

# *fs viewpoint*

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March 2012

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## ***The Price of Success:*** Aligning Pricing with the Customer Value Proposition



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## *Point of view*

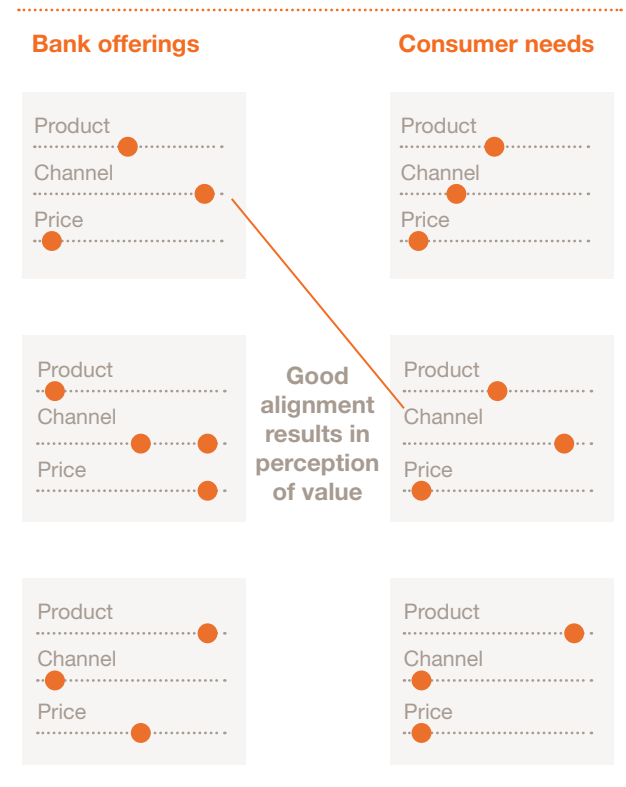


***From the rise of non-bank alternatives to Bank Transfer Day, consumer sentiment towards banks is changing. Banks are re-thinking their value propositions and how they should adapt products, delivery channels, and pricing to consumer needs.***

**Banks are facing strong headwinds in the current environment.**

Changing consumer behavior and preferences have challenged banks' abilities to compete effectively. Furthermore, mounting regulation and a difficult economic environment have made it increasingly more difficult to remain profitable.

- New online banks are changing consumer's expectations about what a bank should offer, the perceived value of financial products and services, and the level of service a bank should offer.
- Consumers' willingness to pay is continuously changing by market segment, product, service, and channel. Consumers are shopping around for the best financial products with no sense of loyalty, often turning to non-banks, such as retail stores and payday lenders, to meet their financial needs.
- Over the years, consumers have become accustomed to receiving free "basic" banking services and their views of what products are considered basic are expanding to include more costly services.



**Traditional approaches to increase bottom line performance are running out of steam. More and more banks are discovering a critical driver for managing profits: pricing.**

### **Pricing—the biggest missed opportunity in banking?**

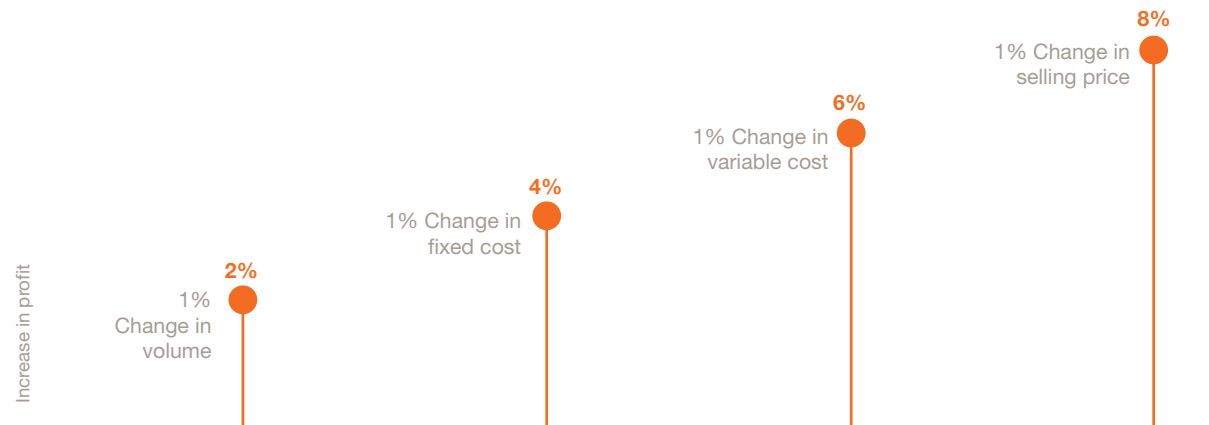
Based on our experience, pricing has significant leverage on profitability. Unlike other levers—such as growing market share or reducing operating costs—pricing changes fall directly to the bottom line. The reality is that price optimization has the potential to create more value than a bank can expect from overall reduction in variable costs, fixed costs, or increase in volume.

Moreover, our analysis shows that between one percent and five percent of value is lost because companies neither know enough about their customers' willingness to pay nor have the ability to translate this knowledge into effective pricing strategies.

### **Leading firms take a strategic approach to pricing and continuously reevaluate the approach.**

Banks should focus more carefully on the historical variation in their prices and understand how different customers value their products. Pricing should become a critical part of a bank's strategy for developing its value proposition with customers and achieving long-term growth.

#### **The power of pricing**



Changing prices by 1% has a stronger impact on profit than changing any other profit drivers by the same percentage.<sup>1</sup>

<sup>1</sup> Based on PwC analysis.

***Banks are beginning to acknowledge the potential value from pricing as a powerful profit lever. Furthermore, banks are realizing the need for more innovative approaches to respond to current and emerging pricing issues.***

## ***Customer***

- Do we understand what customers value in our products? How do we prove our value proposition and present that to customers?
- How do we match the right price with the right customer? Why is there little or no relationship between the price set and the price that is finally accepted? Is pricing segmented to recognize the variations in perceived value among different customer segments?
- What market share will we achieve at different price points?
- Do we understand what drives cost to serve? Have we considered all the relevant costs into account to determine our floor prices?
- Are our pricing policies aligned with a customer's contribution to the top-line and the bottom line?

## ***Product***

- What is the value of our product compared to alternatives?
- Can we price based on our competitor's vulnerabilities?
- What should we bundle as part of the base fee vs. charge for separately?
- How do we price our products or services for maximum profit?

## ***Channel***

- Can pricing help drive a multi-channel product offering?
- Should a price level similar to online competitors be implemented for products sold on the Internet? What are the price variations across regions, channels, customer segments?
- How much should be charged in each channel, and will the market allow any price differentiation between channels?



## Leading banks are implementing “voice of the customer” (VOC) programs and behavioral economics techniques to influence customer perceptions, preferences, and behaviors.

### Better insight into the mind and behaviors of the customer leads to better pricing.

In order to compete successfully in today’s environment, banks should understand how different customer segments value their products and services relative to the competition and the price that people are willing to pay.

