VIEW POINT

HOW PRICING ANALYTICS CAN IMPROVE ENTERPRISE PROFITABILITY

Effective pricing strategies and tactics can deliver a 2 to 7 percent increase in return on sales.

Source: McKinsey Article 2015 on proven pricing strategies and how they work

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Executive summary

The right marketing mix of products, promotions and pricing can drive profitability for organizations. However, getting pricing right can be tricky since it has to be intelligently adjusted to fulfill the customer's needs without affecting the organization's profits. In reality, pricing is often the most neglected element of the marketing mix because of which many organizations are unable to tap into its advantage, resulting in lower margins. This paper examines the significance of pricing analytics as a solution for corporate, retail and investment banking. It also looks at some of the key solution features needed to increase profitability.

Introduction

In today's complex and omni-channel business environment, it is imperative for banks to have granular information about their customers and business drivers such as who are their most profitable customers or which regions or products are the most profitable.

The combination of pricing and analytics provides banks with a mechanism to highlight such insights, allowing relationship managers to enhance business value. Pricing analytics can also help executives better understand factors that affect profitability at a granular level.

A slight change in pricing can directly impact the profit margin.

Significance of pricing analytics

Today's customers have unrestricted access to a plethora of offers from various companies for any requirement – and the key factor for the purchase of any product is an attractive price-tag. The emergence of platforms like BankBazaar.com allows customers to easily compare prices of the same product across providers. In many cases – better the offer, higher the sales. Hence, the pricing strategy of a bank can play a critical role in boosting revenue. Pricing analytics uses predictive models to enable smart decision-making regarding pricing strategies, thereby increasing profitability. Here are some ways in which pricing analytics can increase value for banks:

Know the customer – Pricing analytics helps banking organizations learn about their customers through simple diagnostic tools that visualize customer segmentation and the drivers of past performance. It also uses customer insights to set an optimal / ideal price and conduct what-if analyses to see how customers respond to different pricing options.

Unlock pricing opportunities – Pricing analytics tools can predict extra revenue and quick wins while also detecting leakage. This helps banks tap into smaller opportunities for faster wins.

Improve promotional effectiveness – Pricing analytics enables the study of market dynamics and customer data to predict chances of high profitability. It can provide insights into the kind of promotional campaigns that need to be launched depending on the market changes to increase customer transactions. It also highlights non-performing marketing campaigns that should be discontinued.

Optimize pricing – Optimization tools for the predictive model gives way to a sound pricing strategy. In this way, pricing can be optimized during new product launches, helping avert costly mistakes.

Redefine the pricing strategy – Banks often have to redefine their pricing strategy depending on market dynamics, product suitability, customer choices, revenue targets, etc. It is critical to get buy-in from all internal stakeholders (operational team, sales team, marketing team, customer service team) for the new pricing strategy to be successful

Key considerations for optimal pricing

Banks face the following questions when they price their services:

Internal

1. *What is the value of the product to the customer?*
2. *What is a good discount rate that will not affect the profit margins?*
3. *What is the best promotional campaign to earn more orders?*
4. *How can we tailor pricing offers without harming the brand image?*
5. *What is the ROI brought in for the investments made for set of products?*

External

1. *How does the price compare with that of our competitors?*
2. *What is the standard price of this product in the industry?*
3. *Is the price compliant with the regulatory requirements?*
4. *How can we use price to optimize sales and increase share in specific markets and customer segments?*

Insights from predictive pricing models, when successfully implemented, can improve a company's pricing and promotional effectiveness by 15-20%, increase sales by 1-3% and enhance margins by 2-5%.

SALES TEAM

- Tends to offer prices that will close the deal through volume discounts, etc.

MARKETING TEAM

- Knows what the right price is and what the customer preference is

FINANCE TEAM

- Knows what the right price is and what the customer preference is

The true advantage of any pricing analytics solution is derived when all these 3 factors come together seamlessly

How pricing analytics works

A custom pricing intelligence solution must consider available pricing models, structure of distribution channels, sales price data, volumes, cost prices, and referential market prices. Keeping all these parameters in hand, pricing solution can be derived to replicate the market situations and derive a suitable price-volume plan for a specific customer. Such pricing strategies can also be proposed for a single product or for bundled products in the portfolio for as many prospects as required.

