

PUTTING THE RIGHT PRICE ON CUSTOMER INTERACTIONS

Consumers are willing to pay more for choice in their interactions, yet most companies remain perplexed about which ones their customers really want—and how much to charge for them.

by Niklas Barwitz, Boris Körs, and Sirus Ramezani

How can companies best engage with their customers to offer them new experiences, along with add-ons to existing products or services they have already paid for?

The quality of these interactions has become an article of faith in an age when consumers are pickier and have higher expectations than ever. Businesses have responded with “omnichannel” strategies to open new paths to them and have jumped at opportunities to launch mobile apps, video consultations, chat boxes, and the like.

Few companies, however, are grappling with the implications of this proliferation—not least the attendant investment and operating costs. It’s not easy to manage and integrate these varied and complex interactions in a way that makes them feel seamless to customers. Nor is it straightforward to work out how many interaction choices a consumer really wants or needs. More critically, though, the burning issue for a CEO, a CFO, or a marketing executive is whether the new forms of engagement add value. Do they create enough

pricing power or additional demand to cover costs?

To better understand some of the issues, we recently collected data from the German and Swiss health-insurance industries, which have introduced a wide range of interaction options and are now grappling with the challenges of providing them at lower cost. Our analysis could be a good starting point for companies in other industries and geographies to explore the types of interaction platforms that make the most sense for them.

Insights

Data derived from 2,000 health-insurance customers allowed us to model key factors that influence the choice of coverage, particularly interaction choices in plans. A conjoint analysis allowed us to distill the relative importance of these choices and gave us a basis for uncovering consumers’ willingness to pay for each of them.¹ The findings generated insights for strategy, pricing, and market share.

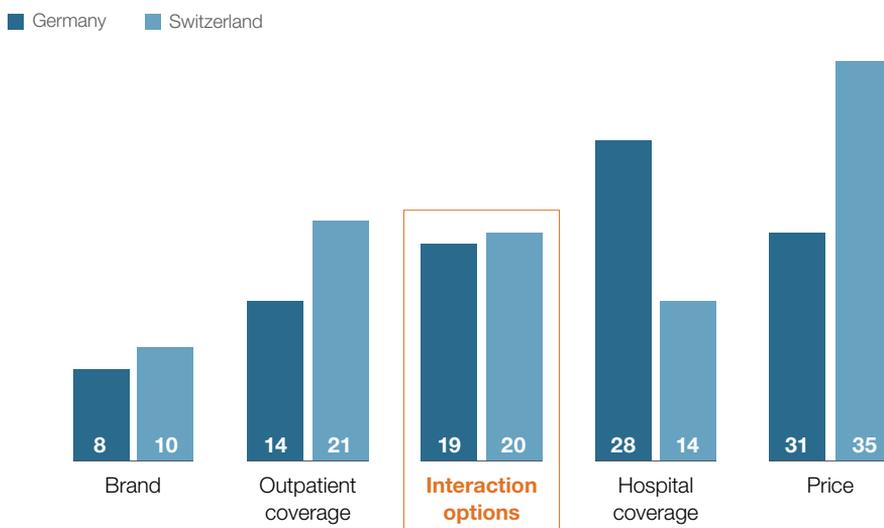
Strategic value. Our analysis showed that the interaction options available are very important to consumers choosing an insurer in the first place (Exhibit 1). They rank this factor higher than a firm's brand and, in some cases, higher than or nearly as high as the available hospital and outpatient coverage, the core of what customers actually buy. Only the level of premiums figured more prominently. It's interesting that interaction options were more of an issue for women, who often handle health insurance for their families, and for younger purchasers, who generally have less experience with insurers and tend to look for advice and support to supplement self-service offerings.

Willingness to pay. We found that consumers are generally more willing to pay higher premiums when companies offer more interaction choices. And, crucially, the higher premiums that customers said they would accept exceeded the cost of providing additional interaction options. As Exhibit 2 shows, consumers said they would pay an additional 14 to 21 euros a month to be able to speak with an identifiable professional at a service center rather, for example, than receiving only an anonymous response to an online query. A specific adviser for repeated contacts (a service some companies have offered recently) added a degree of willingness to pay, but not much.