The value consumers place on products and services is driven by more than just price—it is tied to a complex set of interrelated social, emotional, and psychological factors. “Behavioral economics” refers to the set of principles that helps explain and predict such

consumer behavior. VOC programs combined with behavioral economics help explain customer behaviors, preferences, and perceived product preferences relative to various price points.

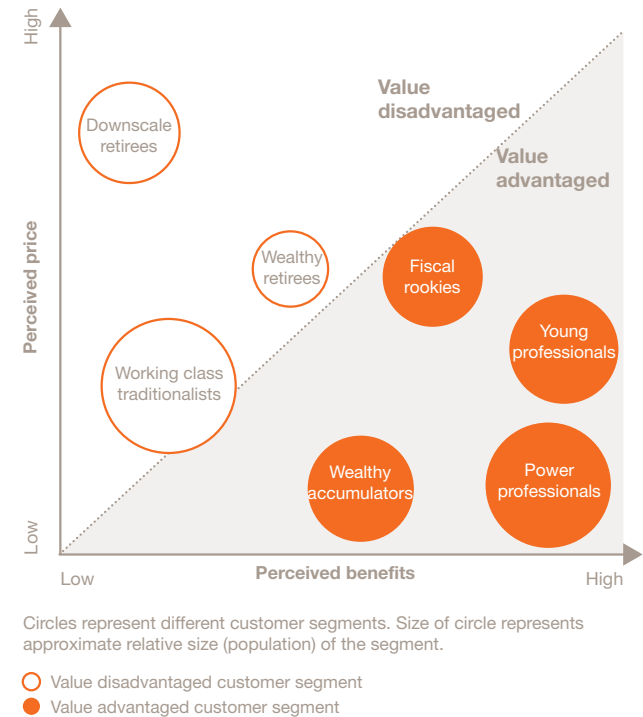
Banks can leverage VOC data and behavioral economics design techniques to answer the following questions:

- What do customers really value about the bank and its products?
- How likely are customers to buy a product? At what price will they buy?
- What makes customers buy from one channel instead of another?

### Enabling a shift from product-centric to customer-centric offerings.

These customer insights provide the requisite information to influence buying behavior—by tailoring the right products and bundled product solutions to the right customer segments at prices that offer the most compelling value proposition in the mind of customers. Using behavioral economics design combined with risk-based pricing techniques could also increase the long-term value of selective customer segments.

**Product perception by customer segments (illustrative):**  
Relative to its price, some customer segments will value a product more than others.



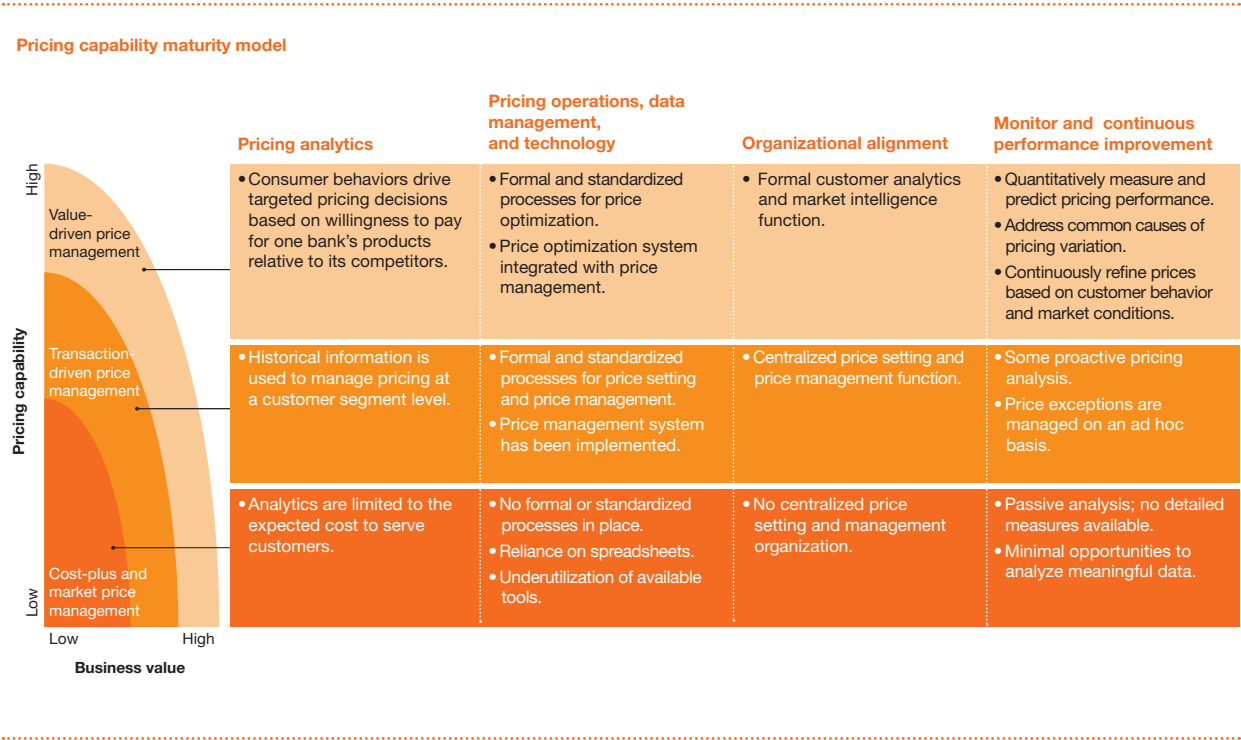
***Why haven't more banks adopted price optimization? Many are reluctant to adopt innovative pricing strategies due to commonly held beliefs—many of them untrue—about how price optimization works and the investment required to begin seeing returns.***

Common objections we've heard	What our experience tells us
"Quality data is in short supply."	<ul style="list-style-type: none"><li>• While data is important, it does not need to be perfect. Most banks find that they can leverage data from their origination, servicing, and financial systems to get started.</li></ul>
"Pricing takes a lot of judgment. How can data analysis replace the experience our professionals have?"	<ul style="list-style-type: none"><li>• Data-driven pricing analysis is a tool that is intended to complement, not replace, commercial judgment.</li><li>• In addition to pricing-, volume-, and characteristic-driven data analysis, several other variables (such as competitor landscape, non-price promotions, product lifecycles) impact sales. It is not always possible or practical to model these types of factors, and commercial know-how is needed to reconcile what the data is saying with real-world knowledge.</li></ul>
"It takes a long time to realize gains from pricing changes."	<ul style="list-style-type: none"><li>• Pricing changes can usually be tested through limited pilots before being rolled out on a larger scale. Once a pricing strategy has been successfully tested and rolled out, benefits fall to the bottom line immediately.</li><li>• To make pricing changes stick, banks need to enforce standard processes and discipline across the organization.</li></ul>
"We have no control over pricing—the market sets it, and if we don't fall in line, we'll lose our customers."	<ul style="list-style-type: none"><li>• While the market is competitive, different customer segments will vary in how they value a specific product or service. VOC data can help banks quickly hear and react to changing customer sentiments.</li><li>• The objective of data-driven pricing is to find 1) the customer segments that are willing to pay more for a given product (without significant loss of volume) and 2) those customers where modest price reductions can lead to substantial volume gains.</li></ul>
"Our product teams are already stretched thin and don't have the capacity to get involved in a pricing project."	<ul style="list-style-type: none"><li>• Most banks do not need to pull together large groups of people to start analyzing pricing opportunities and developing new strategies. A small team is all that is needed to get the project started and begin piloting initial proposals.</li></ul>
"We are already navigating many pricing-related regulatory requirements with the Credit Card Responsibility and Disclosure (CARD) Act and Dodd-Frank, and don't want to add to the complexity."	<ul style="list-style-type: none"><li>• Regulatory drivers of pricing will be better supported, managed, and compliant with increased focus on customer value and supporting analytics.</li></ul>

Many banks are realizing that traditional pricing approaches and capabilities are inadequate for achieving their strategic business goals. Leaders are embarking on a journey to pricing excellence that involves more pricing innovation and better discipline.