Here are the key steps required to build a winning pricing analytics solution:

Analysis

- Analyse market trends
- Analyse margins, price and volume ratios
- Forecast demand based on past data and intelligence from various channels

Form a pricing strategy

- Create price volumes for different customer segments
- Set price for a single purchase
- Set price for bundled purchases
- Get buy-in from internal stakeholders

Stake holder approval

- Get stakeholder approval for the pricing strategy
- Establish rebates and discount offers

Negotiate with customers

- Ensure accurate negotiation based on the pricing system
- Arrive at a price that can be offered without hindering profitabiity

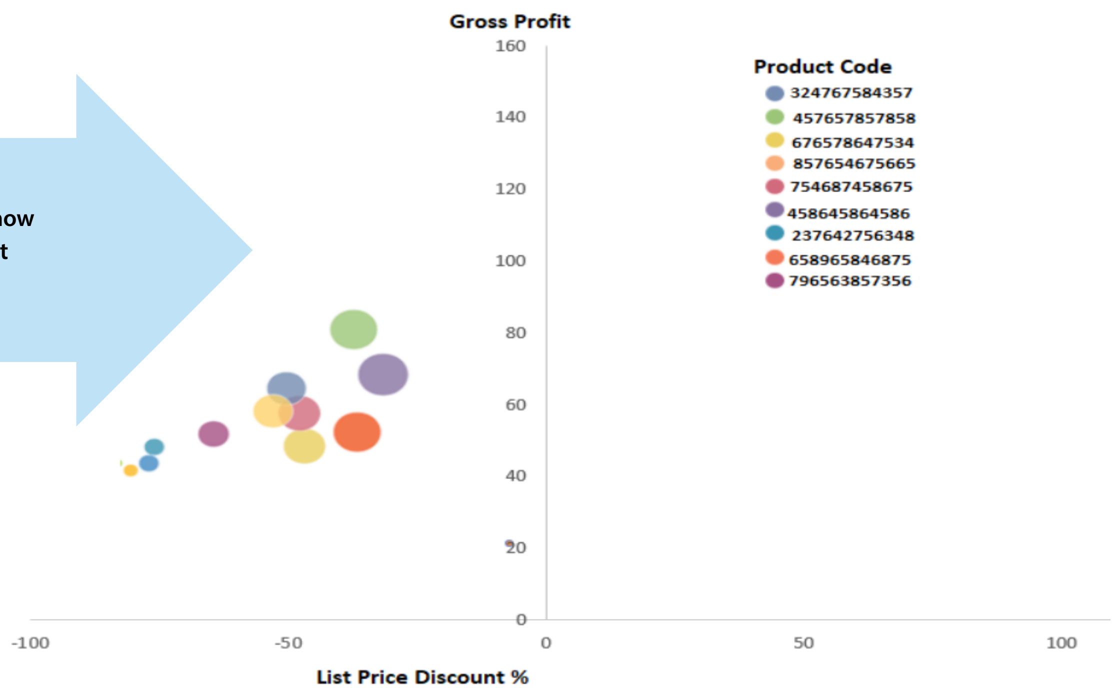
Provide the final price

- Offer the final price to the customer
- Update the final price in the system
- Perform next steps like order generation, etc.

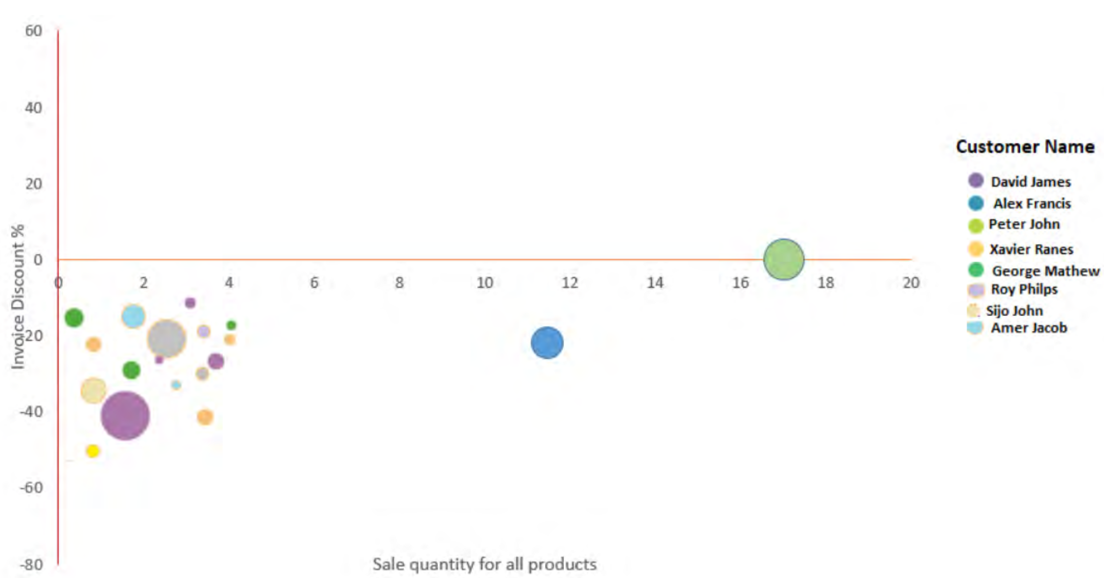
Real-world example of pricing analytics

A large Europe-based bank offering retail, corporate and investment banking was looking for ways to discover how discounts affected their profitability. To address this issue, historic pricing data along with details of past discounts and rebates for specific product segments were gathered and analyzed. This was important because, at times, rebates were customized for a specific customer based on their transaction history and existing relationship. Insights were visualized on a series of dashboards that highlighted how each of these factors impacted the bank's profit margins. The solution has helped analysts gain a high-level view of pricing data and provided them with critical information so they can improve how to bundle and skim discounts for sustained profitability and customer satisfaction. The dashboards also enable the bank's relationship managers to better predict and improve future profitability. Some examples of these dashboards are provided below:

