

RELATIONSHIPS

How Much to Charge?

Targeting profitable customers for price cuts is harder than it sounds

Linking price and fees for bank products to a customer's overall profitability sounds simple enough, but guess again.

"It's not always the people with the most money in your institution that are the most profitable, it's not even the '80-20 rule,'" says Danny Baker, svp and CTO for IPS-Sendero, a business unit of Fiserv.

IPS-Sendero is among a group of tech firms, including the likes of Amdocs, SunTech Business Solutions and Zafin Labs hoping to catch fire in the nascent business of helping banks bundle products together for consumer clients. Part of that is basing pricing on how profitable a customer truly is for the bank, a measure that's not always determined by how many relationships a customer has with a bank or how much money is in those relationships.

Bundling is often used in corporate banking or with the highest of the high-net-worth private banking clients, but robust adoption for most categories of consumers has been slow so far, and there are very few banks that will publicly cop to using relationship-based pricing for consumers.

But that isn't stopping the vendors, who are convinced that "one-size fits all" and generic price reductions for maintaining large balances aren't adequate measures to gauge a consumer's "real" profitability, nor how to massage that relationship with favorable pricing.

"It's very sophisticated, every time we do it. (Bankers) are shocked to find out who their best customers are," Baker says, while acknowledging most of the traction for relationship-based pricing has come on the business side. "There's demand among consumer bankers, but not to the point of writing a check. What we're trying to do is create an environment that will take [relationship pricing] to the masses."

Baker's hope isn't without merit. Celent says relationship pricing methods are emerging as a central strategy in banking. And while tailored discounts are a mainstay in corporate banking, the research suggests an increased emphasis of retail banks on fee-based businesses, targeted marketing, segmen-

tation, profitability analysis and loyalty will lead to complex fee schemes for both individual customers and across mass customer segments.

"There's a lot of choice in the banking market now for consumers," says Jacob Jegher, a senior analyst at Celent. "Customers have little loyalty to staying with an institution and they are sensitive to price. Service does play a part, but price is the sensitive issue. What banks can do to get attention in this marketplace is to start pricing products differently."

The tech firms did not publicly mention any clients that were actively using relationship based pricing in at a level that's beyond preliminary discussions.

Without identifying specific banks, Celent says one or two national banks will roll out relation-

ships use some form of customer analytics and other CRM-related methodologies to link across a bank's silos to form an integrated pricing strategy. That strategy then works across a bank to determine which customers are the most "dynamic" in how they use the bank's services, and to form a pricing strategy for that customer that works as a loyalty/relationship building perk.

Fiserv's platform includes a rules-based pricing engine, workflow tools, statement routing, rules-based aggregation of transaction data and invoice reviews. Planned improvements include SOA development, enhancements to handle high-volume demand, pricing for retail transactions and integration with other Fiserv products in the core banking, CRM and other segments.

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—Danny Baker, IPS-Sendero

ship pricing over the next year, and about 50 of the largest 125 banks in the U.S. will offer some sort of offering over the next two years—along with three of the largest seven Canadian banks.

One bank that was confirmed, the Royal Bank of Canada, is reportedly offering a multi-product relationship pricing model that links the waiving of various fees and the reduction of fees based on the number of products that a customer holds, rather than the size of balances. RBC wouldn't make an executive available for an interview, citing the proprietary nature of their strategy.

"There are a handful of banks that are working on this," Jegher says. "And the banks that come out with an offering will be the trendsetters that will change the marketplace. There will be a sea change."

Most of the relationship-based pricing prod-

ucts include SunTec, which offers customer management functionality that supports the definition and maintenance of complex customer and account hierarchies. Amdocs offers pricing modules for fee management, product catalog and order management, single account opening and a pricing engine that performs calculations on interest-based financial products.

And Zafin Labs sells a pricing engine that can price multiple products, utilizing multiple attributes and nested hierarchies. "If you have to maintain competitive differentiators with other banks, you need to be able to offer what the customers uniquely want, and it's important to provide each product set with pricing that captures the unique interest of each customer," says Dinesh Krishnan, a spokesman for Zafin Labs North America.

—John Adams