As banks move from cost-plus price management to transaction-driven management, they are able to pinpoint margin and revenue leakages (such as in customers, products, and markets) and enable the organization to achieve the best price in every single transaction.

A bank that continues on to value-driven price management is able to understand how different customers value its products relative to the competition and estimate the price-elasticity of different customers for the demand of different products through different channels.





*In our view, banks that develop their capabilities in these six areas are better positioned to use pricing as a competitive advantage across market and customer segments as well as the entire portfolio of deposit, lending, and transaction products and services.*

	What is it?	Expected benefits
<b>Pricing strategy</b>	Provides a framework that supports overall business objectives.	<ul style="list-style-type: none"> <li>Aligns the organization to implement the bank-wide pricing strategy.</li> <li>Establishes competitive differentiations in the market.</li> <li>Links pricing strategy to multi-channel price management.</li> <li>Creates a value proposition that can be presented to customers.</li> </ul>
<b>Transaction and customer pricing analytics</b>	Assessing current and historical transactional data can reveal revenue and margin leakages, and predict customers' price sensitivity or willingness to pay.	<ul style="list-style-type: none"> <li>Identifies sources of revenue and margin leakages.</li> <li>Better understanding of customer preferences, profitability, and price sensitivity ("willingness to pay").</li> <li>Ability to predict profitable pricing strategies.</li> </ul>
<b>Pricing operations</b>	The processes and controls that enable banks to implement their pricing policies consistently and efficiently.	<ul style="list-style-type: none"> <li>Standardized processes lead to consistent practices when developing incentives, promotions, and contracts.</li> <li>Accounting controls provide more accurate and consistent measurement of pricing performance and customer profitability.</li> </ul>
<b>Data management and technology</b>	The data and pricing technology tools that enable fact-based pricing decisions based on rigorous application of analytics.	<ul style="list-style-type: none"> <li>Leverage existing technology to scale pricing analysis to multiple business units, customer segments, and geographies.</li> <li>Provide more robust monitoring and reporting of pricing performance.</li> </ul>
<b>Organizational alignment</b>	Clearly defined pricing roles and responsibilities that are supported by the right incentives. Includes roles for pricing governance, analytics, sales effectiveness, and execution.	<ul style="list-style-type: none"> <li>Business units and line personnel (branches, sales) that work toward the same pricing goals.</li> <li>Enhanced training and expertise in how pricing changes impact customer behavior and profitability.</li> </ul>
<b>Monitoring and continuous performance improvement</b>	Standardized processes and metrics for monitoring compliance with pricing policy and continuously refining prices.	<ul style="list-style-type: none"> <li>Pricing policy is applied consistently, enabling an appropriate level of discipline while balancing the need for flexibility.</li> <li>Standardized pricing metrics can be used to compare different geographies, business units, and customer segments.</li> <li>VOC data can be monitored for leading and lagging indicators of changing consumer behavior and sentiment.</li> </ul>










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## ***Competitive intelligence***












*Our observations of industry practices.*

**Pricing is often set directly by sales representatives, instead of being guided by practices that are grounded in analytic rigor and customer interaction.**

Leading practice areas	What we observe in the industry		
	Bank A	Bank B	Bank C
Pricing strategy	 <p>Pricing center sets core product rate bands for use by commercial banking sales officers. Officers have authority to negotiate rates without approval if within the band.</p>	 <p>System controls prevent exceptions to approved deposit rates. The pricing center publishes premium rate offers that are available to branch officers, though incentives and guidelines to encourage premium offers are weak.</p>	 <p>Commercial sales officers set product rates for each customer at their discretion. The pricing center publishes guidelines; however, because there are no system or other controls to ensure compliance, they are routinely disregarded.</p>
Transaction and customer pricing analytics	 <p>Product price bands are set, based on the price elasticity of demand curves. The pricing curves are modeled based on historical sensitivity of balance flows to the bank's rates relative to competitors.</p>	 <p>Deposit rates are set based on a test and learn methodology in which customer rates are incrementally lowered and performance is tracked.</p>	 <p>Product pricing is set based primarily on wholesale rate changes or competitor price reactions.</p>
Pricing operations	 <p>The process for handling exception pricing requests is informal, requiring ad hoc review by the pricing team. No formal process requirements, such as review criteria, escalations, or response windows, are in place.</p>	 <p>Promotional rate plans are assigned rate plan numbers to which each participating account is linked on setup. Rate plans can be re-priced or terminated at the bank's discretion.</p>	 <p>There is no centralized process for handling or tracking exception activity. Approval processes are in place for local sales teams only.</p>

 Leading
  On Par
  Lagging

**Many banks are beginning to recognize pricing opportunities, but changes have been uneven. This has limited some banks' abilities to fully realize profit and growth opportunities.**

Leading practice areas	What we observe in the industry		
	Bank A	Bank B	Bank C
Data management and technology	 Elasticity tool is used to set product price bands. Competitive rates are provided weekly through an automated vendor data feed.	 Pricing tool is under development. Deposit rates are captured weekly through an automated vendor feed.	 Analytics for assessing product rates are ad hoc and spreadsheet-based. Data warehouse structure does not support efficient pricing analysis.
Organizational alignment	 Spread revenue, based on funds transfer pricing (FTP), is attributed directly to deposit sales officers for incentive compensation purposes. Officers are observed to frequently negotiate customer rates to below pricing center guidelines.	 Branch officers and treasury management sales officers are compensated on a balanced scorecard that includes FTP deposit revenue as well as balance levels and fees.	 Relationship managers set product rates. Although FTP deposit revenue affects compensation, it is a small proportion relative to loan spread and deposit-balance based metrics; deposit pricing has modest impact on compensation.
Monitoring and continuous performance improvement	 Centralized pricing group models and monitors pricing performance and approves all policy exceptions.	 Finance works with product managers to balance product profitability with adoption and to periodically review price performance.	 Each product manager is responsible for setting prices and driving product adoption. Product managers are incentivized on sales volume without regard to profitability.

