

Price Discrimination Approach on the Example of UniCredit Bank dd Mostar

Nada Dreca

International University of Sarajevo

nadja_n88@hotmail.com

Abstract

The aim of this study is to clarify the concept of the price discrimination and to show how this concept is used in banking business on the example of the UniCredit Bank dd Mostar. Price discrimination refers to any no uniform pricing policy used by a firm with market power to maximize its profit. Price Discrimination leads to change in both, quantity and price. So it is also called no uniform pricing, charging customers different prices for the same product or charging the single customer a price that varies depending how many units the customer buys. There are 3 degrees of Price Discrimination. :1st degree is different prices for both consumers and units, 2nd degree is different prices for different units and 3rd degree is different prices to different consumers. UniCredit Bank d.d. was the first bank in Bosnia and Herzegovina that introduced a new, unique approach to client service model. The basic characteristic of the whole business of the Bank was actually based on the segmentation of clients (existing and new-potential) with complex business lines. The business lines included meeting the needs of clients and facing in accordance with their capabilities and needs. Characteristics of the business model UniCredit Bank dd was the segmental approach to the client, so that the clusters of customers would fit similar characteristics, preferences and market position, and assign them a special service model defined by each business line. JES! Package account is present on the market since 2006 in the form of 4 different models adapted to the needs of the client and used by more than 50,000 customers. JES! Account package is available in several different models - Optimum, Expert, Student and Senior. Account package is also practical, useful, stylish and affordable.

Keywords:Price Discrimination, Different Customers, Profit, UniCredit Bank, Banking Products, client service model

Introduction

Instead of setting a single price some firms can use the no uniform pricing, which means charging consumers different prices for the same product or charging single customer a price that depends on the number of units the customers buy. By replacing a single price with no uniform pricing the firm raises its profits .Price discrimination refers to any no uniform pricing policy used by a firm with market power to maximize its profit.

Price Discrimination

A monopoly that uses no uniform prices can capture some or all of the customer surplus and deadweight loss that results if the monopoly sets a single price.

For almost any good or service, some customers are willing to pay more than others. A firm that sets a single price faces a trade-off between charging customers who really want the good as much as they are willing to pay and charging a low enough price that the firm does not lose the sales to less enthusiastic customers.

A firm can earn a higher profit by price discrimination than from setting single price. For customers who are willing to pay more, the firm sets higher price and capture some or all consumer surplus, and firm sells to some people who were not willing to pay as much as the uniform price.

In order to perform price discrimination firms must satisfy certain conditions: 1. A firm must have some market power; 2. The firm must be able to identify whom to charge the higher price-elasticity of demand; 3. Prevent or limit resale.

There are three main degrees of Price Discrimination.

1st degree is different prices for both consumers and units

2nd degree is different prices for different units

3rd degree is different prices to different consumers

First degree (perfect) price discrimination occurs when firm sells each unit at the maximum amount any customer is willing to pay for it, so the prices differ across customers and a given customer may pay more for some units than for others. In this case a monopoly is able to charge the maximum each consumer is willing to pay for each unit of product. A firm with market power could collect the entire consumer surplus if it could charge each customer exactly the price that that customer was willing and able to pay (reservation price).

Second degree (quantity) price discrimination is when the firm charges different price for large quantities than for small quantities, so the price paid by a buyer can vary with the quantity demanded by the buyer, but all customers face the same price schedule.

Third degree (multimarket) price discrimination occurs when firm charges consumers in different groups different unit prices. Price paid by buyers in a given group is the same for all units purchased, but price may differ across buyer groups (Perloff, 2009).

About the UniCredit Bank

UniCredit Bank was created by the merger of UniCredit Zagrebacka Bank and HVB Central Profit Bank, 04.03.2008.year. With total assets of over 3.5 billion KM, capital of 350 million KM, and over 850,000 clients, the Bank operates through a network of 96 branches covering the whole territory of Bosnia and Herzegovina.

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particularly educated and assigned personal bankers or the head of a business relationship. With this organization and education of employees, UniCredit Bank is able to identify needs and meet the expectations of its clients, as legal persons and citizens.

