



CANADA

Coast Capital Savings - Strategy: "Good Morning Canada!"
Personal article by Ross McDonald

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In the movie 'Good Morning Vietnam!' then Robin Williams encouraged troops and energized betterment. Coast Capital Savings Credit Union CEO, Don Coulter, may have executed a similar feat. Though the recent member approval of its federal credit union strategy then Coast Capital Savings has arguably broadcasted 'Good Morning Canada!' to the national financial services industry. It seems that industry is listening to the broadcast. A battle may loom, even if the troops wear business attire rather than army uniform. To the victor goes the right to serve members, a group that may be the primary beneficiaries of forthcoming phase of industry evolution.

INTRODUCTION

In October 2016, the author published a LinkedIn article that considered the B.C. system implications - of a potential federal Coast Capital Savings - with the lens of centrals, treasury and regulation. Aside from unexpectedly high volume of interest then it seemed notable that over half of readers, mostly executive and board persons, were located outside of B.C. This followup article - published after member approval of the special resolution - takes a national view from a lens of strategy, growth and implications.

CREDIT UNION INDUSTRY: PROVINCIAL STRUCTURE

Canadian credit unions are provincial creatures. Their organizations were born from provincial legislation. Their retail branches and member marketing are limited to a single province. Regulation, prudential supervision and deposit insurance are provided by entities that report to a provincial government.

Credit unions are friendly local organizations. Their members, and Board members, reside in the community local to retail branches. Their cultures are inherently cooperative. They are proactively engaged with, and often provide financial contribution to, local community priorities.

Credit unions face two national-level matters. Proactive choice for collaborative shared services, such as payments, across financial cooperatives. Reactive competition, in terms of products and services, from national banks and service providers.

Or so it was.

Federal credit unions could change industry accepted norms. One or more large federal credit unions may, in time, transform the industry altogether. The next generation of MBA students may review forthcoming developments of the Canadian credit union industry. They may identify a 'tipping point' or 'pressure for change' event by an aspiring organization with 'strategic intent'. But a 2004 London Business School concept and a 1979 Harvard Business School framework, both in regards strategy, may provide current insight.

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COSTAS MARKIDES (LBS): STRATEGY & COMPETITIVE TACTICS

Costas Markides is a prominent professor of strategic management at London Business School. Indeed my professor when studying at LBS - thanks again Costas. In 2004 then Costas Markides published a book 'Fast Second: How Smart Companies Bypass Radical Innovation to Enter and Dominate New Markets'. The book presents a view that first-mover-advantage can sometimes be overrated as it typically takes extensive time, energy and expense to trailblaze a new value proposition. There may be inherent need for new legislation or regulation; technology development; customer education; value-chain assembly or otherwise. A first-mover strategy may undoubtedly secure strong competitive positioning and/or abnormal economic returns but it can be an exhausting experience. Second-mover can be a strategy that is faster, cheaper and easier to execute as the trail has already been broken. Such an organization may benefit significantly from various learnings of, and of any industry or market infrastructure that was devised by, the first-mover.

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COAST CAPITAL SAVINGS: SECOND-MOVER ADVANTAGE

In some regards the Coast Capital Savings is a 'second-mover'. In July 2016 then Caisse populaire acadienne ltée ("UNI Financial Cooperative") became the first federal credit union. UNI Financial Cooperative is a credit union, headquartered in New Brunswick, that has C\$3.5 billion assets; 155,000 members; and 1,000 employees. To achieve its federal charter then UNI Financial Cooperative required approval from provincial and federal authorities. The approval process took 18 months. Coast Capital Savings may reasonably benefit from the now familiarity of OSFI and the federal Ministry of Finance with federal credit union matters. But Coast Capital Savings will still be a 'first' for both provincial BC authorities and for Central 1 Credit Union. Coast Capital Savings is also significantly larger in size than UNI Financial Cooperative and its process may raise incremental issues. But by being the second rather than first aspiring federal credit union then Coast Capital Savings could be 'fast second'.

Coast Capital Savings is unlikely to be the last credit union to seek a federal charter. For example, Innovation Credit Union recently announced to its members that it was "thrilled to announce the commencement of an initiative to pursue becoming a federally- regulated credit union by 2020." With each federal charter then the trail may become more trodden and easier to follow.

MICHAEL PORTER (HBS): STRATEGY & INDUSTRY STRUCTURE

Michael Porter is a legendary professor of strategic management at Harvard Business School. Over decades then his thought leadership has likely influenced many corporate executives and educated countless aspiring business professionals. In 1979 then Michael Porter wrote the landmark research paper 'How Competitive Forces Shape Strategy' that considers the sources and strengths of power within an industry. Many an MBA student has been taught the 'Five Forces' model of rivals; suppliers; customers; substitutes and new entrants. The strength of each force can vary significantly by specific circumstance.