 Leading
  On Par
  Lagging

## *A framework for response*



*Our recommended approach  
to the issue.*



***The following six capabilities are fundamental to setting the stage for an effective pricing management program.***





## Pricing strategy

***Articulate what kind of bank you want to be—and how pricing will be used to get there.***



Many companies lose revenue and margins due to having a poor understanding of their customers, the positioning of their products in the market place, not knowing what drives value to their customers, or what drives cost to serve.

Pricing is an integral part of a bank's go-to-market strategy. The pricing approach a bank takes should be aligned with how it wants

to be positioned in the market. As financial institutions mature their pricing capabilities, they will be better able to respond to external forces while building upon their brand and value proposition.

Setting a pricing strategy is part of a recurring process and should be periodically re-assessed based on changes in internal and external strategic drivers.

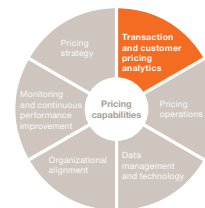


## Pricing transaction analytics

**Examine transaction data using established analytical tools to identify sources of revenue and margin leakages.**

Price band analysis and price waterfall analysis tools have proven valuable in providing a foundation to capture opportunity at the transaction level, in allowing organizations to identify areas of price erosion, and in achieving the best net realized price for each customer or transaction. Margin leakages and unwarranted price concessions can be analyzed for a given product or business unit across geographies or customer segments.

Analytical tools	Benefits
<p><b>Price band analysis</b></p>	<ul style="list-style-type: none"> <li>Identifies distribution and variability between the invoice price and the actual transaction price (margin bands) among customers within and across different customer segments, products, geographies, and channels.</li> <li>Helps control the variation of prices by product, channel, and customer value for setting prices.</li> </ul>
<p><b>Price waterfall analysis</b></p>	<ul style="list-style-type: none"> <li>Captures, quantifies, and visually displays each element (revenue leak) of the price structure, cascading down from list price to invoice price to pocket price which occurs after price is set with the customer.</li> <li>Flags outlier customers whose cost to serve in certain areas is disproportionately high or whose margin across transactions is consistently lower than average.</li> <li>Identifies which cost elements have the greatest impact on margins.</li> <li>Highlights which cost-to-serve elements can be reduced in order to keep a larger portion of the list price.</li> <li>Links cost to serve with pricing levels and customer segmentation.</li> <li>Used in conjunction with price band to target potential customer groups for price increases.</li> </ul>



## Customer pricing analytics

**Employ price elasticity techniques to understand customer price sensitivity and predict their response to alternative price strategies and scenarios.**

Analytical tools such as voice of the customer, conjoint analysis, and price elasticity modeling help guide product price positioning and set target prices. In addition, banks can quantitatively measure how customers perceive product attributes and how its products compare against those factors. The analysis identifies tradeoffs between benefits and price (i.e., how much customers are willing to pay for superior product features or service benefits).

Analytical tools	Benefits																																																				
<p><b>Voice of customer (VOC) and conjoint analysis</b></p> <table border="1"> <caption>Voice of Customer (VOC) and Conjoint Analysis Data</caption> <thead> <tr> <th>Attribute</th> <th>Value</th> </tr> </thead> <tbody> <tr><td>1</td><td>-3.5</td></tr> <tr><td>2</td><td>-7.4</td></tr> <tr><td>3</td><td>-1.2</td></tr> <tr><td>4</td><td>8.7</td></tr> <tr><td>5</td><td>5.4</td></tr> <tr><td>6</td><td>4.8</td></tr> <tr><td>7</td><td>20.5</td></tr> <tr><td>8</td><td>0.3</td></tr> <tr><td>9</td><td>-0.8</td></tr> <tr><td>10</td><td>1.8</td></tr> <tr><td>11</td><td>2.8</td></tr> <tr><td>12</td><td>3.0</td></tr> <tr><td>13</td><td>7.8</td></tr> <tr><td>14</td><td>12.5</td></tr> <tr><td>15</td><td>-1.5</td></tr> <tr><td>16</td><td>-3.0</td></tr> <tr><td>17</td><td>1.4</td></tr> <tr><td>18</td><td>3.4</td></tr> <tr><td>19</td><td>2.6</td></tr> <tr><td>20</td><td>-16.6</td></tr> <tr><td>21</td><td>-10.8</td></tr> <tr><td>22</td><td>-8.7</td></tr> <tr><td>23</td><td>-5.5</td></tr> <tr><td>24</td><td>-4.2</td></tr> <tr><td>25</td><td>-11</td></tr> </tbody> </table>	Attribute	Value	1	-3.5	2	-7.4	3	-1.2	4	8.7	5	5.4	6	4.8	7	20.5	8	0.3	9	-0.8	10	1.8	11	2.8	12	3.0	13	7.8	14	12.5	15	-1.5	16	-3.0	17	1.4	18	3.4	19	2.6	20	-16.6	21	-10.8	22	-8.7	23	-5.5	24	-4.2	25	-11	<ul style="list-style-type: none"> <li>• Determines which features to include in bundled products or which features could be separate products.</li> <li>• Provides insights into what customers value, how they buy the product, and opportunities to influence buying behavior through prices.</li> </ul>
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<p><b>Price elasticity modeling</b></p>	<ul style="list-style-type: none"> <li>• Provides a probabilistic view of customer buying behavior and an indication of elasticity changes, revealing how sales of a product and related substitutes respond to price changes.</li> <li>• Predicts demand for one product when there is a change in the price in another product.</li> <li>• Identifies customized product bundle variants at the right price to improve cross-selling.</li> <li>• Predicts how price influences demand for products as a function of volume or channels.</li> <li>• Uses this information to optimize pricing strategies to enable profit and volume improvement across various customer segments.</li> </ul>																																																				



# Pricing operations

*Design standard processes and controls to effectively execute the pricing strategy.*

Effective pricing operations require the entire organization to work closely together to facilitate effective execution. Successful banks will implement a governance model that balances centralized control and expertise with flexibility, as appropriate.

Standardized processes	Established controls	Agreed-upon metrics
<ul style="list-style-type: none"> <li>Standardize the process for developing and approving customer pricing deals and promotions.</li> <li>Design standard pricing policies for each product and sales channel.</li> <li>Understand why price exceptions are made and whether process or policy adjustments are needed.</li> </ul>	<ul style="list-style-type: none"> <li>Establish a decision rights framework to define the pricing decisions that need to be made, and to identify the individuals responsible and authorized to make them.</li> <li>Develop controls to enforce consistent execution of pricing policies and procedures.</li> <li>Standardize accounting controls over the measurement and recording of customer incentives, promotions, and contracts.</li> </ul>	<ul style="list-style-type: none"> <li>Establish metrics for evaluating the performance of the pricing strategy.</li> <li>Validate that the metrics used are aligned with the pricing strategy and goals of the institution.</li> <li>Agree on which pricing and margin points will be valued during negotiations and decision making.</li> </ul>





## Data management and technology

**Leverage data management and technology to develop the right tools to identify profit improvement opportunities and set prices.**

Banks collect a great deal of data, but we find they don't consistently set up the technology infrastructure and processes to effectively analyze and leverage it. There are several steps that banks may want to consider to build the necessary data and technology foundations to support rigorous pricing analytics.

