Customer-Centric Pricing

profitability performance

Summary: Banks are switching from product-centric pricing to customer-centric pricing to help attract and retain profitable customers. We tell you how that works.

Perhaps not surprisingly, Deloitte research found people on average check their smartphone 47x per day and more than 80% do so within 1 hour of getting up or before going to sleep (35% do this within 5 minutes). What's more, almost half of people have tried to limit their smartphone usage in the past, but only 30% actually succeeded.

Your customers too, surely are heavy smartphone users, but that aside, bankers are always trying to figure out how to better attract and retain the most profitable customers. The latest way has banks switching from product-centric pricing to customer-centric pricing driven by each customer's profile and behavior.

For example, a bank in CA creates custom rates, fees and service benefits after analyzing each product a customer already owns, the balances within each of their accounts, where they live, and their demographics, including socioeconomic status. The bank then devises customized bundles for each customer.

Another bank in TX takes into account the entire value of a customer relationship, when pricing products. For example, one customer operates a family investment office that manages several partnerships, each with their own money market deposit account. While most banks would price each account separately, this bank offered a premium rate because the customer collectively brought in $10mm. The accounts were opened within one week and more have since been opened. This enhanced the entire relationship's value.

Where do you start when customer-centric pricing? A good way to customize pricing is to segment customers based on how profitable they are to the bank. This can be high net worth private banking customers or fast-growing commercial customers. After segmenting customers, look to customize products and services for each.

Some banks are also incorporating lifetime value of customers within this process. This takes into account each customer's current and historical value and also their potential future value. Banks then use lifetime value to customize future offerings.

For customer-centric pricing to work, siloes across lines of business and channels must be bridged. This requires C-Suite buy-in and continued support. Ideally, there should be a designated champion for the centralized pricing processes, who is able to present a compelling business case about the benefits.

Many banks still haven't adopted customer-centric pricing; perhaps thinking massive amounts of data and a daunting bank-wide rollout are required. However, contrary to this myth, customer data doesn't have to be perfect. Moreover, human staff can and should, have input in customizing prices when warranted.

Some banks may also assume they are beholden to the prices that their local markets sets or customers will defect. This is a risk, but analytics can standardize the analysis, so you can determine by customer those willing to pay more for a desired product and those who are not.

We want you to succeed and can help you on your way to greater profitability and relationship management. All you need to do is let us know and we will contact you.

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