IDENTIFYING PRODUCT AND PRICE STRATEGIES FOR DESIGNING TRANSACTIONAL BANKING PACKAGES ADDRESSED TO SMES (CONSIDERATIONS)

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Abstract: *The current paper has the aim to provide guidelines for designing efficient product and price strategies, through proposed business cases which could be used especially for banking products addressed to SMEs. While identifying the optimal product and price strategy and designing the product catalogue structure, the marketing specialist should definitely consider existing portfolio behaviour and estimate the growing potential (if possible, overall portfolio, with focus on accurately defining the additional impact of the newly proposed product/ products). A business case contains estimations for results to be generated by products to be launched or optimized. This paper presents complex schemes for business case scenarios for migration of existing portfolio to the new products, but also considers new clients acquisition based on important features of the products. The pricing strategy is not a simple task to manage. Especially when speaking about transactional packages (for which the price is lower than separate services included), some segments or clusters may generate loss to the bank if they already used the services at a higher price than the one of the package. Therefore, the decision of setting up specific prices needs to be based on an accurate and complex analysis, as presented in current paper. The assumptions used in a business case need to be relevant for the entire process of designing and launching a product, therefore they can always be adjusted for better calculation of the impact. No matter if the assumptions and prices remain as in the initial proposal or not, the steps to be followed are the same. Segmentation also plays an important role in designing the product strategy, since the target for a product or product catalogue can be represented by a segment, a sub segment or a cluster of many segments. Not always the initial segmentation represents the clustering for the product strategy. Sometimes, behaviour of existing clients represents the starting point for clustering of a market target for products. In case of SMEs acquiring banking products, another relevant aspect to consider is the turnover through the bank, incoming and outgoing. It consists in the business routed to the bank as incoming payments and out the bank, through transactions made. The turnover is directly influenced by the value proposition of the new packages and may radically influence the final net impact of the business case, being a revenue generator, as you may see explained in the following pages.*

Keywords: banking marketing; pricing strategy; product strategy; SME.

JEL classification: M31; G21; D24.

1. Introduction

The financial service can be defined as an unit which unites many concepts: starting with value proposition, through generating return in the future, continuing with tangible elements (for example cards), additional banking or non-banking benefits (for example with partners) and finally, potential future features (Ennew and Waite, 2013: 250).
The package concept is related to a set of products which separately would be more expensive to be bought than together (at package price).
While some packages can be designed with fixed components, some others may be personalized at a certain level (of course, some components still remain basically as a standard part of the product).
In case of banking system, the packages are often used as products addressed to retail customers (individuals) or to small and medium sized companies with not very complex needs. This is also why segmentation plays an important role for further target defining.
As a prerequisite for working on product and price strategies and on business case, a market watch analysis is mandatory. Currently, in Romania, the major banks targeting SMEs have specific and different product strategies regarding transactional packages addressed to this segment. Some of them have packages containing current accounts, a limited number of transactions, internet banking and maybe debit or credit cards, while others have included in their packages an unlimited number of transactions. In some cases, additional non-banking benefits were added as a value proposition to the customer, sometimes used as a hook for buying the package itself.
Current paper reveals some important aspects in launching new transactional banking packages for SMEs, targeting different segments, creating different clusters and deciding to keep or to adjust the pricing based on specific assumptions and scenarios.
Final scope of the product launching is, of course, to increase the profitability of the overall SME portfolio of the bank, while increase also the Customer Satisfaction level through the clients.

2. Prerequisites and aspects to consider while designing a new banking product for SMEs

The strategies for developing, designing and implementing a new generation of innovative banking products for SMEs have the final objective of generating a significant impact in revenue increase and customer satisfaction. Identifying the optimal strategy starts with a detailed market watch analysis, consisting in defining direct competitors with similar products, but also, best practice products of other competitors. It is essential for the future success of the product/s to include a high level of innovation in each step of the designing process (Nagdeman, 2009: 247). On the other hand, the strategy must be obviously correlated with the overall business plan and objectives of the bank (Ehrich and Fanelli, 2012: 50).
The most difficult part of designing a new product/ product catalogue seems to be creating the concept itself, the innovative part of the entire process. It is to be decided what banking services to be included in the package (and therefore in the analysis), how many transactions, whether to include also paper based transactions or to include exclusively electronic banking transactions. Another idea is to include non-banking benefits, for example discounts or special offers for the bank's strategic partners.

