SILESIAN UNIVERSITY
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PRICING IN FINANCIAL SERVICES

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OUTLINE OF THE LECTURE

1. Price defining
2. Types of prices
3. Pricing factors
4. Pricing methods
5. Pricing mix
6. Price elasticity of demand
7. Pricing strategy

1. PRICE DEFINING

- The sum of the values that consumers exchange for the benefits of the ownership or use of goods or services.
- The monetary amount stipulated in the purchase and sale of goods or determined by a special regulation (Act about prices).
- Interests, bank charges, insurance, mortgage interests, commissions on insurance contract conclusion ...
- Alternative costs!!!
- Costs, competition and customer expectations must be taken into account at the same time within the pricing.

PRICE DEFINING

- The price reflects the value of the product for the customer.
- Price is the most important, but not only one factor that influences demand.
- Price is the only element which generates earnings. The other tools of the marketing mix represent costs.
- Pricing is a key decision that significantly affects the future existence of company.
- The price in terms of time is the most flexible variable.

PRICE DEFINING

- **Objectives of pricing should include:**

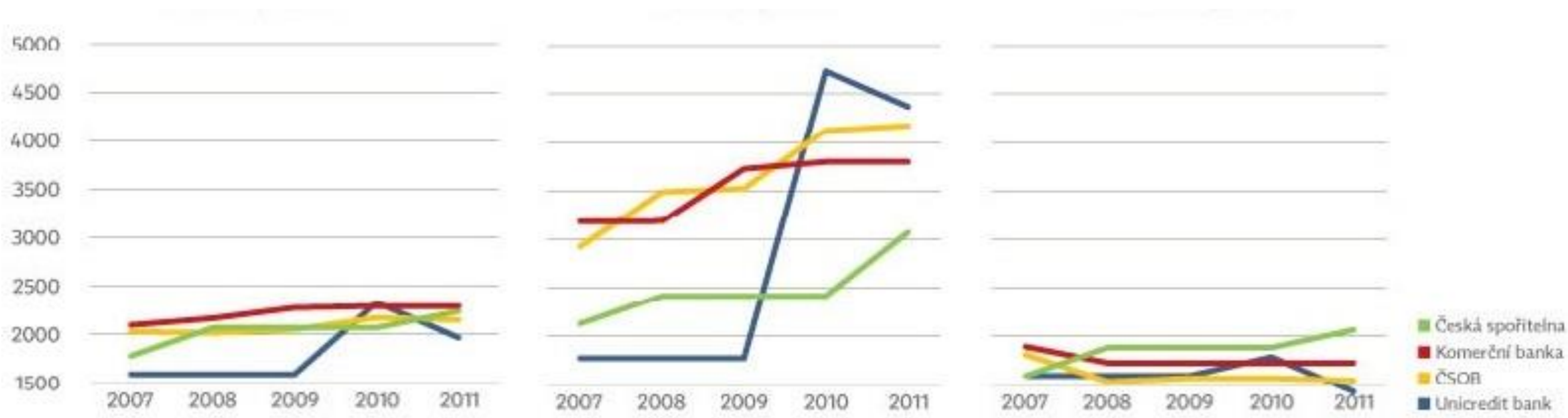
  - to achieve the financial goals of the company (i.e. profitability),
  - to fit the realities of the marketplace (Will customers buy at that price?),
  - to support a product's market positioning and be consistent with the other variables in the marketing mix.

- From the marketer´s point of view, an **efficient price** is a price that is very close to the maximum that customers are prepared to pay.
- A good pricing strategy would be the one which could balance between the **price floor** (the price below which the organization ends up in losses) and **the price ceiling** (the price be which the organization experiences a no-demand situation).

PRICE DEFINING

Total annual fees associated with the current bank account

AVERAGE CLIENT BRANCH CLIENT ELECTRONIC CLIENT



Source: www.bankovnictvi.ihned.cz

RPSN

- The annual percentage rate of charge covers not only the interest rate but also most of the fees charged – for example:

- fee contract,
- account management fee,
- loan administration fee,
- transaction fees,
- Insurance of repayment ability,
- and more.

- Act no. 257/2016 Coll., About Consumer Credit, instructs banks to indicate the RPSN for almost all loans.

$$\sum_{k=1}^{m} C_k (1+X)^{-t_k} = \sum_{l=1}^{m'} D_l (1+X)^{-s_l}$$

RPSN

- **GE Money Bank** presents the mortgage with interest rate 2.99 %, but if you're not careful, you can end up with an RPSN of 4.7 %, which now it doesn´t look so tempting - when a mortgage is 1 500 000 CZK and repayment period of 30 years, the difference is 455 000 CZK!

