Enterprise billing and pricing

How modern enterprise billing and pricing drives commercial banking success

Many critical aspects of a commercial banking relationship revolve around the systems that manage billing and pricing. The technologies that banks implement to manage relationships with commercial customers can help determine the success of those relationships.

Proven solutions already exist that can turn a bank's enterprise billing and pricing system into a powerful tool for increasing revenue, controlling risk, forecasting demand, and reducing costs. It's time that every bank examines how implementing these billing and pricing systems can help position them for future growth and stability.

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New terms of competition in commercial banking

There's rarely been a more tumultuous era for the commercial banking industry. A confluence of new technologies, new regulations, and new business pressures have combined to turn some of yesterday's standard banking practices into new sources of risk for banks.

For commercial bankers, many new pressures come from customers who are also under increasing pressure to manage the banking relationship more efficiently and to achieve better cash management and financial control. And because commercial customers now have access to more powerful analytic tools, they're equipped to hold their bankers to higher standards of transparency, service, risk control, and accountability than ever before.[1]

Corporate treasurers are now positioned to scrutinize their banks for answers to questions like:

- What are we paying for bank services?
- What are we getting for what we pay?
- What is that worth?
- Should we be buying or paying for some other mix of services?

These seemingly simple questions can lead to a complex constellation of answers. Commercial bankers need to be ready to provide those answers clearly and accurately. And because those answers will vary as business conditions change, banks and their customers need to stay flexible enough to respond. The need to anticipate and adjust to that degree of complexity and variability means that banks must implement systems that deliver clear answers, while giving both banks and customer the agility to adjust the mix of services to suit their evolving business priorities.

Responding to emerging priorities

Data is the easiest resource for commercial banks to acquire, but sometimes it goes unused because there's so much of it. However, an increasing number of banks are getting more sophisticated about using data, especially billing and pricing data, to improve performance at every level of the institution. Some leading trends in that regard include:

- **Rationalizing relationship pricing**—Despite decades of emphasis on the importance of relationship banking, there's surprisingly little agreement on how to put a value on any specific banking relationship. The phrase "relationship pricing" is particularly murky, and seems to mean different things to different people.[2] For some, it's purely a synonym for flexible pricing. To others it refers to the ability to price all the business of one customer at the same time. Still others factor in how much risk a customer generates. One concept the term doesn't summon often enough is the total, likely profitability of one customer's business. A bank's billing and pricing system should give sufficiently clear information about the profitability of any customer or account to help relationship managers make sound decisions about customer relationships that optimize both service and profitability.

- **Improving the ability to view pricing across the relationship**—A fragmented view of the customer relationship makes it difficult for a bank to maintain consistent pricing across that relationship. Modern enterprise pricing and billing systems can provide the visibility a bank needs to make agile changes that can ensure price consistency. Inconsistent pricing often leads to unnecessary lost revenue and makes it difficult for customers to understand the value of the services they use.
- **Bundling services to create attractive commercial packages**—With more accurate, detailed profitability information, banks with modern billing and pricing systems can assemble packages of services to commercial customers that respond to customer requirements.[3] And because a customer's service package can be measured and adjusted as business conditions evolve, the bank improves the customer's business prospects and reduces risk for itself.
- **Developing behavior-based market segmentation**—Demographic market segmentation, long trusted by consumer bankers, is losing credibility now that more data-driven research has emerged.[4] Demographic definitions and differences appear to describe less about banking customers than the customers' own behavior. Transaction patterns appear to provide more reliable clues about the preferences and future behavior of a prospect or customer than age, gender, income, or occupation. The history of transactions of a commercial banking customer can provide similarly valuable insights to bankers who can take advantage of billing and pricing systems that have the analytic power to interpret past activity to forecast future requirements.
- **Identifying and stopping revenue leakage**—There is some unintended irony in the way commercial bankers insist that customers understand their enterprise profitability, while banks rarely do the same. Revenue leakage is all too common in commercial banking accounts, the result of excessive concession pricing, outdated pricing schemes, unjustified waivers, and more. With analytics driven by comprehensive billing and pricing data, commercial banks can plug revenue leaks and increase revenue with minimal incremental cost.