Areas	Action Steps
<b>Long-term customer-focused data strategy</b>	<ul style="list-style-type: none"> <li>• Make the necessary technological investments to improve the customer experience.</li> <li>• Gather standardized data points consistently across all customer touch-points.</li> <li>• Assign a universal customer identifier to track the activities of individual customers across all business units.</li> </ul>
<b>Pricing technologies and tools</b>	<ul style="list-style-type: none"> <li>• Develop the technological tools necessary to make monitoring pricing performance routine and to automate advanced elasticity analytics.</li> <li>• Implement an agile technological infrastructure that allows for changes in the pricing strategy to be deployed quickly.</li> <li>• Build good accounting controls into systems to enable the pricing strategy to be more effectively executed.</li> </ul>
<b>Data management and customer databases</b>	<ul style="list-style-type: none"> <li>• Standardize pricing systems, processes, and tools to facilitate collaboration across marketing, sales, accounting, IT, and other business units involved in pricing decisions.</li> <li>• Build data warehousing capabilities to support customer-level data needed for ongoing pricing analysis.</li> </ul>
<b>Data quality controls</b>	<ul style="list-style-type: none"> <li>• Data needs to be reliable, but not perfect, in order for the analytics and performance metrics to be effective.</li> <li>• Automate the aggregation of data from multiple sources to close gaps between systems and to minimize manual input.</li> <li>• Establish security controls to prevent data manipulation by unauthorized users.</li> </ul>
<b>Security concerns</b>	<ul style="list-style-type: none"> <li>• Perform ongoing vulnerability assessments over servers and systems that secure customer transaction information.</li> <li>• Evaluate threats to the environment and prioritize the resulting gaps to understand and address where the highest risks reside.</li> </ul>



## Organizational alignment

***Provide the right training and incentives to support defined pricing roles and responsibilities.***

Effective pricing strategies bring marketing, sales, and operations together in order to facilitate more coordinated and effective execution. Senior management involvement also helps balance the level of input from various functional areas.

Organizational alignment deals with the people and culture factors that shape pricing behavior, including organizational structure, sales effectiveness, training, and talent management. Effective pricing management would include such issues as providing training on sales policies and procedures, developing profitable sales compensation structures, and creating reporting relationships that help the company develop and carry out pricing decisions.

### **Key considerations**

- What are the roles and responsibilities, goals, and incentives for everyone who is involved in pricing, and are these functions aligned?
- How centralized or decentralized should the pricing process be?
- How do we expect salespeople to spend their time, and do they have the right skills and tools to manage prices effectively?
- Are compensation metrics aligned with both our strategies and our execution capabilities?

Key steps	Activities
<b>Define pricing roles and responsibilities</b>	<ul style="list-style-type: none"> <li>• Define cross-functional pricing roles and responsibilities across the organization (such as sales, marketing, operations, product management, branches).</li> <li>• Establish consistent practices around how centralized functions (such as pricing strategy and analytics) should interact with business units and field personnel, and decide on who will have authority to make pricing decisions.</li> <li>• Develop formal communication channels to provide a rapid dissemination of pricing information to customer-facing employees, and to collect feedback that is used to fine-tune pricing decisions.</li> </ul>
<b>Train and develop pricing expertise</b>	<ul style="list-style-type: none"> <li>• Ensure that salespeople have access to the right tools and are properly trained to execute the pricing strategy.</li> <li>• Effectively manage the talent lifecycle, including workforce planning, recruitment, development, and performance management.</li> <li>• Develop a process to inform employees of changes in the sales strategy.</li> </ul>
<b>Align incentives with pricing objectives</b>	<ul style="list-style-type: none"> <li>• Review incentive compensation plans, sales force performance, data sales tools, sales training, and territory and account information.</li> <li>• Design incentive plan and performance reporting metrics that align compensation with pricing/profitability objectives.</li> </ul>



## Monitoring and continuous performance improvement

***Establish an ongoing process for measuring pricing performance and providing feedback that continuously refines the pricing approach.***

Once a pricing strategy has been determined, it should be supported by an ongoing process of implementation and feedback. Monitoring processes may help ensure adherence to pricing policies and evaluate whether the pricing strategy is being achieved—through feedback from both internal (such as sales, finance, front-line personnel) and external (such as customers, market information) sources.

Banks that fail to continuously refine their pricing strategies are missing out on one of pricing's greatest benefits—the fact that its impact can be quickly measured and the approach re-calibrated with relatively little operational effort.

### ***Align pricing execution across the organization with standardized and agreed-upon practices.***

- Ensure compliance with agreed-upon pricing policies.
- Evaluate exception requests based on analytics, market information, and customer relationship data housed at the center.
- Calibrate pricing limits.
- Monitor potential margin leakages and unplanned variations between geographies, business units, and customer segments.
- Communicate pricing authorities and policies to business unit personnel.

### ***Monitor pricing performance.***

- Determine which data sets and tools are needed to routinely evaluate pricing performance.
- Maintain pricing key performance indicators (KPIs), ensuring that definitions and thresholds are consistent across the bank.
- Integrate input from VOC programs with pricing strategy and refinement processes.
- Prepare and distribute interpretive pricing reports for executive management and business units.
- Define reporting outputs and requirements—rules for defining, capturing, storing, and archiving data.
- Align resources that are accountable for quality and the reporting of data inputs.

Moving to the future state

***An innovative pricing approach can help identify near-term price improvement opportunities and develop a “world-class” pricing methodology, with the tools, data, skills, and processes to support it.***

A two-phased approach can help financial institutions identify pricing opportunities that have the largest impact and invest in capabilities that are most aligned with long-term corporate objectives.

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**Phase 1: Perform analysis and identify opportunities**

