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Can experiential strategy and design lead to higher growth for credit unions

Executive Summary

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The purpose of this white paper is to examine how consumer satisfaction is manifested through experiential strategies—and physical design—that drive consumer experiences at the branch level. It is found that experiential strategies are a factor in driving the growth of credit unions. Credit unions differ from banks in their not-for-profit designation allowing them to provide financial services to their membership (Joo, Stoeberl, Liao, and Ke, 2017). Banks offer similar consumer banking services; however, banks tend to also focus on commercial accounts and are owned by shareholders and have paid boards of directors (Joo, et al., 2017). Credit unions attract eligible members that may be limited by occupation or geographical category. Research indicates that credit unions tend to concentrate in local deposit markets offering competitive deposit and bank rates to its membership. Schmid's (2005) theoretical model showed participation in credit unions was associated with higher levels of retail-banking concentration (Gutenberg, Caren, Shinski, and Prinzi, 2014, p. 56). The authors presumed that as credit unions leverage their non-profit, tax-exempt positions, they have an opportunity to create points-of-differentiation that have utility to consumers and distinguish themselves from commercial banks (Gutenberg et al., 2014, p. 61).

How It Impacts Performance

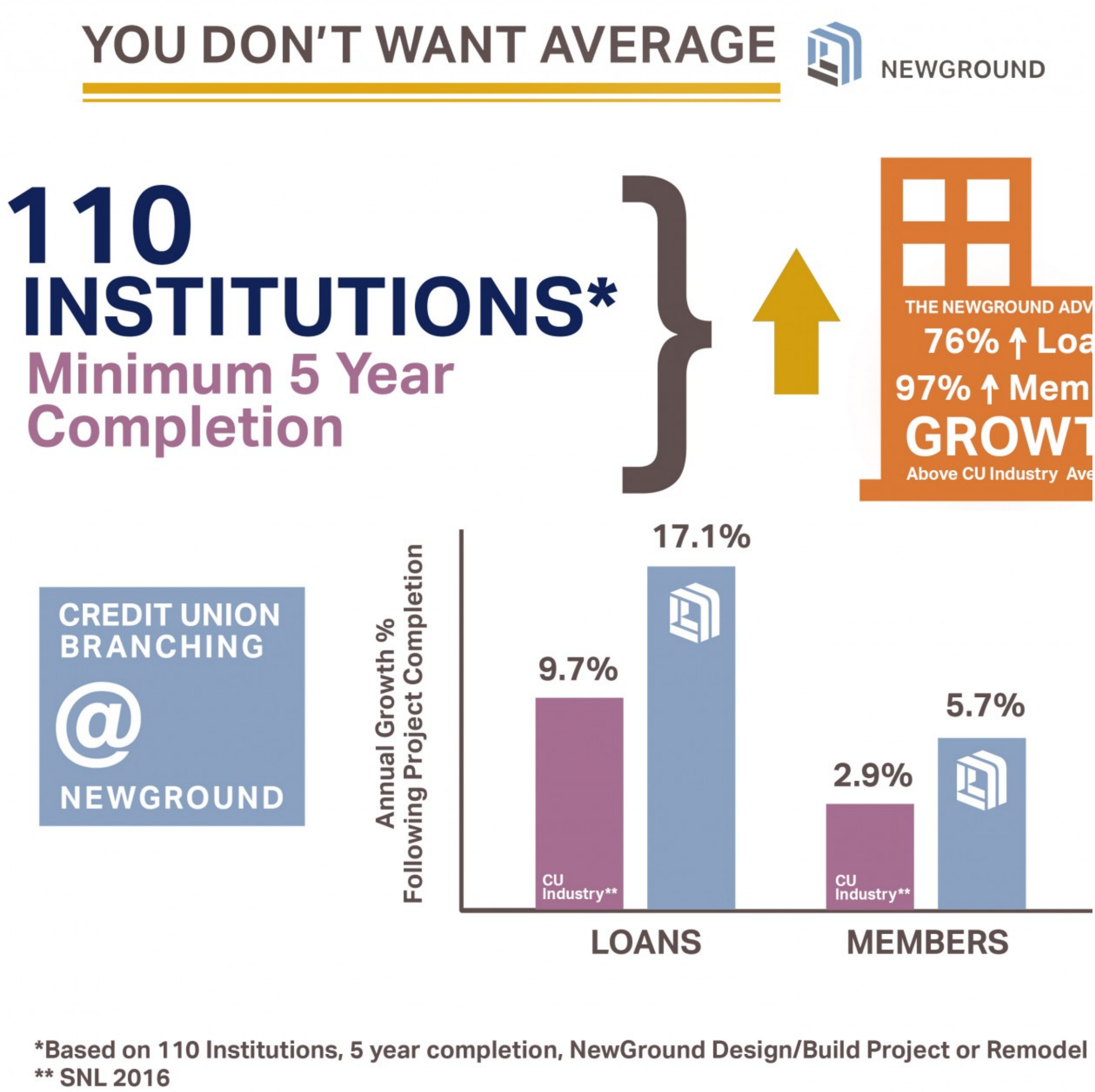
NewGround conducted a study of credit union clients over the defined timeframe of 2011 to 2016, analyzing loan and member growth for NewGround's client projects versus the credit

