The Convenience Economy

HOW MEMBERS ARE DRIVING INNOVATION AND CHANGING YOUR WORLD

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Consumers have always gravitated toward products and services that made their lives easier. Today, demand for convenience is fueling an unprecedented explosion in technology and consumers are alternately thrilled and overwhelmed by the opportunities and challenges technology creates. Credit unions that recognize and address this reality—and make it easier to do business with them—will be better positioned to meet member needs and achieve their strategic goals.

Convenience trumps (virtually) all

Why do consumers choose a product or service? For many, convenience is the primary driver. Their demand for convenience is shaping how they research, select and purchase products and services and eroding the concept of brand loyalty.

Historically, convenience meant physical convenience. For instance, consumers often chose their financial institution because it was close to home or work—a critical factor when the only way to deposit money, get a loan, or order checks was in person.

Now, technology often removes "physical" from the equation. Consumers expect to be able to handle most if not all of their daily tasks from the comfort of their home, office or car and will choose which companies to do business with based on their ability to meet this need. Consider the success of Amazon Prime, the annual membership benefit program, which "…at its core, is about changing consumer behavior by reducing friction."[1]

> **"Our real competition is convenience."**
>
> *– Industry Executive*

Credit unions: A history of embracing technology

Over the decades, credit unions have utilized technology to better serve their members. To provide easier access to financial services, the system introduced direct deposit, ATMs and debit cards; more recent innovations have included online banking, and mobile apps.

But it's gotten much harder to keep up with the pace of change and many credit unions can feel overwhelmed—by the speed of technology, the cost of keeping it updated, and the level of competition it creates.

Customer Experience:

Perception

62% of bankers say they provide excellent customer experience [2]

Reality

35% of their customers agree [2]

Credit unions can't assume members think their experience is outstanding. They also can't rest on their reputation for strong face-to-face customer service at a time when use of the branch continues to drop: research shows half of all bank branches could disappear over the next decade. [3]

The impact of innovation

Consider the average consumer's day and the role technology plays in meeting their needs. From the moment they wake up—smart phone often serving as their alarm clock—consumers can easily check the weather, get directions to their client meeting, order that must-have birthday present, buy groceries, and send money to their college-age child. Activities that used to involve face-to-face contact and a trip in the car can now be done with a few taps on a mobile device.

In just the last 25 years, a wide variety of companies have leveraged technology to provide existing services in a more convenient way—usually to the detriment of legacy providers.

Consider mp3 files and iTunes and how they've affected the market for CDs, how Amazon has forced retailers in virtually every industry to rethink their business model, and the disappearance of Blockbuster and other video stores in the face of streaming services like Netflix and Hulu.

And financial institutions aren't immune, given the impact online companies like mint.com and Everbank are having on traditional financial institutions.

Looking beyond financial institutions

As the following chart illustrates, consumers—even young consumers—would appear to have a fairly limited interest in using their financial institution's mobile app for routine transactions like deposits and transfers. But compare those figures to those from fintech (financial technology): the majority of consumers—not just Millennials—turn to fintech companies for at least some of their financial services

Segment	Use of bank's mobile app	Use of fintech's payment services
Millennial	31%	83%
Gen Xers	17%	79%
Baby Boomers	6%	62%

The main reason consumers are turning to fintech? Convenience.

Segment	Convenience	Ease of use
Millennials	56%	55%
Gen Xers	42%	52%
Baby Boomers	41%	45%

Source: SalesForce 2017 Connected Banking Customer Report

Convenience – the path of least resistance

Consumers are actively choosing resources that are convenient and easy to use. In 2016 online virtual financial institutions had the highest net gain with an 11% increase in customers switching from their financial services provider.[4] Each of these companies offer products that are incredibly easy to sign up for—all it takes is a fingertip and a smartphone or tablet.

> **“Technology has spoiled us completely…everything is about accessibility, being convenient.”**
>
> *Raffo Wimsett*
> *Campus Relations Partner at*
> *Commonwealth Credit Union in Kentucky*

Car buying in the convenience economy

In the “old days” the car buying experience typically went something like this: the consumer went into a dealership, and worked with a specific sales person to make their purchase, relying heavily on that person for vehicle data, pricing information, and loan options.

Without ever stepping on to a car lot, today’s consumer can:

- Research ratings and reviews
- Compare prices
- Explore inventories of multiple dealers
- Review vehicle histories

And financing a car is just as easy. Borrowers can go online to:

- Compare rates
- Submit an application
- Get approved
- Close the loan

Today, online and mobile tools have put the consumer firmly in the driver’s seat as they shop for a car, and, even more important to credit unions, as they look for financing. As a credit union, think how much less influence you have as the borrower is making a decision.

Callahan reported that, “Indirect lending at credit unions continued to pull ahead of direct lending in the last quarter of 2016, account(ing) for approximately 56% of total auto lending.” Indirect lending growth in the fourth quarter of 2016 was more than three times faster than direct lending—21% versus 6%, respectively.[5]

What’s next in the Convenience Economy?

Three recent announcements from automakers illustrate looming challenges for credit unions:

Ford’s investment in AutoFi. Consumers use the dealer website to seamlessly buy and finance a car from a mobile phone, tablet or computer. Most of the process happens online; the consumer just signs the paperwork when they pick up their vehicle.[8]

GM’s Book by Cadillac. This monthly leasing service has no long-term contract and allows users to swap out their Cadillac for a new model as long as they keep up payments. CNN Money called it a “‘a new way to own a car. Or, rather, to not own a car.”[9]

Honda’s in-vehicle payment system. Now consumers can buy gas and pay for parking just by pushing a button in their car. In the future this technology could impact non-interest income.[10]

Delivering convenience is anything but easy

Financial institutions recognize the importance of meeting shifting expectations

- 71% of financial institutions said improving the customer's digital experience was their top priority for 2017[6]
- Investments in financial technology industry increased from 1.8 billion in 2010 to 19 billion in 2015.[7]

But recognizing the need and being able to address it are two different things. Many factors come into play:

- **Technology expertise.** Are IT experts already on staff? If not, is it better to hire or contract out?
- **Financial investment.** What level of investment is necessary to achieve desired goals and what does the budget allow?
- **Data security.** Have all potential risks been considered and proper steps taken to mitigate them?
- **Compliance issues.** Credit unions face many regulatory hurdles that fintech may not have to address. How will these impact decisions about technology?
- **Ongoing maintenance.** Convenience isn't a one and done. It requires ongoing oversight and market analysis and a strategic plan that addresses that reality.

There's a lot to consider and stay on top of and it's vital to get digital right the first time. Otherwise credit unions risk damaging their reputation and losing trust—and members.

A three-step convenience game plan

To improve member convenience consider a strategy that incorporates these goals:

- Provides a streamlined, efficient end-to-end lending process to support credit union growth.
- Uses digital tools to engage employees, arm them to better meet evolving member expectations and take full advantage of every interaction.
- Recognizes data is a roadmap to tendencies and behaviors and should drive how the credit union optimizes member interaction.

For more information visit

www.cunamutual.com/convenienceeconomy

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