Bank customers, according to its flow into an account and savings are classified into a number of categories: lower mass, mass, mass and upper income affluent clients. According to this classification they are assigned to their family or personal banker. (UniCredit Bank)

Price Discrimination Example

The example of price discrimination in the selected bank is represented by the type of banking product they sell. JES! Package account is present on the market since 2006 in the form of 4 different models adapted to the needs of the client and used by more than 100,000 customers.

JES! Account package is also practical, useful, stylish and affordable.

This way of the price discrimination represents all three degree of price discrimination, as well as price discrimination done by bundling or Tie-In Sales .Besides banking products and services, the JES Package as an anchor product of the Bank also provides a range of non-banking services and facilities thereby enriching and facilitating the everyday lives and businesses of clients which so far have been recognized by over 100.000 satisfied users. This type of banking products is described by the following characteristics:

Convenient to the clients- banking products and services are offered in the one package account, together with numerous non-banking privileges, also with better price than buying each product individually.

Saves time and money - certain services within the selected model can be used by owners and family members

Lower-cost -services purchased in the package of product are significantly cheaper than the purchase of individual products

Modern –client operates with the Bank in a simple, modern and fast way using direct channels such as e-service ba-internet banking for citizens, services, m-ba-a mobile banking service for citizens and SMS services.

Monthly fee-determined price of use of products and services is distributed evenly throughout the year

Universal package account JES! Represents a new way of transparent operations with the Bank and its models are adapted to specific needs in different life periods and situations. JES! - Universal package is a product designed according to modern European standards and tailored to your needs. Use according to own preferences and needs. JES! account package is available in several different models - Optimum, Support, Student and Senior. As a user specified model is identified by a specially designed VISA Electron card, which is the primary card to your JES! Package - the account.

JES user! Package includes all banking and non-bank products and services model that you selected. At the same time, their business with the Bank will perform in a modern way, using the advantages of new technology.

Banking facilities

- e-banking,
- m-banking services
- Visa Classic Card
- MasterCard with a series of compensation
- standing order
- discount for approval of certain bank credit products

Non-banking benefits

- discounts in the shopping-service network of partner banks,
- services Mondial Assistance Center-home help in the territory of BiH, on the road, and medical and travel services

JES! account package is available in several different models - Optimum, Support, Student and Senior.

The complete contents of a particular model can be found in the tables below.

It represents the unique sets of the services in which all banking services and products are combined into one single UniCredit banking product, JES! Package. It does not only include banking but also non-banking products, with lower total price than the single price of each product.

The benefits that JES! Package brings include:

- All banking products and services, together with non-banking facilities are combined into one single package with lower price than the single price of each product
- Variety of included products that can be according to the needs
- Total cost is equally distributed over monthly price of selected JES! Package
- Unique assistance at home and on the road within Bosnia and Herzegovina, as well as abroad, in cooperation with Mondial Assistance, and medical service
- Family members can use some of the facilities of the selected JES! Package

JES! account package is available in several different models - Optimum, Support, Student and Senior

Figure 1: JES! Models



Source: UniCredit Bank

Student JES! Package (Table 1) is offer intended for student population and shaped as a package of products. It is intended for both full time and part-time students, B&H citizens studying either in Bosnia and Herzegovina or abroad. Student package includes the following products and services which help to students to deal with financial matters on a

24/7 basis. This package is tailored according to the student population needs as well as by price affordable for this population.

Table 1: Student JES! Package

JES! Student	Product Name	Included in Model
Banking	Student Account	YES
Products and services included in package	Maestro Card	YES
	SMS	YES
	Mobile Banking (m-ba)	1,00 KM
	Standing Order	YES
	24 PLUS savings -higher interest rates up to 24months	YES
Non-banking products included into package	Mondial assistance Services:	
	Access to Mondial assistance network provider	YES
	Assistance at home - services in B&H;	
	Service of specials in emergency interventions	up to 200 KM
	Visits of a doctor in the case of accident	up to 150 KM
	Visits of a nurse in the case of accident	up to 100 KM
	Home care after leaving hospital	up to 100 KM
	Information about medical facilities and services	YES
	Information in the case of disability	YES
	Information about medicines and pharmacies	YES
	Help on the road for passenger car	
	Repairs on the spot or two vehicles	up to 300 KM
	Services Abroad	
	Medical expenses coverage	up to 2.000,00 EUR
	Medical transportation in B&H	No Limit
	Transportation of the deceased in B&H	up to 3.000,00 EUR
	Children Return	organisation and transport costs coverage
	Relatives transportation	up to 150 EUR
	Accommodation of relatives	up to 150 EUR
	Legal Assistance	up to 1.000 EUR
Baggage Delay	up to 20 EUR	
Information prior to travel	YES	
Information about B&H agencies Abroad	YES	
Information in the case of documents	YES	
Emergency message	YES	
Help on the road for passenger car Abroad		
Repairs on the spot or two vehicles	up to 150 EUR	
Advantage of Student Model	Better Quality of life with Mondial Assistance Services	
Monthly price of the Student JES! Package		1,50 KM