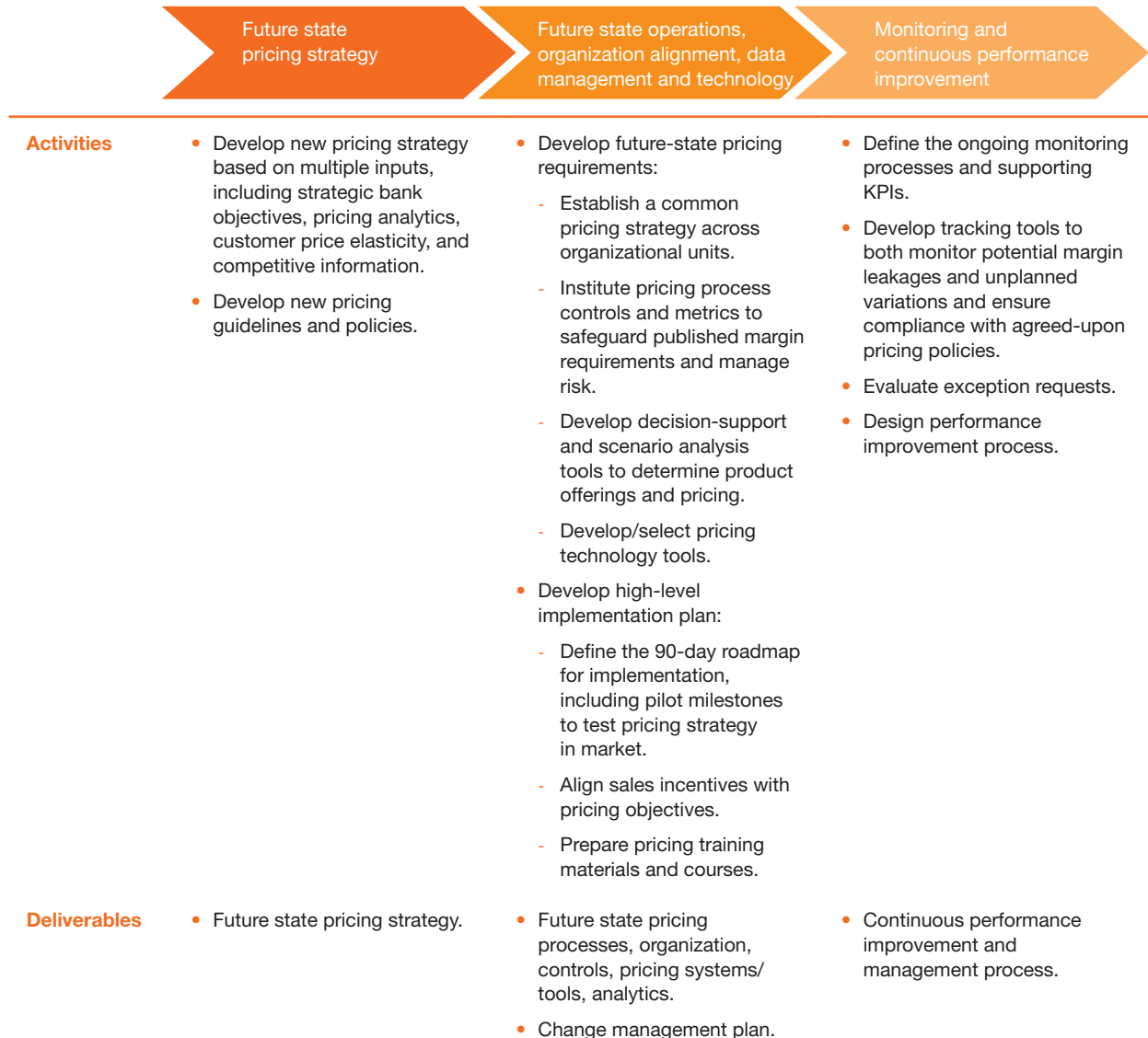
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## Moving to the future state

***Beyond the realization of immediate benefits, sustainability is key. If the strategy, process, and supporting pricing systems are not fundamentally changed, the benefits are eroded as the firm returns to business-as-usual.***

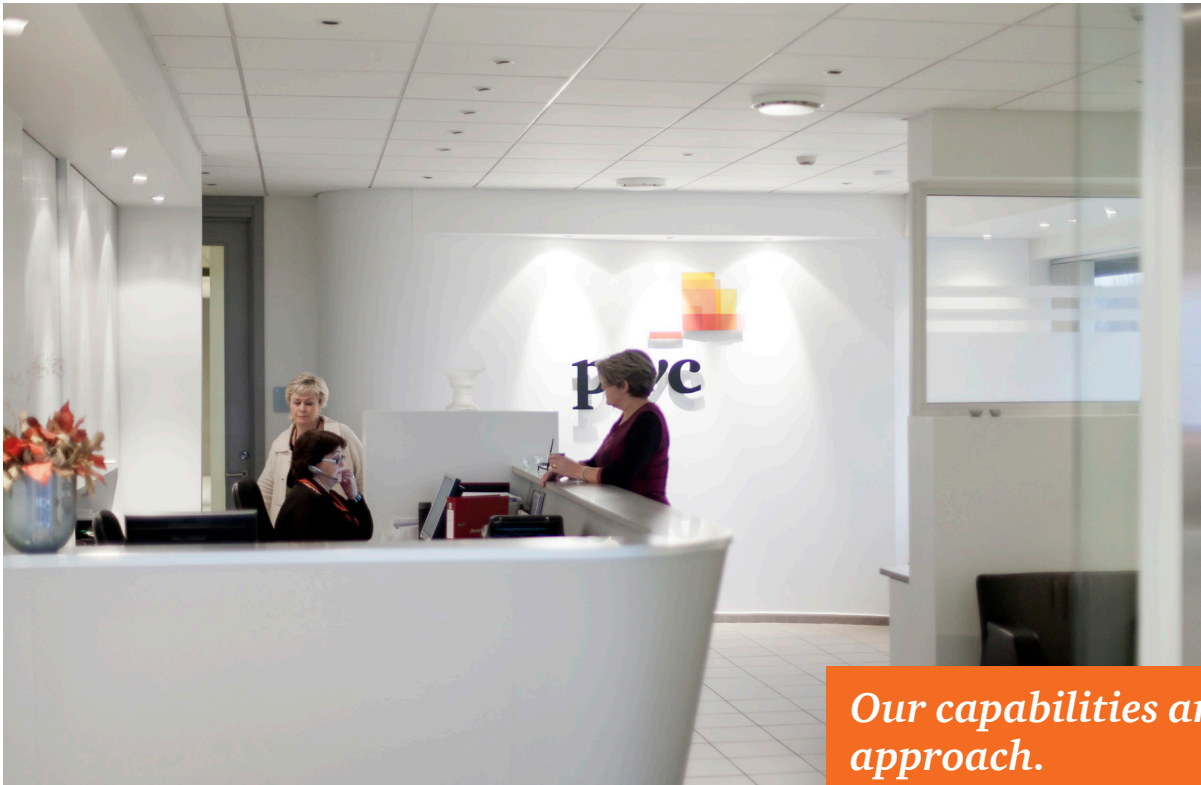
### Phase 2: Develop pricing strategy and future state operating model





