



**Federal CU Value Propositions - Beyond Ice Cream & Sprinkles**  
Personal article by Ross McDonald

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## EXECUTIVE SUMMARY

Ice cream with sprinkles. Provincial credit unions may be framed thus by strategy academics.

Some aficionados may celebrate mouthwatering flavours and ingredient providence. But many a face-smeared kid may insist that ice cream is just ice cream, and that the real magic is in choosing sprinkles. Perhaps ice cream and sprinkles represent the commonalities and variations respectively in terms of value propositions across Canadian credit unions.

Compared with other industries then credit unions may have high environmental complexity but low strategic diversity. Many provincial credit unions have significant similarities in their products and services, target market profile, business/operational model and/or organization values. Credit unions are bound by cooperative principles; by member-driven ownership and governance representation; by capital structures and liquidity model; by significant shared infrastructure and product development; and by joint ventures or credit union service organizations.

Historical and current commonalities have allowed Canadian credit unions to thrive. The membership, assets and community impact of Canadian credit unions have steadily expanded over many years. Credit unions provide members with financial enablement, employees with career opportunities and communities with purposeful impact. The commonalities have likely accelerated product innovation, funded technological investment, simplified treasury operations and connected best practices. All good.

Provincial credit unions strategic variations include their corporate identity or branding; product and service priorities; market mix; and theme of community impact. These may be driven by factors including local economic footprint; membership priorities; executive ambition; technological adoption; organization size and provincial regulations. A small minority of provincial credit unions strives for differentiation through divisional structures, federated model or perhaps bank subsidiaries.

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## FEDERAL CREDIT UNIONS

Make no mistake, federal credit unions are coming. UNI Financial Cooperative Credit Union (C\$3.5 billion assets, 155,000 members) became federal in July 2016. Coast Capital Savings Credit Union (C\$15 billion assets, 543,000 members) has successfully completed multiple important milestones on the pathway to a possible federal charter. Innovation Credit Union (C\$2.3 billion assets, 49,000 members) has announced an exploratory strategic review. More will likely follow.

Federal credit unions need not change strategy. They could largely extend their legacy approach federally. Cooperative principles still apply. They may still leverage centrals infrastructure, common products and shared services. But the economic ‘switching costs’ to secure a federal charter are substantial given the prolonged and intensive time required by executives, Board and membership. To justify such efforts then the strategic intent may be commensurately bold.

## STRATEGY & MARKETING

Strategy professionals may deconstruct value proposition into What (product/services), Who (target market) and How (business/operational model). Some may add also add Why (benefits and values) though credit unions are philosophically bound by cooperative principles. It is quite common for clearly defined value propositions to have one core fundamental characteristic that is accompanied by waterfall implications. For example, the founding belief of Southwest Airlines was low-cost travel ('What') and this drove strategic choices for aircraft layout/routes/operations ('How') and for budget-conscious customers ('Who').

Marketing professionals may offer two relevant observations. First, the extent of market segmentation is partly driven by total market size. As a market increases in size, say from provincial to national, then more segments may become statistically significant. Per the Canadian Credit Union Association then Canadian credit unions (excluding Quebec) reported aggregate assets of C\$203 billion at 31 December 2016. Were Innovation Credit Union to secure a federal charter then its total available market, not necessarily its target market, would increase almost 10-fold from the C\$22 billion aggregate assets of the SK provincial system. Second, a target market by definition requires the conscious rejection of a significant component of an available total market. An organization must sometimes say 'no' to potential customers and their business. Unless a consumer of BlueShore Financial (C\$3.5 billion assets, 39,000 members) has a credit score above a pre-determined rate then their membership application may be denied.

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## THE 'DESSERT TROLLEY' OF STRATEGIC OPTIONS

A federal credit union may glance over the presented ice cream and eye the beckoning dessert trolley. Gateau, fresh fruit, cheese plate, chocolate tart and perhaps a digestif. Still dessert, and ice cream remains an option, but variety is relatively abundant. Perhaps accessing the trolley was the motivation behind the grueling work?

