WIN-WIN:
How Co-opetition Helps Local Institutions Level the Playing Field

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Managing a community financial institution (CFI) has its fair share of challenges to say the least. Near the top of that list is the competition to attract and retain consumer relationships. But have you considered who you’re truly competing against? While most of us focus on the local bank and credit union across the street, megabanks have gobbled up 70% of U.S. deposits, a number that continues growing at an alarming pace. Battling over the megabank leftovers is not a path to long-term sustainability or growth. To reverse the trend, CFIs need to reconsider how they think about competitors.

Accepting megabanks as our competition isn’t easy. It is much easier to shy away from that Goliath. But unfortunately, shying away from the problem doesn’t solve it. Instead, ask yourself: Who else is in competition against the megabanks? And what could we accomplish if we were allies?

Examples from several other industries demonstrate that cooperating with local competitors under certain circumstances — “co-opetition” — can yield more successful outcomes for both parties. Kasasa®, the national brand of innovative consumer banking products, thrives on this concept of co-opetition among community financial institutions. Thrives to the tune of 50% lift in account acquisition, 40% lower attrition rate, and 45% lift in non-interest income.¹

Credit unions do have a history of cooperating to gain advantages of scale (CO-OP ATMs, shared branching, etc.), but they’ve never extended that beyond their own insular world, or beyond a program-based initiative. To take market share from the megabanks we need a similar approach — a new level of co-opetition that fully harnesses the power of our potential scale, without damaging our individual autonomies. In this battle, local community banks and credit unions can be allies.

MORE THAN THE SUM OF ITS PARTS

Cooperating with competitors seems counter to strategy basics. Every consumer your rival acquires would seem to mean one fewer for you. And if you share your branding with a partner, wouldn’t that dilute your independence and confuse consumers? Or is the opposite true: Under particular circumstances, does cooperation yield better outcomes for both parties? Can two brands actually reinforce each other?

Game theory says yes. Developed a half-century ago by mathematicians John Nash and John von Neumann, game theory proposes that trying to maximize your payoff in a competitive situation without considering the other player’s response will result in poorer results for both players. Over time, as you learn more about the other player’s responses to your actions, you begin to see your gain doesn’t have to be at the other’s expense, and that cooperation is beneficial. This sort of “game” is actually about strategic decision-making.

Zero-sum games — “heads I win, tails you lose” — are fairly uncommon in the business world, where the complex web of interdependencies means that a supply-chain partner, for example, might also be a competitor in certain channels. It’s not always comfortable or ideal, but it’s a manageable, often productive, reality.

Game theory’s insights play out in the business world all around you. Ever wonder why gas stations tend to cluster around the same location? They’ve achieved a “Nash Equilibrium,” in which all players have equal access to customers. Evenly distributing the gas stations would seem to make more sense, and cut driving times for customers, but it’s an unstable situation: As soon as a new station opens, the market is no longer equitably split, and price wars erupt to draw drivers past the more convenient station. Rather than price or location, stations compete based on product brand promise, selection in the convenience store, cleanliness, loyalty cards, and other variables.

Other businesses group themselves, too. Think of a restaurant row or a “motor mile” of car dealers. These businesses deliberately locate themselves near competitors. While the establishments are still competing for market share, they have generated an overall larger market to divide.
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In the case of locally owned restaurants, this density also defends homegrown businesses against national chain eateries. By sharing advertising costs with competitors, they can match or exceed the national chain’s media footprint.

This same benefit is at play with Kasasa. As of November 2014, the 244 Kasasa-licensed CFIs represent the 9th largest branch network in the nation, collectively spending over $11 million annually promoting Kasasa. This effort has resulted in several billion media impressions for Kasasa, a presence no CFI product can achieve on its own.

The buzz works. Of all Kasasa account holders nationwide, 24% had never heard of their new financial institution prior to hearing about Kasasa. Conversely, 73% had heard of the institution…but were never motivated to open an account before.²

The phenomenon is similar to the Starbucks effect. Consumers already understand Starbucks means good coffee. So, by flying the Starbucks logo, grocery chains and convenience stores show consumers they can get the brand of coffee they love somewhere other than a Starbucks coffee shop. These stores become a preferred destination for Starbucks-seeking consumers on their way to work every day.

This co-opetition is no different for community banks and credit unions flying the Kasasa logo. And the Starbucks effect goes beyond merely attracting new consumers. An exciting 93% of Kasasa account holders love their account,³ compared to 73% of megabank customers who are unhappy with their banking relationship.³ Not to mention the 66% of Americans who — five years later — are still flat-out angry at the megabanks for their role in the financial crisis.⁴ The tide is in our favor; it’s just a matter of competing with the megabanks on scale in order to capitalize.

THIS TOWN’S NOT BIG ENOUGH FOR TWO BRANDS...OR IS IT?

Starbucks is just one example of co-opetition bringing two brands together and enhancing each in the process. Nissan installed generic sound systems in its vehicles for years. Finally it realized that more accurate sound could be a marketable feature. Rather than just upgrading its audio componentry, Nissan turned to Bose, which has more acoustic expertise than any car company as well as a premium brand reputation. Bose optimized the speakers’ digital circuitry to match each model’s acoustic properties and featured its logo prominently within car interiors.

