

The Decommoditization Manifesto:

Part 1

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Tired of Being Powerless Yet?

It's not easy to be a leader at a bank or credit union these days. Your board, your management and your colleagues demand results, results, results (read: growth), and you're on the hook to deliver. That's a lot of pressure.

The worst part is that you very clearly have little-to-no control over your growth. It feels like your only way to grow is to win the pricing war on both sides of the balance sheet, but you know that's not a sustainable strategy. You're courting consumers like mad, but you have almost no ability whatsoever to influence them. In short, you have no control over your own destiny—you're completely at the mercy of the consumer, who has all the power. Bummer.

Take a moment to step back and ask yourself why that's the case. Why does the consumer seem to have all the power in that relationship?!

The Availability of Alternatives

The reason consumers have all the power is very simple: there's a high availability of alternatives to you. It's as simple as high school economics —there's a large supply of banking services, and a fixed amount of consumer demand... which means you don't have as much control. But you probably already knew that. After all, it's not rocket science.

In fact, this situation suggests a pretty obvious strategy...but one that almost no bank or credit union in the United States has truly mastered:

Create something for which there is no alternative

If you create something that's one-of-a-kind, and there are no alternatives, then the power dynamic shifts. Suddenly you have all the power, because if the consumer wants what you're selling, you're their only option. Wouldn't that be nice?

Different, Not Better: A Mango in a Sea of Apples

We know what you are likely thinking right now: “we ARE creating something for which there is no alternative: unmatched customer service, superior products and services, and an unsurpassed commitment to our communities!”

Let's get real—currently you're not trying to create a truly different alternative, you're trying to create a better alternative. Focusing on service, products and commitment to the community--while admirable--will never turn you into something for which there is no alternative. Remember, our goal is to be different, not better. You're not practicing “differentiation,” you're unwisely attempting “betterentiation” instead.

Your goal is to be a mango, standing out in a sea of apples. Focusing on better customer service, products and community involvement will only make you a better apple... never a mango. When you focus on “better”, all you're saying is “we're still an apple, but we're just a BETTER apple.” Not a very compelling argument...especially considering that's what everyone else is saying too.

News Flash: Banking Services are Commodities

It's no secret, banks and credit unions are all essentially selling the same products and services. It's been that way for quite a while, and few bankers deny it any longer. To amplify this challenge, today there are even more non-traditional players selling those same (or substantially similar) products and services: companies like E-Trade Bank, Edward Jones, Lending Club, etc.

What are the commoditized attributes of banking?

Unfortunately, they are most of the items that our industry tends to focus on—things like:

- Products and services
- Deposit and loan rates
- Quantity, location and hours of branches and ATMs

Umpqua Bank's respected CEO, Ray Davis, is known for being among the first to point out that with so much similarity in banking products and services, the only real way to differentiate a financial institution is in the way the company delivers those products and services. In our experience, most financial services leaders agree with this perspective, yet it's amazing how few have successfully applied it at their banks and credit unions.

The Unwinnable Game

If the commoditized parts of banking are the battlefields upon which you are fighting, you cannot win. It's impossible. That's because a competitor will always be able to outdo you on

these fronts, if they want it badly enough. If they are willing to reduce their margins enough, they can always “buy the market” by offering a lower loan rate, or a higher deposit rate, than you. They can always build an extra branch, or place additional ATMs. They can always stay open later.

Still, most credit unions and banks spend a large amount of their energy trying to differentiate themselves based on products and services: the best rate on the rewards checking account, the easiest auto loan, the most flexible CD. Again, this is a strategy based on being “better,” not “different.”

If you're battling the competition on these terms, you're playing an unwinnable game. So, you've got two options:

1. Keep trying to beat them at an unwinnable game
2. Change the game to something you can win

Decommoditization is about changing the game to something you can win

Definition: Decommoditization

So what exactly is decommoditization?

It's quite simple, really:

“Giving people a reason beyond products, services, and rates to bank with you.” This is changing the game.