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## *How PwC can help*



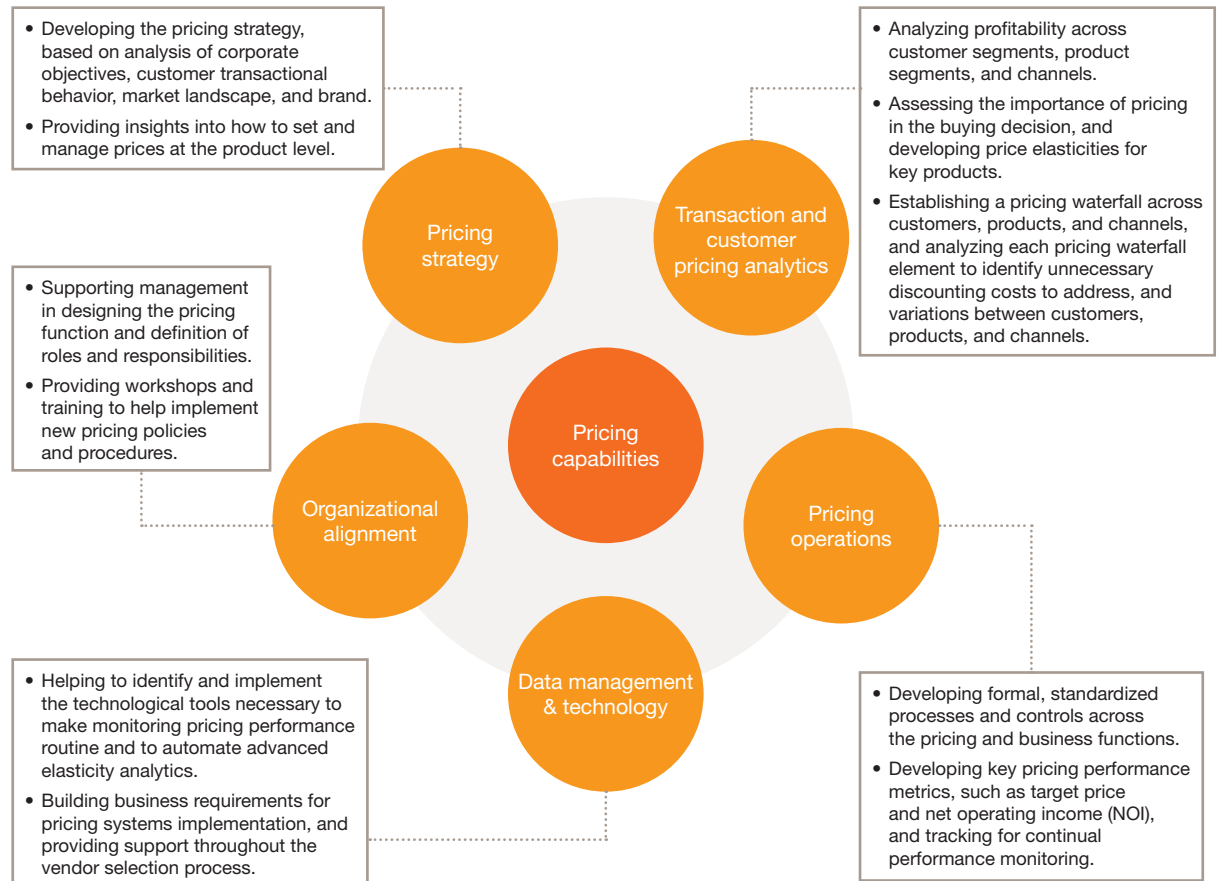
*Our capabilities and tailored approach.*

## ***What makes PwC's Financial Services practice distinctive.***

<b>Integrated global network</b>	With 34,000 industry-dedicated professionals worldwide, PwC has a network that enables the assembly of both cross-border and regional teams. PwC's large, integrated global network of industry-dedicated resources means that PwC deploys the right personnel with the right background on our clients' behalf whenever and wherever they need it.
<b>Extensive industry experience</b>	PwC serves multinational financial institutions across banking and capital markets, insurance, the asset management/hedge fund/ private equity industry, payments and financial technology. As a result, PwC has the extensive experience needed to advise on the portfolio of business issues that affect the financial industry, and we apply that knowledge to our clients' individual circumstances.
<b>Multidisciplinary problem solving</b>	The critical issues that financial services companies face today affect their entire business. Addressing these complexities requires both breadth and depth, and PwC service teams include specialists in strategy, risk management, finance, regulation, and technology. This allows us to provide support to corporate executives as well as key line and staff management. We help address business issues from client impact to product design, from go-to-market strategy to operating practice, across all dimensions of the organization. We feel equally comfortable helping the heads of business and the heads of risk, finance, operations, and technology, and have helped clients solve problems that cross all of these areas.
<b>Practical insight into critical issues</b>	In addition to working directly with clients, our practice professionals and Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients with new intelligence, perspective, and analysis on the trends that affect them.
<b>Focus on relationships</b>	PwC US helps organizations and individuals create the value they are looking for. We are a member of the PwC network of firms with 169,000 people in more than 158 countries. We are committed to delivering quality in assurance, tax, and advisory services.

## *PwC's tailored approach focuses on all aspects of pricing management.*

PwC's tailored approach focuses on all aspects of pricing management.



We look across the entire organization—focusing on strategy, structure, people, process, and technology—to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.



Client needs	Issues we help clients address
<b>Innovate and grow profitably</b>	<ul style="list-style-type: none"> <li>• Reshaping the IT function into a source of innovation</li> <li>• Transforming business information to drive insight and fact-based decision making</li> <li>• Evaluating acquisition and divestiture strategies to position for the future</li> </ul>
<b>Manage risk and regulation</b>	<ul style="list-style-type: none"> <li>• Building a risk resilient organization</li> <li>• Managing ERP investment and project execution risk</li> <li>• Safeguarding the currency of business; keeping sensitive data out of the wrong hands</li> <li>• Ensuring capital project governance and accountability</li> </ul>
<b>Build effective organizations</b>	<ul style="list-style-type: none"> <li>• Establishing effective strategic sourcing and procurement</li> <li>• Realizing competitive advantage through effective sales operations inventory planning</li> <li>• Transforming the close and consolidation process to work for you rather than against you</li> </ul>
<b>Reduce costs</b>	<ul style="list-style-type: none"> <li>• Driving efficiency through shared services</li> <li>• Redesigning finance to realize efficiency and competitive advantage</li> <li>• Taking control of cost through effective spend management and cash forecasting practices</li> </ul>
<b>Leverage talent</b>	<ul style="list-style-type: none"> <li>• Defining and implementing an effective HR organization</li> <li>• Rethinking pivotal talent</li> </ul>

## ***Appendix***



*Select qualifications.*



## **Portfolio product design and pricing—Large retail bank**

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### **Issues**

The bank wanted to increase product penetration for its small-to-medium sized business customer base. Traditionally, product penetration was driven by relationship managers in the branches, which had not been very successful. The small-to-medium sized business customer base often had products with both the small business division and the personal consumer division, making it difficult for the bank employees to have a single view of the customer's portfolio. The bank was seeking a product bundle recommendation to drive product penetration and revenue for this customer segment.

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### **Approach**

PwC helped analyze the bank's small-to-medium-sized business customer base and identified four key customer segments based on industry, product portfolio, and service usage pattern. The analysis also assessed price sensitivity across segments, identifying customer segments that were insensitive to price increases, were highly sensitive (creating higher attrition rates), and were sensitive to certain types of price increases (such as rate vs. fee).

Using customer analytics to further profile each segment, PwC assisted in evaluating each segment's behaviors and needs for various product elements and premium services. PwC helped the client develop a collection of product/service bundles targeted at each customer segment.

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### **Benefits**

The client was able to better understand the behaviors and needs of its small-to-medium-sized business customer base and designed more relevant product that had greater appeal to its customers. The projected revenue impact was more than \$100 million across three years, based on increased adoption and more targeted pricing.

## ***Pricing analytics benchmarking— Large US insurer***

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### **Issues**

One of the largest US insurers sought to assess its pricing analytics capabilities against future business needs and best practices across P&C insurance carriers to uncover potential areas for improvement, particularly in the data and technology environments.