Source: UniCredit Bank dd

Senior package (Figure 2) is made for the senior population with retirement income. According to the products and services included it is attractive to this customer category. It

provides SMS service, especially useful for this old age category. The product very interesting to those customers is included Visa Classic Card, with deferred payment. The price is determined according to the financial position of the seniors.

Table 2: Senior JES! Package

Senior	Product Name	Included in Model
Banking Products and services included in package	Current Account	YES
	Maestro Card	YES
	Visa Classic Card	YES
	SMS	YES
	Mobile Banking (m-ba)	1,00 KM
	Standing Order	YES
	Allowed Limit	up to 1.500,00 KM
	24 PLUS savings -higher interest rates up to 24months	YES
	Mondial assistance Services:	
	Access to Mondial assistance network provider	YES
Non-banking products included into package	Assistance at home - services in B&H;	
	Service of specials in emergency interventions	up to 150 KM
	Visits of a doctor in the case of accident	up to 150 KM
	Visits of a nurse in the case of accident	up to 100 KM
	Home care after leaving hospital	up to 65 KM
	Information about medical facilities and services	YES
	Information in the case of disability	YES
	Information about medicines and pharmacies	YES
	Help on the road for passenger car	
	Repairs on the spot or tow vehicles	up to 250 KM
	Services Abroad	
	Medical transportation in B&H	No Limits
	Information prior to travel	YES
Advantage of Expert Model	Help on the road for passenger car Abroad	
	Repairs on the spot or tow vehicles	up to 150 EUR
Monthly price of the Senior JES! Package		3,00 KM

Source: UniCredit Bank dd

Optimum package, represented in Figure 3, is intended to satisfy the needs of majority of the clients by providing the services and products that they use often. Most of the users of this model are employed persons with middle income and for them the products included represents the way to afford themselves better possibilities and better quality of life. E-Banking provides them opportunities to deal with its financial needs with less time for transaction and lower costs.

Table 3: Optimum JES! Package

Optimum	Product Name	Included in Model
Banking Products and services included in package	Current Account	YES
	Maestro Card	YES
	Visa Classic Card	YES
	SMS	YES
	Internet Banking (e-ba)	YES
	Mobile Banking (m-ba)	For Optimum users - 1,50 KM
	Standing Order	YES
	Allowed Limit	up to 2.500,00 KM
	24 PLUS savings -higher interest rates up to 24months	YES
	Non banking products included into package	Mondial assistance Services:
Access to Mondial assistance network provider		YES
Assistance at home - services in B&H;		
Service of specials in emergency interventions		up to 200 KM
Visits of a doctor in the case of accident		up to 150 KM
Visits of a nurse in the case of accident		up to 100 KM
Home care after leaving hospital		up to 100 KM
Information about medical facilities and services		YES
Information in the case of disability		YES
Information about medicines and pharmacies		YES
Help on the road for passenger car		
Repairs on the spot or tow vehicles		up to 300 KM
Services Abroad		
Medical expenses coverage		up to 2.000 EUR
Medical transportation in B&H		No Limit
Medication Delivery in emergency case		up to 3.000 EUR
Transportation of the deceased in B&H		organisation and transport costs coverage
Children Return		up to 150 EUR
Relatives transportation		up to 150 EUR
Accommodation of relatives		up to 1.000 EUR
Information prior to travel	YES	
Information about B&H agencies Abroad	YES	
Information in the case of documents	YES	
Help on the road for passenger car Abroad		
Repairs on the spot or tow vehicles	up to 150 EUR	
Advantage of Optimum Model	Visa Classic Card costs lower	
Monthly price of the Optimum JES! Package		6,00 KM

Source: UniCredit Bank dd

Expert package is tailored for smaller population of the customers with high income level and higher financial needs. This represents the widest set of the products offered by the bank with the intention to satisfy the large needs of the selected population. The products included and the price is set according to the preferences, and needs and customer profile. (Figure 4).