Dispersion chart showing how discounts affect gross profit across each product



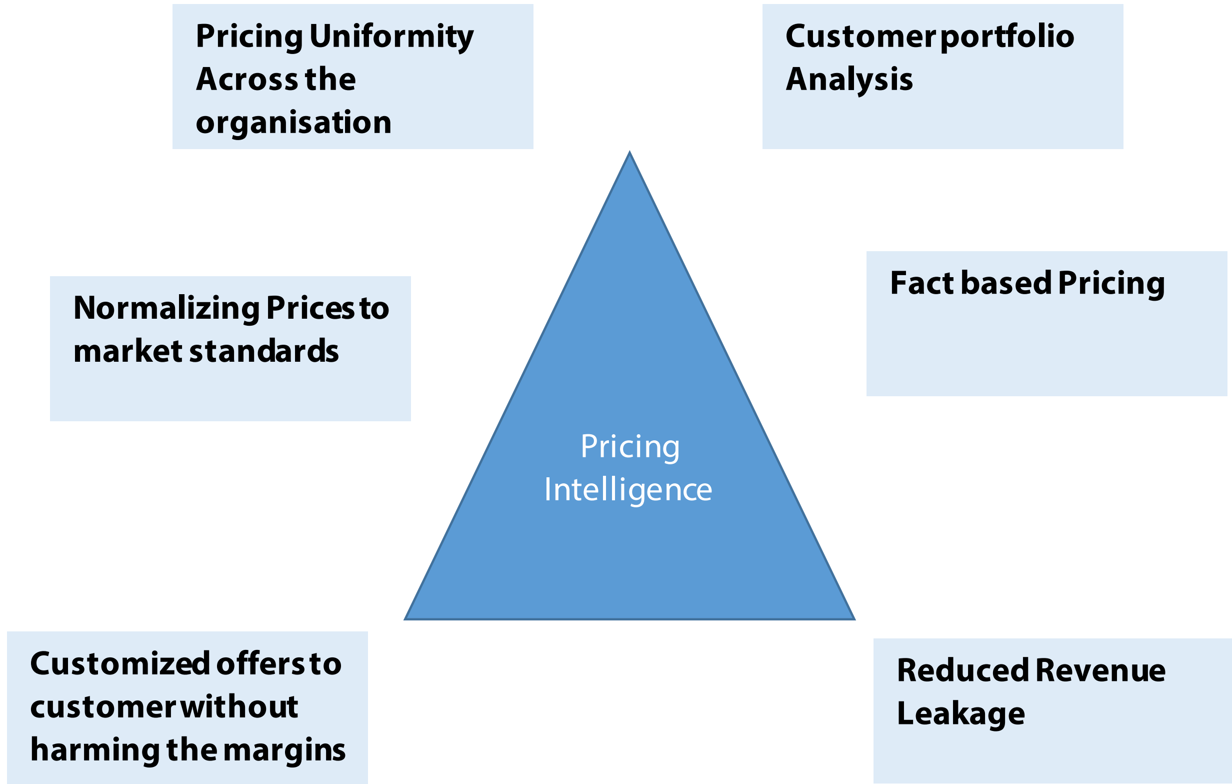
Product-wise discount spread



Dispersion chart identifying whether excess discounts are being offered to customers with low sales volumes

Customer-wise discount spread

Benefits of pricing tools



Conclusion

In a marketplace driven by price, banks should leverage the power of data to optimize pricing so as to retain customers, enhance customer satisfaction and increase revenue. Pricing analytics is a valuable tool that can help banks unlock the benefits of pricing potential. Such solutions improve pricing offers made to the customer while providing insights into how to bridge the gap between the existing and what-if prices. It standardizes enterprise-wide pricing, unlocks pricing opportunities, enables informed pricing decision-making, and uncovers quick wins for faster RoI and improved margins

About the Author

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Veena Shivanna is a Principal Consultant with Infosys. She has over 19 years of IT experience in financial services, particularly in pricing and billing. She has worked with Oracle products like Oracle Revenue Management and Billing (ORMB) and Oracle Utilities Customer Care and Billing (CC&B). Veena has been part of project delivery and execution across multiple geographies.

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