

# Offering Incentives of Lasting Value

## The Top 4 Tips to Uncover the Right Incentive Strategy

Credit unions can maximize current high consumer churn with larger banks by using the right incentive strategy. The CU needs to emphasize their strong sense of reliability and trust in order to gain new members. Effective consumer incentives are a strong way to reinforce the credit union's brand. *By Neil Bartlett*

**A** May 2010 survey by Alix Partners, LLP, a global business-advisory firm based in New York, is the latest indicator of the depths to which consumer dissatisfaction with financial institutions has fallen. The 2010 U.S. Financial Services Industry Outlook survey of 1,000 bank customers found that more than one-third – 36 percent – were more distrustful of banks than they had been just one year earlier. A previous Alix survey conducted in December, 2009, found that 22 percent of large bank customers planned to switch to local banks, which they found to be more trustworthy.

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**– Greg Manis**



*Will Harris – Director, Alix Partners, LLP*

What's more, almost one-third – 31 percent – of Americans with decreasing trust in banks say they will be changing or dropping their current bank relationship. “The credit union difference is resonating more strongly with the general consumer,” says Greg Manis, director of marketing at CommunityAmerica Credit Union in Kansas City, Mo., with assets of nearly \$1.8 billion. “When compared with the big banks, these differences continue to be more appealing to consumers.”

And it appears to be a trend that hasn't peaked yet – re-



*CommunityAmerica's Owner's Manual*

search indicates it will likely get worse before it gets better, according to Will Harris, a director at Alix and one of the survey's authors.

It's the lack of trust that's underneath much of the dissatisfaction, says Harris. He says that while this factor hasn't been teased out in the media, it's really at the forefront of the issue.

"Everything we hear says we haven't reached a peak yet," says Harris. "Regulatory environments haven't taken full effect. Consumer distress is common. Consumers are confused and don't know exactly where to turn and who to trust with their money."

This fall, the theme of International Credit Union Day (October 21) features trust front and center: "Local. Trusted. Serving You."

"At a time when the public's trust is repeatedly compromised by large commercial banks, credit unions' commitment to their local communities and to providing trustworthy member service could not be more important," says Pete Crear, president/CEO of the World Council of Credit Unions.

Harris also cites trust as a key strength, one that credit unions need to highlight. "The steadiness of the credit union movement means credit unions have a strong opportunity to gain market share and reinforce their existing membership," he says. "But they need to emphasize their reliability."

Harris notes that the Alix surveys point to consumer anger that is more directed at the big banks. "Differentiation is occurring in the banking community. "The community banks

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are saying, "We're not like the big banks,"" he says.

He notes this could be a strong opportunity for credit unions to capitalize on tangible incentives along with intangible goodwill. "There's a need for credit unions to offer real benefits and personalized service," Harris says.

### **Incentives**

Providing effective consumer incentives is a strong way to cement new member loyalty and reinforce the credit union's brand. Providing incentives well transcends the world of financial institutions. Data from the Incentive Federation shows that incentives rarely get the media attention dedicated to advertising or Internet marketing, but they are big business. Of the estimated \$80 billion U.S. businesses spend on promotion marketing annually, almost \$30 billion is spent on consumer incentives.

"When casting a wide net is necessary to bring in substantial numbers of new members, it's challenging to find an incentive that appeals to the masses," says Manis. "We've had much better luck with money rather than practical gifts, as it allows consumers a choice on how they want to spend it, rather than



hoping a specific gift resonates and moves them to act.”

“We’ve used our own Visa gift cards as incentives, and it’s been somewhat successful,” Manis says. “Because of service fees, expiration issues and current legislative changes, we’ve started shifting toward incentives in the form of cash that’s deposited directly into member accounts.”

When vying for new credit union members, offering tangible gifts can provide credit unions with a market edge, according to Alan Yarbrough, a former credit union marketing executive and now an executive with Texas-based River Rock Marketing Services ([www.riverrockssvcs.com](http://www.riverrockssvcs.com)), specializing in incentive-based acquisition and retention programs for financial institutions.