Credit unions have faced industry threats from rivals and substitutes. While cooperative in nature then competition from rival provincial credit unions is unavoidable and likely increasing. For example, industry executives recently described to me the credit union market in Winnipeg as 'fiercely competitive'. For example then residents of Kelowna, BC, now have access to four credit unions - Coast Capital Savings and Prospera alongside incumbents First West and Interior Savings. Michael Porter notes that "Rivalry among existing competitors takes the familiar form of jockeying for position - using tactics like price competition, product introduction, and advertising slugfests". National banks represent a substitute value proposition to provincial credit unions.

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COAST CAPITAL SAVINGS: STRATEGIC NEW ENTRANT

Coast Capital Savings may be regarded as a 'new entrant'. Few, if any, non-BC credit unions may have historically considered Coast Capital Savings as a competitor. And yet, subject to regulatory approvals, Coast Capital Savings intends to launch a digital-first product offering outside of B.C. in 2018.

This new competitive threat may be disruptive to provincial credit unions. Michael Porter notes that "new entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources." Just so. Coast Capital Savings has approximately C\$14 billion assets and over half a million members. This scale enables a member service offering and organizational cost efficiency that may, arguably should, trigger a meaningful executive/Board threat assessment and inclusion within ERM reporting.

But let's be specific. According to a 2016 report by nofeebanking.ca then 14 of 42 BC credit unions offer no fee chequing accounts to their members. Coast Capital Savings related product is the 'Free Chequing, Free Debit, and More Account' and includes, at no cost, selected deposits and withdrawals online and in-branch. Many credit unions across Canada may rely on revenues from monthly account fees, of perhaps C\$10 per member chequing account. These revenues help to fund fixed costs, such as a retail branch network and corporate staff. But a national digital-first strategy of Coast Capital Savings may materially leverage its prior infrastructure investments to effectively operate on a marginal cost basis, perhaps with modest French language or province specific needs. And Coast Capital Savings could choose to cherry-pick marketing to geographic areas or market segments of particular competitive advantage or member appeal.

So Coast Capital Savings may enjoy some benefits of first-mover (scale execution) and of second-mover (charter approval) with its national digital-first ambitions. Corporate strategy and marketing enthusiasts may be forgiven for drooling.

IMPLICATIONS: CREDIT UNIONS & MEMBERSHIP

One or more federal credit unions will, in time, impact the Canadian financial services industry. My instinctive guess - perhaps entirely inaccurate - suggests that there may be one key winner and one key loser.

The winner, I suspect, may be membership. A new entrant to a provincial credit union system may bring fresh products or services; new or elevated channels; and/or may stimulate betterment in innovation, operations and other practices. Member choice and market competition can be powerful market forces. Over time then members may enjoy improved products, enhanced service access and/or better pricing.

The loser, I suspect, may be any currently struggling provincial credit union. In the short term then any new federal entrant may increase total credit union membership through incremental marketing programs. But, in time, it may also represent potentially life-threatening competition to any uneconomically small or uncompetitively operated credit unions. In most industries then it is difficult to compete, on a cost-basis, with a rival of materially larger scale. Differentiated excellence may be key. This could further strengthen credit union relationships with its local community. Or it could yield focussed services and expertise in a specific target market, say local agriculture. Or in wallet-share rather than market-share focus. Or increased collaboration, perhaps merger, with local peers.

Federal credit unions may impact banks, in the medium term. In Canada then the largest credit union is a tiny fraction the assets size of the smallest major bank. This gap may narrow in time.

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Millenials may be most temptable to join an out-of-province federal credit union. A Filene Research Institute publication on millenials highlights a demographic challenge that faces US credit unions. One-third of Americans are members of a credit union. But membership is dominated by older generations while only 9% of US millenials are credit union members. For credit unions then millenials may represent a challenging bunch. They demand more service for lower cost; prefer new digital, not traditional retail branch, service channels; may be brand-sensitive; relish social media marketing; and likely have lesser relationship tenure with a provincial credit union.

Any material loss of relatively young members may present longer term demographic challenges for provincial credit unions. But this may be the prime target market of Coast Capital Savings digital-first national strategy.

As in the movie-represented streets of Vietnam then the offices of Coast Capital Savings may hear booming renditions of ‘I feel good’ or ‘I get around’ by James Brown and the Beach Boys respectively. But in credit union boardrooms across Canada then the broadcast may sound more like ‘Nowhere to Run’.

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Ross McDonald is a financial services executive and consultant with experience in strategy, finance, risk and regulation. He has held Director, VP and SVP level roles in multiple organizations including Citigroup, Salomon Brothers, Ernst & Young and recently completed an interim contract role as Director Credit Union Centrals at FICOM. He holds MBA, CA & BAcc qualifications. Ross was a member of the 2012-3 Board Governance Task Force on Director Pay of Coast Capital Savings Credit Union. Ross is a current member of Coast Capital Savings Credit Union and of BlueShore Financial Credit Union.

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