union industry averages for the same period. One hundred and ten (110) NewGround clients were analyzed and compared to an industry sampling of 5,000 credit unions of all asset sizes (NCUA, 2016). The data was used based on a five-year post-completion assessment of growth in the aggregate for both groups.

The NewGround Advantage

As evidenced in the figure below (Fig. 1), findings revealed that NewGround clients had a five-year compound annual growth rate (CAGR) of 17.1% for total loans versus 9.7% for the industry average. Additionally, NewGround clients had a 5.7%-member growth rate versus a 2.9% for the industry. These are an impressive 76% and 97% higher results (respectfully) than overall industry trends from the same period.

Fig. 1: Advantage with a NewGround Build



Source: NewGround Strategy (2017)

Factors Influencing Results

Influencing factors are inclusive of economic trends, client operations and cultures, and regulatory changes within the industry (e.g., M&As, NCUA regulations, Dodd-Frank). Using a **strategy-first**, **member-focused experiential approach to physical environments** might generate a higher return on loans and membership with those clients who opt to transform their value and brand in both physical and virtual environments.

This study is limited by the data reported by these institutions through NCUA. However, it is inferred that the influence of **strategy-driven experience design** and **integrating member points-of-experience** into the physical 'floor plate' environment meets the criteria for creating enhanced member value. Numbers can be taken at their relative face values, and the results of this study infer that transforming business models to develop consumer experiences and delivering on that strategy through physical environments produces results for those credit unions that need to maintain sustainable competitive advantage and market share.

The Member Experience Impact

Credit Unions have measured member satisfaction to quantify how retail environments affect consumer behaviors. Reviewing recent articles has proven that one thing has remained constant—**the member experience transcends all industries**. In fact, today we live in a world where our decisions and satisfactions are fueled by micro-experiences.

Customer satisfaction is driven through a customer interface which positively influences service quality, particularly in areas of satisfaction with product offerings, service delivery, and financial reporting (Barboza and Roth, 2009, p. 332). Focused innovations, such as market strategies, have close relationships to customers through the effects of identifying customers' needs (Duarte, Moreira, Ferraresi, and Gerhard, 2016). Technology appears to be a main driving force behind service innovation—primarily through recombination innovation—where the addition of additional characteristics—both technical and design-related—enhance pre-existing services (Duarte et al., 2016).

Renaires and Garcia (2012) discussed the need for financial institutions to examine their retail environments to **improve the frequency of customer visits** and to avoid the commoditization of both brands and companies (p. 377). Financial institutions have traditionally viewed the branch environment as a crucial element in acquiring and retaining customers (Greenland and McGoldrick, 2005).

The concept of "***embracing clients and having them embrace back,***" proposes a need for a more robust consumer experience (Mitchell, 2003; Renaires and Garcia, 2012, p. 377).