While the concept is focusing on value proposition for the client, the business case has to combine the value proposition with the marketing objectives and with the sales objectives, all in order to make sure that the pricing strategy will be in accordance with overall scope of the project. It is essential for the success of the launching that the sales force is very well understanding and applying the marketing principles and strategies of the marketing/ product development department (Ehrich and Fanelli, 2012: 160).

2.1. Steps in designing a new banking product

Any product has to have its own detailed description called *product card*, which must contain all the characteristics (including technical) of the product; the product card is the base for the product catalogue (a set of product cards addressed to a certain segment), to be used not only by marketing specialist, but also by sales force.

The research step may contain (not to be neglected) work-shops and brainstorming organized by marketing specialists with the sales force. It is important to receive the feed-backs of the experienced sales people, but also to receive feed-back from junior ones as well (is the product well structured? the value proposition clear enough and strong? are the characteristics of the product easy to be understood?). If necessary, training to the entire sales force should be provided by the product manager.

While designing the product/s, negotiations with other departments are essential, since the product itself may involve the synergy between the departments, or even important tasks to be done (set ups etc.) by others.

While involved departments are depending on the type of the product, the characteristics proposed, the targeted segment etc., some departments are by default involved in each project/ process of the bank: eg legal, customer satisfaction. It is important to know legal aspects on each characteristics, or risks that may occur during launching, communication and so on.

While legal issues may change the entire product or pricing strategy, the customer satisfaction is a concept to be considered from the beginning, while defining the value proposition.

SWOT (strengths, weaknesses, opportunities and threats) analysis of the new product should be constantly done before deciding the final structure of the product.

While defining the target, some sub-segments should be defined, categorized and prioritized. If some of them are inappropriate for the objective, not in line with the profitability target, they should be excluded if possible, or another solution to be provided. This is how a product launching becomes a product catalogue launching, containing more products, each one suitable for one category of clients. Market and segment potential are to be considered in this rule defining for the catalogue.

2.2. Establishing the initial product strategy together with the pricing

Current paper provides proposals for business cases related to banking transactional packages addressed to SMEs. While a business case referres to an estimation of the impact in profitability (a before and after comparison, considering the moment of launching a new product), it is mandatory to be preceded by a description of the product strategy. Figure 1 represents a possible version of a product strategy. It describes the package product catalogue proposed, per each segment/ sub-segment. A package represents a set of services, which bought together (the price of the package) cost less than by buying them separately. Ussualy, a transactional package in banking reffers to current accounts (different currencies) maintenance, transactions (paper based or electronic through

internet banking, mobile banking etc.), transactions through ATMs, through POS with cards and so on. A product catalogue of packages it is recommended to include many packages, but not to many (considering the complexity of the segment, we can add the concept of standardization vs. personalization; ussualy, while speaking of SMEs transactional needs, the balance is more on standardization then for personalization).
While it is obvious that the price increases while migrating from a package to another (considering Package 4 the most complex and complete, and Package 1 the basic one), the strategy considering segmentation needs a special attention. Depending on segmentation criteria, a product strategy based on segmentation can or cannot be easily explained to a customer (if segmentation criteria are internal, for example: revenue generation to the bank, it cannot be communicated ad literam to the customer). Therefore, for some segments, banks may address with a multitude of packages, giving the client the possibility to choose according to the company needs. On the other hand, the bank can introduce some restrictions in providing a certain package to a certain segment/ category of clients (if it is not in its interest or in the clients interest; for example, if it is related to a decrease in profitability). In Figure 1, Package 1 (basic and the cheapest) is addressed only to Segment 1, while Package 2 is addressed to Segments 2 (but with the possibility to be acquired also by the lower Segment 1); Packages 3 and 4 (more complex) are adressed especially to Segment 3 (bigger companies with higher, complex needs), but it can be offered also to lower Segments if case. On the other hand, there are also restrictions: Segment 3 cannot buy Package 1 and 2 (they are not suitable for the company needs, may involve additional costs or the profitability for the bank decreases).