Satisfying corporate treasurers' expectations

Corporate treasurers now hold broader strategic responsibilities than in the past. They're now expected to meet far higher performance standards for cash management than before, while also dealing with a more complex business and regulatory environment than ever.[5] They're under pressure to create a portfolio of payment instruments, both on the receivables and payables sides, that helps increase customer loyalty, strengthen vendor integrations, improve competitiveness, accelerate the cash cycle, and reduce risk. In the face of those demands, treasurers put extra value on a relationship with a bank that contributes solutions and minimizes the added effort of complex bank statement reconciliation.

Corporate treasurers and their finance departments can no longer afford to deal with opaque, poorly organized billing statements from their banks. In some cases, changing banks is a better business decision than staying with a bank that can't provide the needed visibility and flexibility.

Many commercial banks are discovering that to retain or gain customers, there's no substitute for a pricing and billing system that helps the customer see the value of the services the bank provides, and accurately represents the pricing of those services.

Meeting increasing regulatory demands

It's not uncommon for RFPs for new banking business to include requirements that the bank comply with new standards such as ISO 20022 and Bank Services Billing (BSB), which require banks to deliver billing data in formats that support both AFP domestic and global source code definitions. These codes provide a standardized view of bank services for each financial institution used by the corporation. That standardized view gives corporate customers a clearer picture of their total financial position and exposure to risk.

Another set of standards, the Basel III banking standards, requires banks to hold more high quality, tier-1 capital against total assets, and to meet new reserve requirements. To satisfy those increased standards while protecting profitability, banks can use data drawn from billing and pricing systems to prove their assessments of risk for the commercial banking assets they hold. That same data can also help tailor pricing packages that incentivize customers to keep greater volumes of deposits in the bank, which can help the bank satisfy capital requirements.

An additional approach is to launch earnings credit rate programs, which also tend to increase cash on deposit. For decades, earnings credit rate programs only existed in the US as a response to regulatory requirements, but they're now finding favor with non-US banks as well. Many banks find that earnings credit rate programs can also help attract the desired deposit mix, which can supplement and improve the bank's risk profile.

Achieving mutual benefit

Commercial banks and corporate customers are competing in a very different business environment than they did a few years ago. They now need different things from each other. However, this also offers an opportunity for mutual benefit. Banks serve themselves best by providing their commercial customers with detailed knowledge and flexibility. Customers, in turn, help banks reduce risk by keeping more stable assets on deposit, which helps banks achieve capital requirements that contribute to a stable, secure business environment for both in the long term.

In summary

To improve long term customer relationships, enhance revenue, and reduce risk, commercial bankers are wise to consider software solutions that can turn enterprise billing and pricing into a source of competitive advantage.

In an era when commercial customers expect more transparent, collaborative banking relationships, the ability to deliver clear, detailed account and billing information can be a key element in cementing long term business relationships. That not only contributes to better top line results, it also helps control costs, improves forecasting, and yields better information for making strategic decisions.

Learn more about modern billing and pricing solutions at www.infor.com

End notes

[1] Aite Group, What Corporate Customers Want: Top 10 Banking Demands in 2015, April 1, 2015

[2] Carl Ryden, "What is Relationship Pricing?" (www.lenderperformance.com), April 3, 2012

[3] CEB Towergroup, Enterprise Pricing and Billing: Evolving Toward Revenue Management, May 2014

[4] Jim Marous, "Demographics No Longer Effective for Financial Direct Marketing," (www.thefinancialbrand.com), April 16, 2013

[5] Association of Financial Professionals, 2014 AFP Strategic Role of Treasury Survey, June 2014

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