Parente, Coster, and Leacadio (2015) citing Mylonakis et al.'s (1998) study concluded that the customers' main criteria for financial institution selection were: convenience, reputation, quality of products and services, interest rates and fees, education and personnel contacts, facilities, branch environment, and services (p. 496).

The concept of embracing customer experiences becomes a two-fold approach when the consumer interacts with the physical environment of a store and its staff through practices and procedures (Arnold *et al.*, 2005; Grace and O'Cass, 2004; Ofir and Simpson, 2007; Renaires and Garcia, 2012).

Brand Experience

As disciples of B. Joseph Pine II and James H. Gilmore—authors of **The Experience Economy** (1999, 2011), "*Work is Theater & Every Business is a Stage*"—your brand should come alive and create a jaw-dropping experience in which the client fully understands just how different you are.

The brand experience engages the internal reaction of a consumer when behavior is triggered by stimuli associated with the brand, such as the design of the brand identity, packaging, attributes, and information (Brakus et al., 2009).

The bad news is that today we are all competing against Disney-like experiences. World class service abounds in best-of-class organizations and raises our expectations to what service could be like—and should be like. The consumer experience has become holistic and contains cognitive, affective, emotional, social, and physical reactions by the consumer to the retailer as documented by Renaires and Garica, 2012.

As it relates to credit unions, the physical branch is far from dead—it has just changed. The fact is that the physical environment is the cornerstone to engage with clients in mitigating problems and issues, and conducting complex and important milestone decisions (mortgage, wealth management, and commercial loans).

Temessek (2009) further confirmed that ***physical banking environments*** are at the "***core of the service***" (cited by Renaries and Garcia, p. 380).

Studies have attempted to evaluate branches as a whole, rather than focus on individual aspects, such as environments, physical and functional dimensions, affective responses, and conceptual frameworks. Strategic branching is still a tool in the toolbox to create growth. Environments can be evaluated by:

- Design;
- Social factors; or
- Ambient conditions (e.g., lighting, colors, temperature, noise).

Additionally, psycho-geographic concepts such as privacy, crowding, or territoriality can influence an environment as well as architectural features (e.g., layout, interior design, windows) (Greenland and McGoldrick, 2005).

Physical and functional dimensions can affect customers such as spaciousness, signage, colors, and design elements, which can then affect emotional states (Baker, Berry, and Parasuraman, 1998; Donovan and Rossiter, 1982; Greenland and McGoldrick, 2005). Affective response examines how customers' emotional response—or mood—keys approach or avoidance behaviors related to privacy, communications, choice and information gathering (Huang, 2003; Greenland and McGoldrick, 2005).

Lastly, conceptual frameworks involve customer responses that are linked through store environments (social, design, and ambient factors), store choice criteria (service quality, value, effort) where store design was found to influence patronage decisions as well as image perceptions along price and quality dimensions (Greenland and McGoldrick, 2005).

All Things Being Equal, We Do Business with Our Friends

When we create long-lasting relationships, we can mitigate occasional service issues and blips in service delivery. Doing nothing to upgrade current environments and engagement is a recipe for flat results.

Banking relationships with financial service providers often serve as only utility providers, meaning one thinks about them only when they receive a bill (Ferguson and Hlavinka, 2007).

Alternative financial service providers have caused customers to become conditioned to shop around for the best banking options so that consolidation of services is rarely considered (Ferguson and Hlavinka, 2007).

For most industries, executives are “shocked” when clients go away. Without paying careful attention to relationships, you will operate at a deficit. Unless your staff creates confidence and “trust”—and owns the relationship by treating clients just like the first day they “won” the relationship—you are in jeopardy of losing them.

Watching your relationship balance sheet is mission critical.

A Bank Administration Institute (BAI) study conducted in 2005—with NewGround sponsorship —indicated: “**BAI’s analysis found that, while banks view relationships in terms of the number of products a customer has with the bank, consumers view relationships in terms of confidence and trust**” (Ferguson and Hlavinka, 2007, p. 112).

Symonds, Wright, and Ott (2007) discussed customer-led banking and how these banks retain and grow their customer base. Focused on the “cost of losing” a long-tenured profitable customer, bankers acknowledge that their account holders need a better customer experience (p. 5).