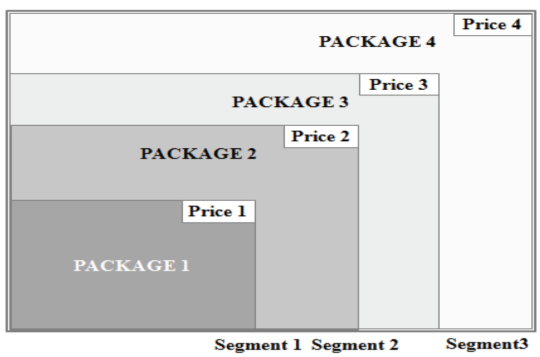

Figure 1: Proposed strategy for a new product catalogue, considering segmentation
Source: Personal contribution of the author

The differentiation concept is to be considered when deciding the prices of the packages, since if the services included in the packages are different (in a positive way) from the one held by the competion (Ellis, 2011: 160), then the bank is able to set up a higher price for its innovative and original products.

3. Analyzing the existing SME portfolio data in order to create a strong business case

Starting from the defined products and prices initially defined, the marketing specialist/ product manager in the bank needs to analyze the profitability of the proposed structure. In this respect, he analyzes the existing clients' portfolio results (clusters per segments and revenues). Figure no 2 below may represent a snapshot of a business case of transactional packages (product catalogue from previous Figure).

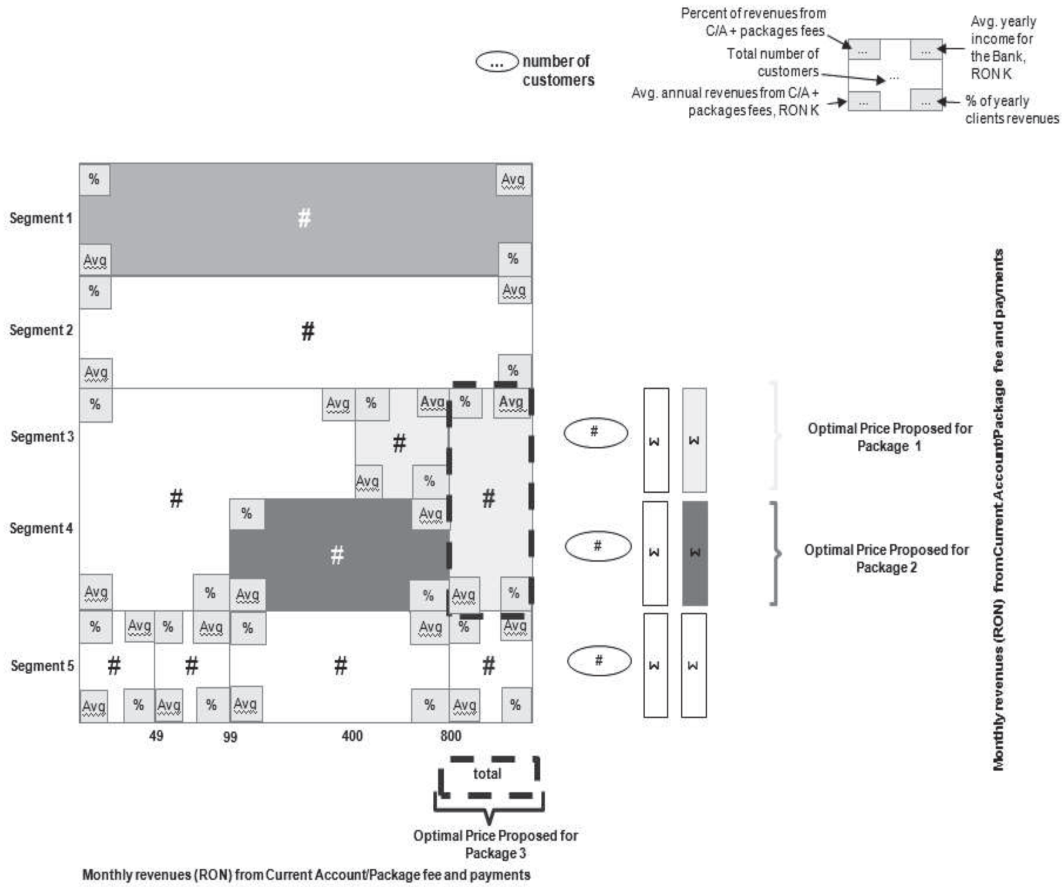

Figure 2: Business Case analysis for current portfolio of clients, per segments and revenue clusters
Source: Personal contribution of the author