Exhibit 1

In our analysis, **interaction choice** was found to be more important to consumers than a company's brand.

Relative importance of attributes to private-health-insurance customers,¹ %



¹ Choice-based conjoint analysis of 1,000 respondents in Germany and 1,002 in Switzerland.

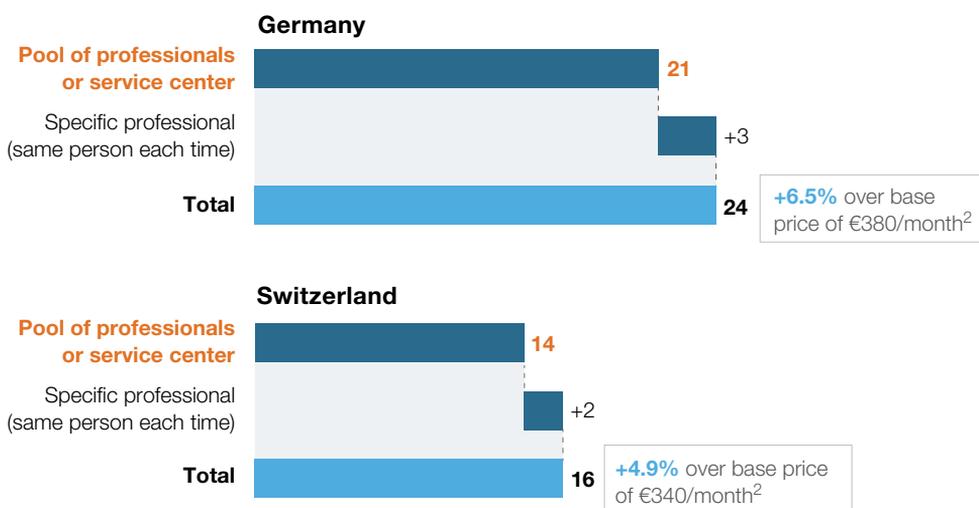
We then investigated the value customers attach to traditional interactions (by phone or mail) and digital ones (via online portals, phone apps, or videos). We found that customers would pay considerably more for access to both—much more than for digital alone. In some cases (a simple address change, for example), they told us that they would certainly perceive digital interactions to be useful, but in others (questions, say, about a complex claim that was only partially reimbursed) they value having telephone access to an individual. Surprisingly, there was little interest in paying for face-to-face support at physical locations (Exhibit 3). Our analysis indicates that consumers don't want their insurers to spend money offering it.

Preference gains. We modeled a market with four reference policies and looked at how preferences would change if consumers were presented with a broader choice of interactions within a given brand and with a fixed set of prices and coverage. When we added a professional interaction partner and a choice of both digital and traditional interactions to a basic, low-cost product with limited coverage, a budget brand, and hitherto anonymous and traditional interactions only, the preference for such a product rose by 40 percent. When we added the choice of a personal interaction partner offline to a purely digital offering, the result was a preference gain of approximately 60 percent. A deeper analysis of the

Exhibit 2

Consumers were willing to pay more for assured access to a professional at a provider's service center.

Median additional willingness to pay,¹ €
(base price assumes interaction partner is anonymous)



¹ Choice-based conjoint analysis of 1,000 respondents in Germany and 1,002 in Switzerland.

² Figures in chart are rounded; percentages are based on unrounded data.

data found that customers of lower-cost products were more sensitive to price changes: charging for extra interactions increased the likelihood that they would switch to another offering. By contrast, customers of premium products were largely immune to price increases, indicating that additional profit opportunities may be available.