Commodities Make it Difficult— and Too Easy—For Consumers To Make Decisions

The commoditized nature of banking services doesn't just make the banker's job hard, it makes the consumer's job extremely hard as well.

When people are shopping for a product or service, they look for attributes that allow them to comprehend and sort through the landscape of options at their disposal. People crave meaningful differences between products because it allows them to navigate their sea of options and determine which products are going to best fit their needs. There's nothing more frustrating than looking at two products and not grasping how they differ from each other. This leads us to a critical principle:

When there is no meaningful difference upon which to base a selection, it makes decision making difficult...and leaves the buyer to consider only commodity attributes like price

Think about your experiences as a consumer. Let's say your spouse sends you to the store to buy bleach. You get to the bleach aisle and all the bottles are basically the same shape, same colors (white of course, with other bright primary colors). You're trying to make the best purchase decision, but you're lost—they're all basically the same! So how do you make your decision? By the price tag, of course. After all, why pay more if you're going to get essentially the same thing, regardless of which one you buy?

This is exactly what happens in the world of retail financial services. Consumers want badly to be able to understand the differences between their options. But what they see are dozens of banks and credit unions that are largely undistinguishable. Many have similar names, branches that look alike, and essentially all the same products and services. It's a sea of apples. Sure, there is some difference--some are Fuji, some are Red Delicious and others are Gala apples--but they're all apples nonetheless. It's pretty tough for the consumer to make a meaningful decision about which is the best fit for them.

The Real Purpose of Differentiation

Most banks and credit unions think differentiation is something they do for themselves—to make their companies more successful. And if done correctly, differentiation can definitely benefit the financial institution. But it's not the real reason for differentiation.

Differentiation is something you do for your customers and potential customers—to give them meaningful criteria upon which to base the best decisions

Differentiation is your way of helping people evaluate you and determine if you're a good fit for them. You're giving them a meaningful way to sort through their options, so they don't have to resort to commodity attributes like price to make a decision.

Differentiation is Not a Tool of Persuasion

The point of differentiation is not to build a compelling argument that you are the best bank or credit union for every person in your market. Differentiation is not a tool of persuasion—it is a tool of clarification and understanding.

Right now, you may likely be thinking “What are you talking about!? We’re building a sales culture here—we want to help as many people as possible reach their financial dreams, and that means selling, selling, selling as many products and services to as many consumers as possible. We’ll serve anybody and everybody we can!”

If that’s what you’re thinking, we’d like to inform you:

You Are Not Right for Everyone

If you will happily serve anyone who wants to do business with your company, you have no business strategy. Why? Because you are not right for everyone—and the longer you pretend you are, the longer you will be a commodity.

One of our favorite questions to ask executives at banks and credit unions is:

Who are you totally the wrong fit for?

If you want to see a room full of blank stares from bankers, ask them this question. Keep in mind, we’re asking who is and is not a good fit for you, not who is or is not eligible to do business with you. A great answer to this question is often phrased, “we’re a terrible fit for people who value _____... because that’s the opposite of what we value.”

Until you can answer this question, you will never be able to effectively decommunitize your financial institution. That’s because it’s impossible to be an amazing fit for one group of people, without being a terrible fit for the opposite group. You have to polarize your audience, or else your brand will never resonate strongly with anyone. If you’re not a great fit for some people, and a terrible fit for others, all you will ever be is “just OK” for everyone.

Ultimately, you want to get to the point where you can confidently say: “Potential customer, we realize that we might not be the right fit for you—and if so, that’s totally OK, because we’re not right for everyone. But if we are the right fit, we are REALLY going to enjoy doing business together. Let’s talk so we can help you decide whether we’re right for you.”

Upcoming Installments

If you've enjoyed Part 1 of The Decommoditization Manifesto, please stay tuned for future installments, in which we'll discuss:

- What a decommoditized bank or credit union looks like
- How to decommoditize

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hello@creative-brand.com

503-249-9363

www.creative-brand.com

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