The cost of winning a client versus retaining an existing one remains six to seven times more expensive.

It is not surprising that bankers surveyed overwhelmingly rated managing the customer experience as the most important factor for success (Symonds *et al.*, 2007, p 5).

Duarte et al., (2016) referenced a SERVQUAL scale in measuring the difference between customer’s expectations and the perception of a service. Dimensions of service were determined by Parasuraman et al. (1985) and Berlezzi and Zilber (2011) as a top-five of:

tangibles, reliability, responsiveness, assurance, and empathy (p. 245).

These were further explained as follows:

- **Tangibles:** Appearance of physical installations, building, equipment, staff and communication materials;

- **Reliability:** Ability to perform the promised service dependably and accurately;

- **Responsiveness:** Willingness to serve the customer and provide prompt service;

- **Assurance:** Knowledge and courtesy of employees and ability to convey confidence and trust; and

- **Empathy:** Providing caring, individualized attention to customers. (Duarte et al., 2016, p.)

Strategy First
Strategy must lead innovation in customer experience environments—and customer—retention by integrating experiences into the business model and understanding that **customers want personable and memorable experiences that create loyalty.**

Chase and Dasu (2014) referenced Pine and Gilmore's *The Experience Economy (1999, 2011)* indicating that clients are willing to pay a premium for memorable experiences. Experiences are closely related to perceptions of service in three ways:

1. Emotions;

2. Trust; and

3. Control (Chase and Dasu, 2014).

Services are human-laced puzzle environments, where success depends on relationships and offering outstanding products and services. People complicate the equation by being unpredictable, temperamental, irrational, occasionally crazy, and frustrating. Creating an experience that maximizes a positive emotion is a deal changer for an organization.

Emotions influence what we remember, how we score and encounter, and the decisions we make (Chase and Dasu, 2014, p. 575). Emotionally-charged events are easily recalled. Trust develops when engagement outcomes are not completely under the service provider's control, and the customer has no access to the provider's skills or knowledge. Competence and motivation are key differentiators (Chase and Dasu, 2014). Control allows customers to either have direct control over the process, feel that things are in control when one cannot directly influence the process, or "know that someone is maintaining order and apprising customers of the changing situations" (Chase and Dasu, 2014, p. 576).

NewGround believes that "**Leading with Strategy**" includes many elements of designing the customer experience and delivering on the "**experience demographics**" of service management (Chase and Dasu, 2014, p. 577).

Temessek (2009) further confirmed that ***physical banking environments*** are at the "***core of the service***" (cited by Renaries and Garcia, p. 380).

Pine and Gilmore (2016) stated, "A business model is defined by what it charges for. A company that charges for undifferentiated stuff is in the commodities business. One that charges for tangible things is in the goods business. One that charges for the intangible activities its people execute is in the services business. But, if a company charges for the time its customers spend with it, then and only then is it—economically—in the experiences business?" (p. 8)

Understanding the customer's emotional mindset at the physical encounter is a function of demographics, psychographics, previous encounters, and understanding the consumer journey.

Using an **experiential-based client approach**, NewGround initiates strategy through a proprietary journey mapping process that addresses **key points-of-experience touchpoints** (zones) within the branch environment. These zones are identified as:

- **Attract;**
- **Engage;**
- **Transact;**
- **Consult; and**
- **Staff Needs.**

Developing a needs matrix allows clients to understand the dynamics that need to occur at each zone to achieve desired member experiences. These activities vary for individual expectations, whether they are 'self-helpers' or 'help-seekers' (NewGround). NewGround firmly believes that the member experience is connected to performance.

Let's Talk.
Through over 100 years of innovation, NewGround has driven the conversation on facility design for financial institutions. We believe that structures without strategic purpose are just windows and walls and that in order to uncover the ideal solution you must start with your brand and your culture.

When considering a project as complex as a new building or major renovation, it's never too early to begin strategizing. We can help.

To learn more about credit union statistics, visit our website or contact us:

NewGround
636.898.8100

888.613.0001
www.newground.com

Appendix

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