Data considered in Figure 2 is referring to two concepts: Transactional Revenue and Total Revenue. Transactional Revenue is the revenue generated by the client to the bank, through: current account utilization, transactions, existing transactional packages fees and other banking services – meaning any other service not related to loan or deposit products. The considered period may be one year, for relevance. Total Revenue is the revenue generated by the client to the bank in a certain period (may consider one year), including also revenue from loans and deposits.

As a formula, it may be defined as follows:

TR = *TrR* + *RL* + *RD*, where:

- TR = Total Revenue
- TrR = Transactional Revenue (also called Banking Services Revenue)
- RL = Revenue from Loan products
- RD = Revenue from Deposit (Liabilities) products.

After defining the relevant data, the next step in designing the business case represents the clustering, meaning applying different thresholds on defined criteria (in our case the criterion is the price, while the thresholds are represented by the prices of the packages, the same as Figure 1). Basically, the logic is to compare current amount paid by the client for transactions (meaning more or less the transactional revenue generated to the bank, in some cases adjusted with small amounts of costs for the bank) with the proposed package price.

Based on this data definition, existing clients' portfolio can be analyzed (also per sub segments, for becoming more relevant in accordance with the strategy). Personal opinion is that four relevant indicators should be calculated while creating a business case for transactional packages; these are:

- The percentage of transactional revenues from total revenues
- Average for total revenues per client (for each cluster)
- Average for transactional revenues per client (for each cluster)
- The percentage of total revenues per cluster in total revenues of entire SME portfolio.

3.1. Creating a Business Case in order to validate the product and pricing strategy proposed

While in Figure 2 we analyzed the clusters, for designing the business case, the next step is starting to estimate the results, in order to validate the strategy on products and pricing. It is how results in Figure 3 will look like, that will become most important in deciding whether continuing to use the same assumptions and strategies before or to adjust the business case with new prices and new product strategies (even if deciding to start over, the steps are the same).
As you may see in Figure 3, the idea is to estimate an impact per each segment (impact in revenue increase or decrease), while applying different scenarios.
Scenarios may differ considering the strategy, in our example the assumptions being the following:

- Impact on revenue will come from both existing and newly acquired clients
- For existing clients, the impact will be calculated by applying 3 different scenarios (best case, worst case, and the realistic one in the middle
- Clients acquiring the new packages will increase their turnover through the bank, as the value proposition was defined to increase their loyalty.

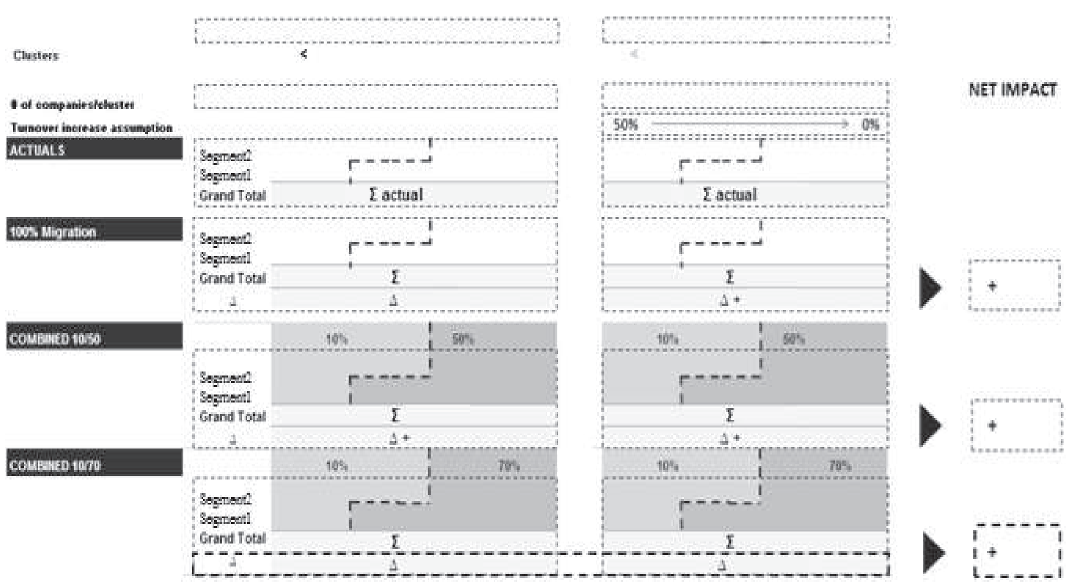

Figure 3: Business case scenarios for portfolio migration to the new products
Source: Personal contribution of the author