Fine-tuning

Only a few insurers have attempted (in a limited way) to fine-tune interaction strategies, and it's too early to tell

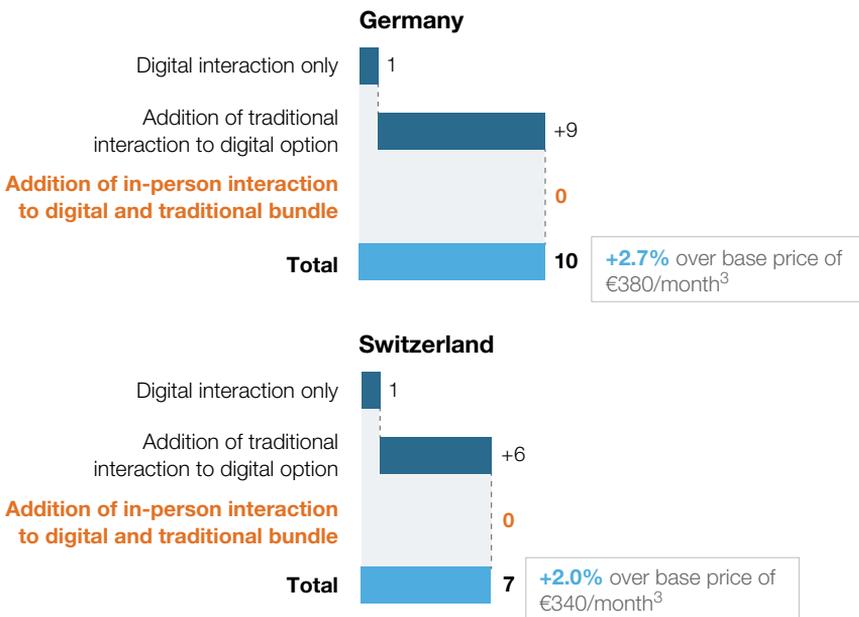
how successful they have been. But our own research—a modeling exercise, admittedly, but a rigorous one—can point the way for others. Here are some practical considerations for companies contemplating new investments in interactions.

Reduce investments for in-person interactions. Many companies still rely on live interactions at company-owned spaces to engage with customers. This is the most costly channel, but as noted earlier, our research on the German and Swiss markets suggests that customers,

Exhibit 3

Adding in-person interaction to digital and traditional options did not inspire an additional willingness to pay.

Median additional willingness to pay,¹ €
(base price assumes interaction is traditional² only)



¹ Choice-based conjoint analysis of 1,000 respondents in Germany and 1,002 in Switzerland.

² Traditional interactions include phone or mail, while digital ones include online portal, mobile-phone app, or video.

³ Figures in chart are rounded; percentages are based on unrounded data.

on average, don't value it. Redirecting spending to cutting-edge digital interactions or upgrading service centers, depending on your customer mix, might be a better bet.

Revisit segments. Most companies go to great lengths to differentiate their products and customer segments. Interactions provide another way to stretch the range of product and service offerings, distinguish them from those of competitors, and offer more chances to target and acquire your rivals' underserved customers. A digital-only product, for example, is likely to suit the digitally savvy.

Standardize, but with care. More granular, preference-based product configurations provide consumers with options tailored to their needs. Modular products and menu-driven strategies have a big upside: increased revenues and customer loyalty, as well as lower costs. That said, companies need to set the dial carefully: too few options and you miss opportunities; too many and you confuse customers, spur adverse selection (such as attracting

a preponderance of customers who want costly face-to-face interactions), and create unnecessary complexity that requires management time.

Be willing to experiment. In the digital era, it's true that customers expect a lot of services to be free. However, firms should be able to charge significant premiums by offering a large choice of interactions. Companies should be confident enough to charge for them explicitly, even in today's competitive environment. 

¹ Conjoint analysis is an effective tool for eliciting customers' willingness to pay, since it is based on decision choices among complete products rather than questions about the willingness to pay for additional features—the basis of most other methodologies. In multiple rounds, smart algorithms assess the participants' preference structures and use that information to estimate the relevance of product attributes and the willingness to pay for them. Our analysis used individual (risk-adjusted) price points for each participant and thus closely simulated actual buying situations. That helped us make precise estimates of the relative importance of interaction choices and what customers would be willing to pay for them.

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