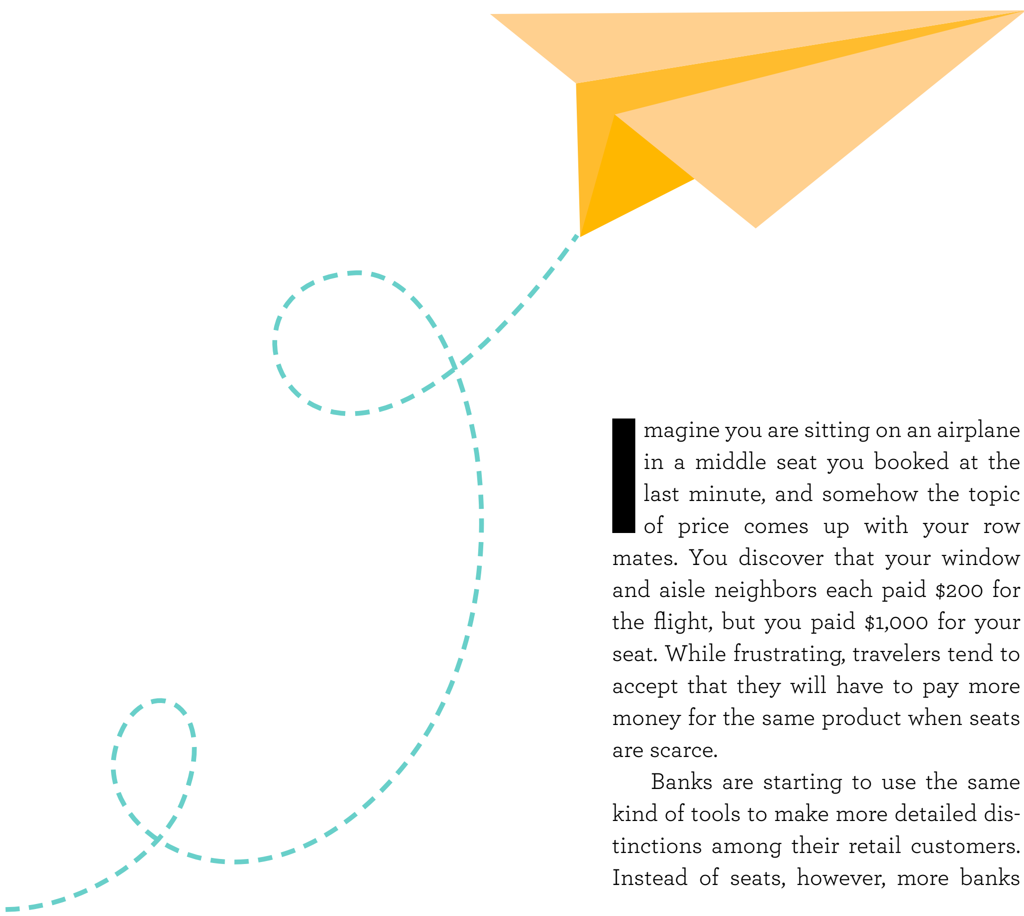
TIME FOR CUSTOMER-LEVEL PRIC



BY HANK ISRAEL

Imagine you are sitting on an airplane in a middle seat you booked at the last minute, and somehow the topic of price comes up with your row mates. You discover that your window and aisle neighbors each paid $200 for the flight, but you paid $1,000 for your seat. While frustrating, travelers tend to accept that they will have to pay more money for the same product when seats are scarce.

Banks are starting to use the same kind of tools to make more detailed distinctions among their retail customers. Instead of seats, however, more banks should tap the growing sophistication of analytics to make individual decisions about rates, fees and other services.

The strategy works for airlines because they have determined the average price paid is really the combination of many ticket preferences, class of service, flexibility of fare change, choice of seat, and time to travel. Their pricing methodology has evolved to deliver the value the customer seeks at the time and price they are willing to pay. By breaking down that average price into components that customers value, there are huge revenue opportunities.

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New Tools Offer More Ways to Segment

This same digital disruption has arrived in banking. By evaluating customer transactions, deposit and loan trends, and reactions to digital and direct offers, banks can decipher the underlying preferences customers have for rate, fees, and service. That knowledge, in turn, can help a bank tailor experience based on those customer preferences.

On the surface, these capabilities seem like nirvana because banks can now provide customers exactly what they want. But they have also exposed three major concerns that Novantas has identified among its clients:

1. **One to All or One to Each (Fairness):** Is it fair that everyone gets the same thing or that they get what they need/desire most?
2. **Everyone knows and understands their offer, but does everyone know and understand all offers? (Transparency):** Should the bank make the customer aware of all offers and the criteria under which they were determined, or should it provide choices and allow the customer to choose the appropriate offer, or should only one offer exist?
3. **The Neighborhood Barbeque Discovery (Trust):** If I receive a great deposit rate and my neighbor finds out, how does the bank decide to treat the neighbor?

Novantas believes that banks can use new analytical tools without running afoul of those concerns. Indeed, some of the new capabilities are just an extension of what banks have been doing for years, such as offering different deposit rates in different geographies.

The simple fact is that tiered pricing, paying more interest on accounts with higher balances, or providing other offers can create a deeper relationship. The real question banks need to consider is whether they are comfortable providing the same service for a different price to an assortment of customers, just as airlines do with their seats.

Airlines are already diving deeper into customer pricing than just basing prices on the timing of ticket purchases. They are now charging for baggage, wifi, pre-boarding, “premium” seats, etc. Banks can do the same: offer higher rates to customers who tend to hold balances longer, or even run a private sale for deposits for customers you know are price-sensitive — just as clothing retailers do.

Offers may be segmented based on balance size or whether it even makes sense to a customer who previously hasn’t responded to a promotion. Banks can also assess whether the customer is likely to keep the balance at the institution based on historical behavior, such as whether they previously moved money out of the firm when a promotion ended.

Today’s customer treatments are typically transparent because they are made in a public forum, such as through the mass media or a bank’s website. Customers can easily determine that they are receiving an offer because they live in a specific geographic market. Terms of the offer, particularly when it comes to rate, also are clear.

That transparency may be at risk, however, in today’s digital world where banks make more direct-to-consumer offers. Banks, therefore, must take extra steps to make sure customers know what they are getting.

Banks also need to decide when and if customer-service staff should proactively explain the rationale for an offer (if, for example, it is designed to attract customers who wouldn’t consider the institution otherwise.)

Ultimately, customer-level pricing means customers will be treated based on their profitability and potential to their banking partners. As a result, some customers may receive more lucrative offers than others based on their situation. That doesn’t mean, however, that others will be treated poorly. The trick for banks is what to do if a customer becomes aware of another targeted offer (to a friend or relative) and wants the same terms? It is difficult not to honor the offer, but the value for the bank may be eroded if the offer provided to the first customer is not transferable to the second.

To avoid such a conundrum, banks should be as specific as possible with their offers to meet a new target audience, such as new money of $50,000 or a customer who already has more than $250,000 in assets with the bank.

Moving to customer-level treatments can present technical and brand-positioning challenges to banks. By clarifying the bank’s promises and developing a pricing policy consistent with those promises, customer level treatments can help cement a brand rather than complicate it. ■

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