The scenarios in the figure are referring to the number (in percent) of the clients per each cluster that will migrate to the newly designed products from the old ones. Best case scenario is represented by 100% Migration to the new packages, meaning that all current transactional revenue to the bank will be overcome by the price of the packages applied to the existing customers (of course, different packages per different segments). Worst case scenario is represented by a combined 10/70 migration assumption, meaning that 10% of the existing clients with lower transactional revenue (compared to the price of the package) will migrate to a new package, while 70% of the existing clients with higher transactional revenue (compared to the price of the package) will migrate to the new assigned package. That is why, depending on price strategy, in some cases worst case result is a negative impact in revenues; the realistic scenario is a combination between best and worst cases, in our example being a combined 10/50 migration assumption (as explained above, instead of 70% being 50%); if for the realistic scenario the final impact in revenue is negative, then the pricing and product strategy must be optimized (either pricing or product strategy, or both). An essential adjustment to be made is while analyzing the packages generating negative impact, therefore a higher price for these packages is needed.

3.2. Complex scenarios and calculation steps for the Business Case validation

Figure 4 represents a more complex version of Figure 3, since it contains a higher number of scenarios and more clusters considering the turnover increase assumption. In this case, the turnover assumption differs from cluster to cluster, considering that a client currently generating a small amount in transactional revenue has more potential to increase its turnover through the bank than a client generating already a high amount in transactional revenue (meaning that he is already working constantly with the bank).

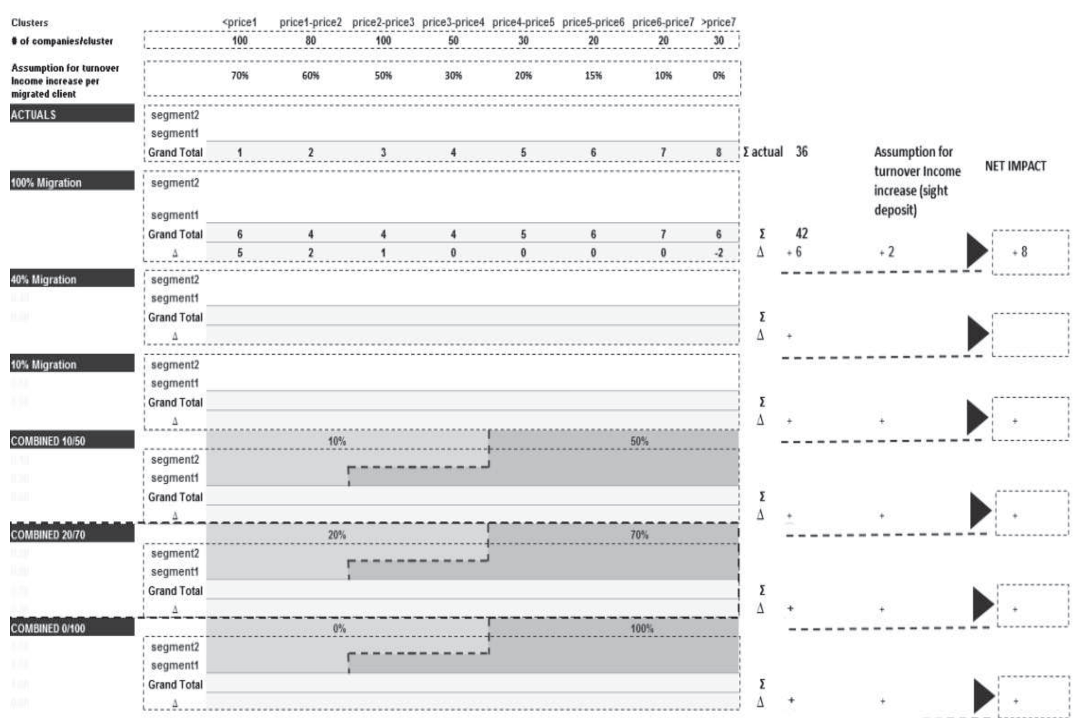

Figure 4: Business case complex scenarios for portfolio migration to the new products, considering turnover assumption
Source: Personal contribution of the author