- **The aim is to ensure fair advertising of credit products and the possibility of comparison!**

2. PRICING FACTORS

PRICING

Internal factors

External factors

Customers and their ability to pay
Competitor actions
Input costs
Fixed objectives of the company
Pandemic situation
Legislation
Economic crisis

?

3. METHODS OF PRICING

- **Costs**
- **Competition**
- **Demand - customer!**
- **Legislative regulations.**

4. TYPES OF PRICES

- Skimming price
- Penetration price
- Competitive price
- Segmented price
- Price accepted by the customer
- Two-piece price
- Cost price
- Introductory price
- Individual price
- Price „of the turnover drafter“ (hidden price)
- Psychological price

5. PRICING MIX

1. The basic price level

2. Price discounts and reductions

- the realization of multiple products at once, payments before or on time, loyalty discounts, use of electronic distribution, ...

3. Price surcharges

- preterm payment, individual products, additional services ...

4. Contractual conditions (payment and delivery)

PRICE REDUCTION

- The need to increase the sales.
- Market share declining.
- Cost reduction.
- Change of the product life cycle.
- And more.

Trap of low quality!
Trap of fragile market share!
Trap of shallow pockets!

PRICE INCREASE

- Cost inflation.
- Excessive demand.
- And more.

6. PRICE ELASTICITY OF DEMAND IN FINANCIAL SERVICES

- Price elasticity of demand for financial services is generally lower!

- The basic obstacles of customer mobility in financial services:

  - Information asymmetry.
  - Client disinterest.
  - Unclear charges.
  - Product packages – tying of products.
  - Administrative burden.
  - Fees for cancellation of existing products.

CLIENT´S STANDARD OF MOBILITY

- The basis of the Code „Standard of Client´s Mobility - Procedure for Changing Banks" are common principles of EBIC (European Banking Industry Commitee), which were developed by banks, savings banks and other payment service providers (appeal of the European Commission in 2008).

- The term „change bank“ means, for the purposes of this Code, the following activities:

- Opening a bank account in a new bank.
- Converting all standing payment orders and direct debits from the original bank to the new bank.
- Cancellation of current account in the original bank through a new bank.
- …

7. PRICING STRATEGY

- **Strategy of low prices and a focus on low costs**
  - based on the principle of reducing costs while increasing the number of products provided, the use of energy-saving technologies, new methods of work organization, limitation of irrational costs
  - focus on standard products, decreasing number of modifications

- **Strategy of high prices and a focus on excellence and unique features of the product**
  - prices are higher about 5 – 25 % than standard products
  - classic product is enriched with the unique characteristics regarding both quality and technological-parameters, such as the preparation of the marketing mix

PRICING STRATEGY

- **Combined strategy**
  - product innovation which is enriched with additional features while maintaining low prices
  - Standard price + surcharge according to enriched properties

- **Adaptation strategy – following the "market leaders"**
  - based on the price level in some area and then adaptation to prices movements in market

PRICING STRATEGY – PRICE REDUCTION!

- **Trap of low quality**
- **Trap of fragile market share**
- **Trap of shallow pockets**

PRICE SENSITIVITY AND CONSUMER PSYCHOLOGY

- **Reference Price Effect** – buyer's price sensitivity for a given product increases the higher the product's price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.
- **Difficult Comparison Effect** – buyers are less sensitive to the price of a known or more reputable product when they have difficulty comparing it to potential alternatives.
- **Switching Costs Effect** – the higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.
- **Price-Quality Effect** – buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.

PRICE SENSITIVITY AND CONSUMER PSYCHOLOGY

- **Expenditure Effect** – buyers are more price-sensitive when the expense accounts for a large percentage of buyers' available income or budget.
- **End-Benefit Effect** – the effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts: Derived demand: The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit. Price proportion cost: The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the components' price.
- **Shared-cost Effect** – the smaller the portion of the purchase price buyers must pay for themselves, the less price sensitive they will be.
- **Fairness Effect** – buyers are more sensitive to the price of a product when the price is outside the range they perceive as “fair” or “reasonable” given the purchase context.
- **The Framing Effect** – buyers are more price sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.