Yarbrough believes a tangible reward such as a backpack, cooler bag, or sports duffel creates more lasting value because it creates trophy value (“My credit union gave me this because of that.”), longevity and practical use. “Every time the member uses a backpack from the credit union, whether it’s on a camping trip or a child is toting books to school, it’s a branding impression,” he says.

“For the credit union, giving a gift provides immediate consumer gratification and can lower marketing costs significantly. If a credit union gives \$100 for a new account, and I can demonstrate that a gift that costs \$20 dollars gives more lasting value,

I’ve just saved the credit union \$80.” He also believes cash and gift cards run the risk of being seen as “vaporware” (here today and gone tomorrow) by new members.

### Balancing Act

At Utah’s Mountain America Credit Union, its size (\$2.79 billion in assets), reputation and longevity have largely immunized it from the consumer distrust apparent toward large banks. “We have strong brand awareness and we’re very visible in the community,” says Jeremy Nelson, AVP of Marketing.

The credit union celebrated its 75th anniversary in 2009, and has been promoting its strength, stability and reliability. “We emphasize that we’ve been here for three quarters of a century and we’re going to be here a long time,” he says.

Attracting new members has to fit in with the credit union’s larger marketing emphasis, says Nelson. “Acquisition is a big goal for us, but we’re still fleshing out how to best tie in member incentives to our strategy. We want to make sure we’re promoting our brand, while maintaining an aggressive approach to acquire new members. We want to continue to be active and visible in the communities we serve and make people feel good about doing business with us.”

Mountain America’s sales area researches retail trends through its various vendors, asking them what merchandise

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is most popular and what’s selling. Gordon Combs, Mountain America’s sales manager, notes that a couple of years ago the credit union ran a campaign for those opening a new checking account, and it gave away a hoodie co-branded with two local Utah universities. This year, research discovered that backpacks are quite popular, so it’s offering a co-branded backpack to members who open a new checking account or get a new loan with eStatements.

Overdraft protection has paralyzed the industry. Banks may begin to remap their product lineup and charge for services that used to be free. If that’s the case, CUs will have a tremendous opportunity to say, “Ours are really free. For doing business, here’s a gift in appreciation,” to incent the consumer – free services *and* a free gift.

CommunityAmerica was successful in creating an award-winning new member welcome kit to help kick-start building loyalty and begin brand indoctrination from the get-go. “We call our kit the ‘Owner’s Manual,’” he says, “with the play on words hinting at the member/owner principle.”

The manual gives CommunityAmerica staff to lay the groundwork for future sales, and serves as a one-stop reference for members, giving them important credit union information like branch addresses, phone numbers, the credit union difference, and even special offers exclusive to new members.

Whatever incentive strategies you choose, now is the time to let those disillusioned former big-bank consumers know that you want them – and you’ve got the products, services, and yes, even the incentives, to restore their trust in financial institutions again.

## Incentive Strategies: The Top Four Tips

### **1. Reward new behaviors.**

“A good promotion should incent a new behavior, not reward an existing one,” says Manis. “Our primary goal is for new accounts to be active – that’s the best path to becoming a member’s primary financial institution (PFI). That provides opportunities for future product relationships.”

### **2. Make sure you know the credit union’s bigger picture.**

Do your homework first. Make sure you understand what your marketing objectives are, and who your incentives are targeting, says Nelson. Will it bring value to them?

### **3. Don’t conduct a “knee-jerk” strategy.**

Nelson warns against being reactionary – pursuing a particular incentives strategy just because your competitors are. “That may or may not be the right strategy for you,” he says.

### **4. Timing is everything.**

If you commit to a strategy, be sure you’ve got a targeted product matched to your targeted audience – and if it’s a gift, match the right gift to the right time of year.

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