In order to better understand the complexity of our example, you may find below detailed description of the elements showed in the picture.
Clusters (<Price 1, Price 1-Price 2, ..., > Price 7) refer to clients that currently generate transactional revenue to the bank in the range lower, between or above the newly proposed prices for the packages and for the scenarios of prices if the final ones are not decided.
Number of companies per cluster show an example in order to understand that this number is important while calculation of the impact per each cluster, since there are more companies generating lower transactional revenue and migrating to a basic package than the ones generating higher transactional revenue and migrating to a more expensive and complex package.
"Actuals" row is referring to the transactional revenue generated to the bank in a certain period (usually 12 months; the important thing is that the estimations to be done considering the same period in order for the results to be relevant; so, even in the price of the package is on a monthly basis, the impact will be price per 1 month * 12 months of the analyzed/ estimated period).
100%, 40% and 10% Migration scenarios refer to an homogenous assumption that 100%, respectively 40% and 10% of all the clients will buy the newly designed packages.
Combined Migration scenarios contain, in addition to the homogenous scenarios, also the threshold of comparison between the actual transactional revenue and the price of the package (as described at the previous figure details).
Grand Total for Actuals represents the total revenue generated by the clients in the clusters before buying the new packages.
Grand Total for Scenarios represents the total revenue generated by the clients in the clusters after buying the new packages.
Delta (Δ) represents the difference between the total revenue generated by the clients in the clusters after vs. before buying the package. This is actually the impact per cluster from transactional revenue.
Columns from the right (after the clusters) represent: the total amounts overall portfolio, the turnover assumption impact overall scenario and, finally, the estimated Net impact per each scenario.

4. Estimating revenue impact from new to be acquired clients

Besides the impact on existing portfolio, is important to estimate also the impact coming from newly acquired customers.
Even if in some cases transactional marketing is focused on customer acquisition, while relationship marketing on retention & cross sell (Ellis, 2011: 73), in this case both merge with the same force and objective. Therefore, relationship marketing is essential for both new and existing clients, while transactional products as the ones in our example are sold for both categories. Moreover, relationship marketing interferes with transactional one, since the relationship manager is the one presenting the value proposition and benefits to the new (prospect) customer.

Since there is no actual revenue to be considered or other costs for the bank, the impact for prospect client is simply estimated and calculated as the price of the package * the number of new clients estimated to acquire each type of package. It is recommended to estimate the Total Revenue for a newly acquired customer, since its acquisition itself is supposed to be generated by the selling of the new package. Therefore, in order to estimate a Total Revenue for a newly acquired client, besides transactional revenue decided to be price of the package, we need to estimate the revenue from loans, respectively from deposits. This is a simple task since we already have clustered and segmented the existing data base and we can consider a new client similar to an existing one by clusterizing it. Considering that a new client from one cluster will have the same behaviour as an existing client from the cluster, since common patterns and characteristics may be identified (Nagdeman, 2009: 158), we can consider the average loan revenue, respectively the average deposit revenue per cluster, as estimation for the newly acquired client.

Concluding Discussion

Considering the analysis, methods and strategies presented in the current paper, one can identify the correlation and impact between portfolio analysis, market watch, best and worst practice identifying, gathering feed-back and an efficient business case for launching new transactional banking packages for SMEs. In this respect, the prerequisites, pre-analysis, product and price strategy designing are followed by defining the assumptions, estimating the impact on existing portfolio and on new to be acquired portfolio. If willing to validate the decided product catalogue and product strategy will be efficient or not, business case scenarios are designed and the impact is calculated.
One can conclude that business case methods and product and price strategies presented in the current paper could be applicable to any commercial bank willing to launch new transactional packages, while addressing to SME segments.

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