Everyone wins here: Nissan strengthens its own brand’s value proposition while profiting from new upsell opportunities; Bose extends its presence into a new market space; and happy car buyers no longer need to shop for aftermarket solutions. Together, the two brands share a “halo effect.”

When Chevy, Mazda, Porsche, and other manufacturers introduce comparable Bose systems, Nissan isn’t threatened or undermined in any way. To the contrary, broader Bose adoption validates the co-branding strategy, removes the need for salespeople to explain a one-of-a-kind partnership, and frees Nissan to focus on its core competencies. As the Bose brand

SIDE BAR: QUESTIONS WORTH ASKING

- Who are you really competing against, and how well?
- What’s your growth strategy for 2016?
- Are you gaining business from younger consumers?
- Does your account brand have market value?
- Do you participate in the social media conversation?
- How do you obtain and apply custom market research?
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appears in more dealership showrooms, it confirms for Nissan buyers that they made the right choice in terms of audio quality — and still obtained the other car attributes they valued.

Brand partnerships leverage economies of scale for smaller market participants. A jeweler with three community locations, for example, is unlikely to have the resources to produce a television commercial or buy regional ad placement in a national magazine. Along comes Rolex, inviting local stores to piggyback on its marketing campaign and leverage its advertising dollars. Again, consumers respond positively, assuming that the national brand is endorsing the local players, who still compete with each other based on personal service, selection, and reputation.

Once you’re sensitized to the idea of co-opetition, you see it everywhere.

- Megabank competitors Chase, Wells Fargo, and Bank of America develop a shared clearXchange platform for peer-to-peer (P2P) money transfers.

- Toyota and General Motors assemble the same car (Matrix and Vibe respectively) in the same California factory, but package, price, and promote their versions differently.

- The Visa or MasterCard logo shares space with your credit union logo.

- Apple runs a national iPhone campaign with AT&T and Verizon featured in the ads. Both carriers see a lift in new contracts.

The conclusion: Co-opetition yields positive results when companies collaborate but maintain market differentiation and independent credibility.

FOR CFIs, IS CO-OPETITION A TACTICAL RISK – OR A STRATEGIC MUST?

Consider today’s consumer financial-services landscape: More than ever, non-banks like Walmart (with its AmEx Bluebird prepaid debit account), Google (with its Wallet), and Kickstarter (with a small-business alternative to loans) are offering bank-like options. In response, local and regional players must showcase the day-to-day value of personalized service and community investment.

But to have that chance, new members must be walking through the door, virtual or otherwise. And it’s not too surprising that 73% of adults say a recognizable brand name is important when choosing where they bank.4 (That number jumps to 81% among Gen Y.4) In other words, the consistent presence of a recognizable brand is step one to enter a consumer’s decision-making process.

Every community financial institution’s (CFI) strategic plan must find a way to not only attract new relationships, but also reverse account attrition, identify new opportunities to make money, and maintain margins. Meanwhile, megabanks are claiming the lion’s share of new accounts, the opposite of only a generation ago.

Co-opetition solves problems. How?

- Resources. It’s next to impossible to outspend, out-research, or out-design the megabanks on your own. By sharing resources with partners who align with your goals, it becomes easier to compete – Kasasa’s research and media budget is on par with a megabank’s.

- Stronger and younger consumer base. Examine your demographic makeup. What’s the balance between under-40s and over-60s? How many college students? Exploring new strategies to increase younger account holders now helps you build a stronger base in the future. The average Kasasa account holder is 10 years younger than the average CFI account holder.5

- Keeping up with technology. The Cloud. Big Data analytics. Cyber hacking. Disintermediation. One reason megabanks have gained so much ground is their serious investment in state-of-the-art consumer technology. Access to comparable, constantly improving expertise removes that as a consumer decision factor.
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BancVue’s Kasasa platform is a perfect example of business co-opetition. When a CFI introduces a Kasasa-branded checking account, it immediately gains access to $1 million in primary consumer research; account profitability metrics from 700 CFIs; award-winning design expertise; ongoing insight into demographic and psychographic trends in the financial world; help with strategic planning; comprehensive front-line training; compliance insight; and premium-brand marketing, including television, radio, print, in-branch, and out-of-home advertising.

What are you risking? Credit unions and community banks fear a loss of autonomy and differentiation if they share their brand with a third party. But just as Nissan and Bose learned, two brands can not only co-exist, but thrive when they collaborate. A strictly local checking account brand carries little weight (can you name your competitors’ brand names?) and is generally disregarded by consumers. On the other hand, a Kasasa checking account offers consumers a reason to believe they can get the technology, quality, and rewards they seek, at the community institution they prefer.

What about other Kasasa partners in your market area? BancVue has found that multiple Kasasa institutions can actually increase their account numbers at a faster rate without cannibalizing each other. It’s really a matter of economics, enabling BancVue to amortize greater promotional spending across more potential customers, and to negotiate for lower advertising rates.

While cooperating with other community institutions to acquire new relationships seems counterintuitive at first glance, hundreds of community financial institutions are demonstrating such co-opetition is essential and beneficial.

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1 Average results compared to standard free checking. Data provided by BancVue Analytics, utilizing data from hundreds of community financial institutions nationwide.
2 BancVue & First Resource, June 2012
3 Money Magazine, September 2011
4 Consumer Banking Insights Study, conducted by Harris Poll, December 2013
5 41 years old (BancVue & Simmons Research, August 2012) compared to 51 years old (First Resource, June 2012)