- As the client's customer base was expanding outward from its core focus, the client wanted to ensure that the right levels of investment in people, processes, and technologies were in place to retain the desired level of sophistication in its pricing strategy.
- Lack of coordination between the business unit and IT resulted in duplicative technology effort and sub-optimal integration solutions.
- Lack of automated integration resulted in manual effort by the business unit to support processes due to long lead times and IT's high costs for transactions.

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### **Approach**

Next, PwC assisted the client in evaluating the data and technology environments and developing a three-year roadmap to achieve the desired future state.

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### **Benefits**

The successful conclusion of this engagement marked the beginning of a multi-year path toward transforming the technology environment to better support the overall pricing strategy, organization, and processes.

## ***Multi-tiered pricing strategy design—Leading wholesale payments clearinghouse***

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### **Issues**

The client operated in a market where little product differentiation and high variable costs were adversely impacting margins and market share. At the same time, the client was experiencing the following issues:

- There was increased pressure to lower prices due to competitors' pricing strategies and negotiated pricing discounts from owner banks.
- Unit cost declines that were not keeping pace with volume increases across each of the three fixed cost infrastructure payment platforms; low marginal cost of volume increases that were not being taken advantage of.
- Approximately 70% of volume driven by the top 10 players, who were collectively generating a surplus of capacity.
- Because of limited visibility into its clients' needs and preferences, our client was unable to test new pricing models.

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### **Approach**

PwC worked with the client's CFO and CEO to design a multi-tiered pricing strategy across multiple product lines. The team established quantitative measures of price sensitivity through customer intelligence, behavioral economics, and pricing data analytics.

PwC helped the client identify volume growth potential through customer segmentation, price sensitivity, and market share analyses.

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### **Benefits**

The client gained enhanced visibility into its competitors' cost structure. In addition, detailed financial modeling tools enabled the client to respond more quickly and effectively to its competitors' price changes. PwC's pricing recommendations were estimated to potentially increase top line revenues by an average of 6% and net surplus by an average of approximately 25% across each of the product lines.

## Deposit price analysis— Big 5 Canadian bank\*

### Issues

The client, a large Canadian bank, sought to implement improved deposit pricing practices in its commercial segment. Pricing decisions were highly decentralized, with relationship teams that were able to individually price customers within broad guidelines set by product management. The objective of the assessment was to test how effectively the relationship teams had priced deposit accounts relative to customer elasticity.

### Approach

PwC assisted the client by supporting several activities:

- Modeled price-elasticity curves based on account-level analysis of all business customers, segmented by multiple factors including company size, region, industry, product usage, and balance tier.
- Assessed rate positioning relative to theoretically optimal rate points on the elasticity curves.
- Tested field discipline in following pricing guidelines by analyzing account attributes, validating that account executives frequently priced outside of guidelines and failed to perform re-pricing reviews.
- Performed an FTP diagnostic to assess how effectively the framework matched typical deposit behavior in business segments.
- Based on the analysis, recommended pricing strategies for each product to move rate positioning closer to the optimal rate-balance point. The recommended pricing strategies ranged from downward re-pricing in certain segments and products to the introduction of premium-rate small business accounts.
- Recommended a new administered-rate product for large customers, which is expected to generate significant volumes through a rate enhancement while receiving more favorable FTP treatment.
- Recommended rate governance enhancements to centralize deposit pricing in product management.

### Benefits

Following PwC's analysis, the product management team at the client validated our findings with the relationship teams and reached a cross-functional consensus within the bank: more than CAD \$30 million improvement in margin was achievable through re-pricing of accounts and strengthened pricing controls.

\* Led by a PwC team member at a previous firm.

## Treasury management pricing—Large regional bank

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### Issues

The client, the bank's global transaction banking division, was concerned that its treasury management pricing was putting the bank at a competitive disadvantage:

- Excessive complexity due to the maintenance of more than 600 transaction pricing codes in the account analysis system.
- Feedback from treasury management sales officers who reported that standard price schedules were not competitive with the schedules of their peers.
- Pervasive discounting, with insufficient resources in product management to ensure that only appropriate pricing concessions were occurring.

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### Approach

The PwC team began by helping the client perform a data analysis based on a time series of account analysis extract files. Each transaction code was mapped to standard AFP codes. The actual pricing of each code was then examined to understand the level of discounting relative to standard and whether natural breakpoints were visible in the pricing, i.e., volume points beyond which a lower agreed-upon price was the norm.

In addition, the PwC team helped perform a competitive analysis by comparing the mapped bank service codes to price points of peer banks obtained in similar engagements.

The team also supported the client by performing an elasticity analysis, comparing the level of discounting of each service code relative to a five-level assignment of price sensitivity to ascertain to the extent of discounting correlated with price sensitivity. The transaction code structure was examined for opportunities to collapse the existing set to a more manageable structure.

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### Benefits

The client was able to implement a number of pricing enhancements based on the study. By establishing volume tiering for key transaction codes, the bank was able to build more flexibility into the pricing structure and reduce discounting requirements. In addition, the team identified more than \$25 million of annual savings by eliminating discounts on non-price sensitive and penalty transaction codes as well as standard price increases. Finally, the project served as a blueprint for restructuring and simplifying the transaction code structure.

*Developing a new card strategy using risk and behavioral price modeling—Top five global bank*

Issues	<p>The client sought to redefine its existing pricing model with the objectives of improving existing lending and borrowing approaches. As a result of the new credit environment—markedly changed by the financial crisis and ensuing regulatory changes—the client was struggling to differentiate itself from the competition.</p> <p>The client engaged PwC to understand how it could use new, more dynamic, verifiable, real-time data sources, such as bank and credit card information, to revolutionize its product development capabilities and develop a risk-based pricing model.</p>
Approach	<p>PwC created a detailed 18-month roadmap, a supporting business case, and an innovative pricing strategy to offer better margins and innovative means for the client to win new customer segments.</p> <p>PwC convened a multidisciplinary team of subject matter experts with applied backgrounds in statistics, actuarial sciences, and emerging modeling disciplines to develop an analytic model that used new sources of customer data to increase predictive value. The PwC team combined behavioral economics design techniques with risk-based pricing techniques to adjust customer risk profiles based on demonstrated good behaviors over time. The new model required the bank to not only extend credit, but also to embed methods to prevent the customer from becoming a bad credit user (such as triggers, stop gaps, value sweeteners, and additional fees).</p>
Benefits	<p>PwC introduced behavioral economics techniques to all aspects of the lending and borrowing environment, creating a new way for both the issuer and cardholder to succeed. Behavioral profiles were developed for certain customer segments to identify market opportunity by shifting the focus from short-term share-of-wallet to longer-term value.</p> <p>The new model provided the client with techniques to influence customer risk behaviors and increase customer lifetime value. As result, the client developed a new card business worth several million dollars.</p>





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"The Price of Success: Aligning Pricing with the Customer Value Proposition," PwC FS Viewpoint, March 2012, [www.pwc.com/fsi](http://www.pwc.com/fsi)

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LA-12-0174 Viewpoint Pricing