Table 4: Expert JES! Package

Expert	Product Name	Included in Model
Banking Products and services included in package	Current Account	YES
	Maestro Card	YES
	Visa Classic Card	YES
	MasterCard Revolving	YES
	SMS	YES
	Internet Banking (e-ba)	YES
	Mobile Banking (m-ba)	YES
	Standing Order	YES
	Allowed Limit	up to 5.000,00 KM
	Provision for mortgage and cash loans	30% Discount
Non banking productst included into package	24 PLUS savings -higher interest rates up to 24months	YES
	Mondial assistance Sevices:	
	Access to Mondial assistance network provider	YES
	Assistance at home - services in B&H;	
	Service of specials in emergency interventions	up to 300 KM
	Visits of a doctor in the case of accident	up to 200 KM
	Visits of a nurse in the case of accident	up to 110 KM
	Medication Delivery in emergency case - organization and delivery costs covered	up to 60 KM
	Home care after leaving hospital	up to 200 KM
	Information about medical facilities and services	YES
	Information in the case of disability	YES
	Information about medicines and pharmacies	YES
	Help on the road for passenger car	
	Repairs on the spot or tow vehicles	up to 350 KM
	Organization of the substitute car	YES
	Accommodation	up to 100 KM
	Continuation of the journey	up to 300 KM
	Services Abroad	
	Medical expenses coverage	up to 4.500 EUR
	Medical transportation in B&H	No limit
	Medication Delivery in emergency case	up to 30 EUR
	Transportation of the deceased in B&H	up to 3.000,00 EUR
	Children Return	organization and transport costs coverage
Relatives transportation	up to 300 EUR	
Accommodation of relatives	up to 300 EUR	
Information prior to travel	YES	
Information about B&H agencies Abroad	YES	
Information in the case of documents	YES	
Emergency message	YES	
Continuation of the journey	up to 150 EUR	
Baggage Delay- cost coverage	up to 50 EUR	
Legal Assistance	up to 1.200,00 EUR	
Help on the road for passenger car Abroad		
Repairs on the spot or tow vehicles	up to 200 EUR	

	Organization of the substitute car	YES
	Accommodation	up to 85 EUR
	Continuation of the journey	up to 150 EUR
Advantage of Expert Model	Better Quality of life with Mondial Assistance Services	
	Monthly price of the Expert JES! Package	10,00 KM

Source: UniCredit Bank dd

Conclusion

The aim of this study is to clarify the concept of the price discrimination and to show how this concept is used in banking business on the example of the UniCredit Bank dd Mostar. UniCredit Bank d.d. was the first bank in Bosnia and Herzegovina that introduced a new, unique approach to client service model. The basic characteristic of the whole business of the Bank was actually based on the segmentation of clients (existing and new-potential) with complex business lines. The business lines included meeting the needs of clients and facing in accordance with their capabilities and needs. Characteristics of the business model UniCredit Bank dd was the segmental approach to the client, so that the clusters of customers would fit similar characteristics, preferences and market position, and assign them a special service model defined by each business line. JES! account package is available in several different models - Optimum, Expert, Student and Senior. Account package is also practical, useful, stylish and affordable.

This way of the price discrimination represents all three degree of price discrimination, as well as price discrimination done by bundling or Tie-In Sales. Besides banking products and services, the JES Package as an anchor product of the Bank also provides a range of non-banking services and facilities thereby enriching and facilitating the everyday lives and businesses of clients which so far have been recognized by over 100.000 satisfied users. It represents the unique sets of the services in which all banking services and products are combined into one single UniCredit banking product, JES! Package. It does not only include banking but also non-banking products, with lower total price than the single price of each product.

Each of this model with the products included is specially designed for the certain and targeted clients. Based on this segmentation the price of the model is determined. The intention behind is that each customer pay his reservation price and that all consumer surplus is caught.

References

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