Federal credit unions face multiple approaches to differentiation. One is target market. A niche market within a single province may lack viable scale but framed nationally may be attractive. Such a niche market could discard local proximity in favour of a geographic characteristic or demographic profile. Market-driven organizations typically proactively frame their products/services and operational model to optimally reflect the needs and preferences of their chosen target market. Perhaps an organizational intent of best-in-breed rather than jack-of-all-trades.

## ILLUSTRATIVE FEDERAL CREDIT UNION VALUE PROPOSITIONS

### Illustrative Federal Credit Union Value Propositions - Originated by Target Market (WHO)

	<b>Northern / Remote</b>	<b>Millenials</b>	<b>Retirees</b>
<b>WHO</b> Target Market	Northern locations Small, remote communities THEME: Local residents & SMEs	Members born between early 1980s to mid 1990s THEME: Borrowers & savers	Members in retirement or over a predetermined eligibility age THEME: Income & advisory
<b>WHAT</b> Product/Service	Traditional credit union offering Products for local small businesses AVOID: Risk concentration	Mortgages & lending products Savings accumulation products AVOID: Uncompetitive services	Competitive term deposits Financial & estate planning AVOID: Mortgage focus
<b>HOW</b> Operational Model	Network of small/mobile branches Channels (video ATM, call centre) Leverage shared infrastructure AVOID: Large branches	Mobile & digital channel excellence Strong & purposeful branding Few & educational branches AVOID: Cumbersome experience	Strong operational efficiency Mobile advisors visit members? Selective technology adoption AVOID: Needless complexity

Source: Ross McDonald

For illustrative purposes, the above table frames three discrete market-driven value propositions. There may be a significant number of incremental niches. Each illustrated target market is defined and the resultant implications on products/services and operational priorities considered. The financial circumstances, service needs and preferred banking experience of millennials, retirees and remote communities are markedly different both from each other and from cosmopolitan members. But striving for differentiated excellence requires conscious awareness of negative choices - what potential members not to target; what products/services not to offer; and what operational models to avoid. This can be difficult for organizations.

Market-driven value propositions may seem disorientating, perhaps foolish, to some credit union veterans. Relatively few provincial credit unions have historically targeted their membership their market beyond the realities of the local communities. But there are numerous banks, insurance companies, wealth management firms and other financial institutions that expressly target millennials, retirees or other demographic segments. Indeed they often thrive within their niche. ING Direct / Tangerine, a branchless bank with C\$30 billion of deposits, was acquired by Scotiabank for C\$3.1 billion in 2012.

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## PROS, CONS & IMPLICATIONS

Best-in-breed value propositions may elevate service offerings and attract new members to credit unions. Mergers between like-minded and/or complimentary cross-province credit unions may provide incremental benefits relative to traditional transactions based on local proximity. Ultimately larger credit unions may better navigate the increasing complexity of elevated member expectations, technology investment, regulatory requirements and perhaps attraction and retention of executive or specialist talent.

All-serving provincial credit unions may neatly balance financial needs between market segments, say between retiree savers and millennial borrowers. Best-in-breed strategic specialization requires larger credit unions, and bigger is not always better. Larger federal credit unions could lose detachment from local communities. Best-in-breed credit unions inherently exclude some potential members, services and/or channels. Any strategic realignment may require a moderate pivot and/or a short-term disconnect.

Federal credit union impact is likely a matter of when-not-if. A federal charter will attract some provincial credit unions. The lure may be acute for credit unions with relatively high growth; in provinces in which the system membership is large relative to the population; and/or in systems with relatively strong provincial competition between credit unions. Over time then the impact of federal credit unions on aggregate membership and provincial systems will become clearer. Should one or more federal credit unions elect to progress a strategy of significant differentiation then this may accelerate any system changes.

Amongst a friendly peer group then a consciously choice to be different requires resolve. But it may only a matter of time until someone reaches longingly for the dessert trolley. I wonder what they'll pick? For the rest then ice cream and sprinkles seem unlikely to become unpopular anytime soon.

## ABOUT THE AUTHOR

Ross McDonald is a financial services executive, interim resource and consultant with experience in strategy, finance, risk and regulation. He has held SVP, VP and Director roles in multiple organizations including Citigroup, Salomon Brothers, Ernst & Young and an interim contract role at FICOM. Diverse experience includes credit union, corporate & investment bank, wholesale bank, wealth management, government regulator and external audit organizations. 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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