Unique Credit for Credit Unions

By Anthony Johndrow and Geordie McClelland

Ask a consumer today about what they expect from a bank, and nine times out of ten they'll say convenience. Ask a consumer today about what they expect from a credit union, and nine times out of ten they'll ask you what a credit union is. Nine times out of ten, we'll answer that a credit union is like a bank.

So, when asked again, what do consumers expect from a credit union? They'll likely say convenience (or best rates or free checking)—just like banks.

Too often we forget to address the difference between credit unions and banks. Market research for credit unions often begins with a line of questioning like the above, defining the term "credit union" as a bank directly or by inference—"what do you look for when you bank with a credit union?" Using the verb "to bank" prompts the subject to define a credit union as being "like a bank." This shortcut may serve as an easy way to avoid explaining what a credit union is, but it isn't always the right answer. Defining credit unions in the context of today's competition (banks), we may be missing the real opportunity for the industry to differentiate itself.

Branding is a discipline that taps into a universal need to receive important information in short, memorable statements. Long ago, the brand message for credit unions became one that stayed short by using "like a bank" as a key element. Branding, however, is about more than brevity—it's also about differentiation. Using the common understanding of what "banking" is may have been fine as a way to introduce credit unions, especially when the audience was narrowly defined; but now the audience is broader and banks have become credit unions' direct competition. As a result, we feel that the time is right to use branding to emphasize the true, differentiating, unique value of credit unions. It is time for credit unions to communicate that they're not just "like a bank."

The consolidation of national banks is being driven by a number of factors, including an internal and investor-driven desire to increase market share and build operating efficiencies. From a customer perspective, the scale of these larger entities allows them to offer more convenience through increased product and service offerings, longer office hours and more branches and ATMs. Aside from being larger and more convenient, these banks have also decided to offer free checking—a loss leader meant to bring customers into the fold so that banks have more opportunities to market their more profitable services. In doing so, the national banks have defined "banking" in consumers' minds as the combination of all of these capital-intensive services and offerings.

Between the investments in real estate, equipment and marketing (not to mention the expense of losing money on checking), the national banks have set high barriers to entry for any competition that attempts to operate in the same manner. Community banks are on the way out (largely through acquisition), and for credit unions that increasingly compete on the community level, it looks like they might be endangered too. If the market really is about convenience and free checking, credit unions, like community banks, may have already lost.

Thankfully, credit unions are not banks.

Let's shift gears for a minute and talk about another industry facing similar challenges—retail. As Wal-Mart continues its steady march, critics have followed, decrying the loss of "Main Street"—local businesses that cannot compete against their low prices. It is true; the rise of Wal-Mart has led to a sea change in the world of retail; general discount stores now can rarely exist in the shadow of the big blue box.

No one has the economies of scale to get the discounts and efficiencies that are available to Wal-Mart, and few can provide its breadth of offerings. So for the foreseeable future, you won't be able to find that number of products at prices at or below what Wal-Mart charges at any retail store other than Wal-Mart. But Wal-Mart's presence does not necessarily mean the fall of "Main Street" that many have predicted; it only means that the market for general discount retail has been cornered. Those independent retailers who go up against Wal-Mart in this market will face a Herculean challenge that they are not likely to win.

Those who have survived and prospered in the world of Wal-Mart are those who have offered an alternate value proposition. If we look at the market that Wal-Mart serves, the opportunity for those willing to consider a new retail model is actually quite appealing. Wal-Mart's core proposition is based on generality and price value, so at its most basic level, the opportunity is in serving the opposite market: specialization and premium pricing. Witness the successful "Main Street" businesses prospering in the shadows of Wal-Marts; specialty stores and boutiques fill the vacancies and draw in customers who are looking for alternatives to Wal-Mart's offerings.

What does this mean for retail financial services? The national banks are competing using a Wal-Mart model; they offer a breadth of services at low prices, with free checking and branch and ATM expansion to reduce customer transaction costs. Their battle at the top of the market is defining consumer expectations for banks and banking. As a result, quality consumer banks are defined as those with free checking and a lot of ATMs.

In this environment, many credit unions find themselves on the outside looking in. Expansion plans to increase branches and ATMs will always fall short of what the national banks can accomplish, as credit unions simply cannot fight a battle of resources.

What's the alternative? It's time to take a closer look at the heritage of credit unions as entities that are purposefully not banks. With member-owners instead of shareholders to answer to, credit unions can consistently offer competitive rates and, with local, personal knowledge, credit unions can offer a level of service that the national banks cannot. This is the reason that credit unions were formed in the first place—to be alternatives to banks. Like the Wal-Mart example, the unserved market is potentially the most lucrative (on a transaction by transaction basis). While national banks are investing in capital-heavy business-building exercises such as ATM and branch expansion and loss-leading marketing moves like free checking, there is an opportunity to focus on more profitable personal finance services like loans—offering them as the draw, rather than free, loss-leader offers (like free checking).

As Steve Lardiere, CEO of Picatinny Federal Credit Union in New Jersey, pointed out, "We need to focus not on offering every product out there, but on offering the products we do as best we can, focused on personalized service and marketing." With Picatinny, in the midst of a change to a community charter when we began work with them, market testing alone suggested that Mr. Lardiere's instincts were incomplete; among other things, we found that personalized banking service was defined by having ATMs within 5 miles of a member's workplace or home. Digging deeper, however, we found that it was not his perspective, but in fact the study methodology that was incomplete. The problem with the study was that it evaluated his credit union along metrics set by the big national banks; it did not allow for members and prospective members to express the point of view we discovered when speaking with them—the idea that credit unions can and should be considered in a separate context.

Give the banks "everyday banking"—they'd take it anyway. Credit unions should examine their heritage and core strengths, and focus on delivering personal finance services, personally, when they're needed most (not every day). Credit unions have the opportunity to redefine value as trust, based on personal relationships and local knowledge, and in many cases even offer a better deal. Buying a car, financing the purchase of a house, paying for college, holiday savings accounts, small business loans—these are areas where the business models of credit unions give them a competitive advantage against banks. In this model, credit unions are no longer competing with the national banks, but instead complementing them, and opening themselves up to the potential for growth and success.

Our advice to credit unions? Don't concern yourself with beating the banks at their own game; that battle, for better or worse, has already been lost. Discover and focus on your unique value as a credit union. Make them play by your rules. And please, whatever you do, don't call it "banking."