



Analysis: Coast Capital's Proposed National Expansion

COMM 493: Individual Assignment

Abstract

Coast Capital's members voted in 2016 to expand nationally across Canada. This report conducts a thorough analysis of the operating landscape as a credit union in fierce competition both locally and nationally.

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Introduction

In December 2016, Coast Capital members voted to take the credit union across the country to become Canada's second federal credit union. Of the 15.0% of members who voted, 79.2% favored expansion over the status quo.¹ While the vote was heavily skewed toward national expansion, there are some considerations to be made before allocating resources to build banking platforms and physical presence in other provinces of Canada.

Existing State of Operations

Value Proposition²

Coast Capital operates as a cooperative credit union regulated by the BC Financial Institutions Commission. Credit unions members each hold one voting share and are invited to give input to the Board of Directors so that Coast Capital may continue to serve their interests. The credit union also uniquely offers free chequings and savings accounts with unlimited transactions for all members.³ They are also entitled to dividends that are issued by Coast Capital when there is excess cash. Due to this value proposition, many local residents have turned to Coast Capital to meet their daily banking needs as opposed to larger financial institutions and competitor credit unions.

On top of giving back to members and maintaining operations, Coast Capital is also committed to donate 7% of pre-tax profits to charitable organizations each year.⁴ Additionally, Coast Capital allocated \$5 million to youth movements in 2015, particularly in the late-teens and young-adult age groups.⁵

Industry Analysis

Consumer banking, in general, is a high-profit business. There are stringent regulations in place to limit consumer risks which deters new entrants and inhibits the activities that financial institutions can perform. Usually, financial institutions find ways to profit by lending out their deposited money, and then charging the depositor management fees. For example:

- charging fees to perform banking activities; or
- increasing interest rates on loans; or
- increasing the volume of members and/or deposits; or
- charging commissions on investing activities carried out by the institution.

¹ (Coast Capital Savings Credit Union) - <https://www.coastcapitalsavings.com/PressRoom/NewsReleases/2016/20161214/>

² Value Chain Analysis

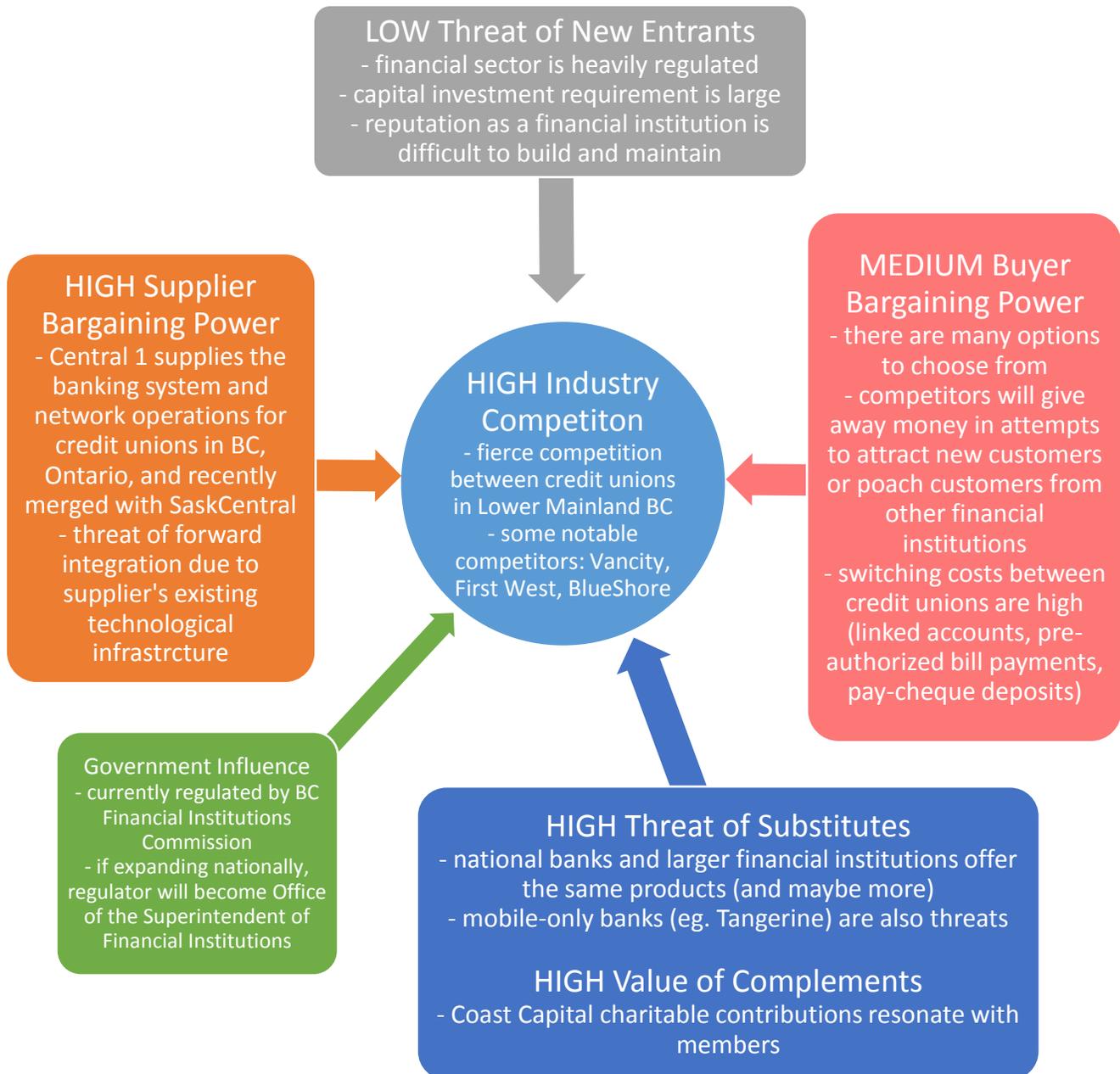
³ (Coast Capital Savings Credit Union) - <https://www.coastcapitalsavings.com/Help/AccountOpening/MembershipDetails/>

⁴ (Coast Capital Savings Credit Union) - <https://www.coastcapitalsavings.com/OurCommunity/CommunityPartners>

⁵ (Coast Capital Savings Credit Union) - <https://www.coastcapitalsavings.com/OurCommunity/ProgramsForYouth/>

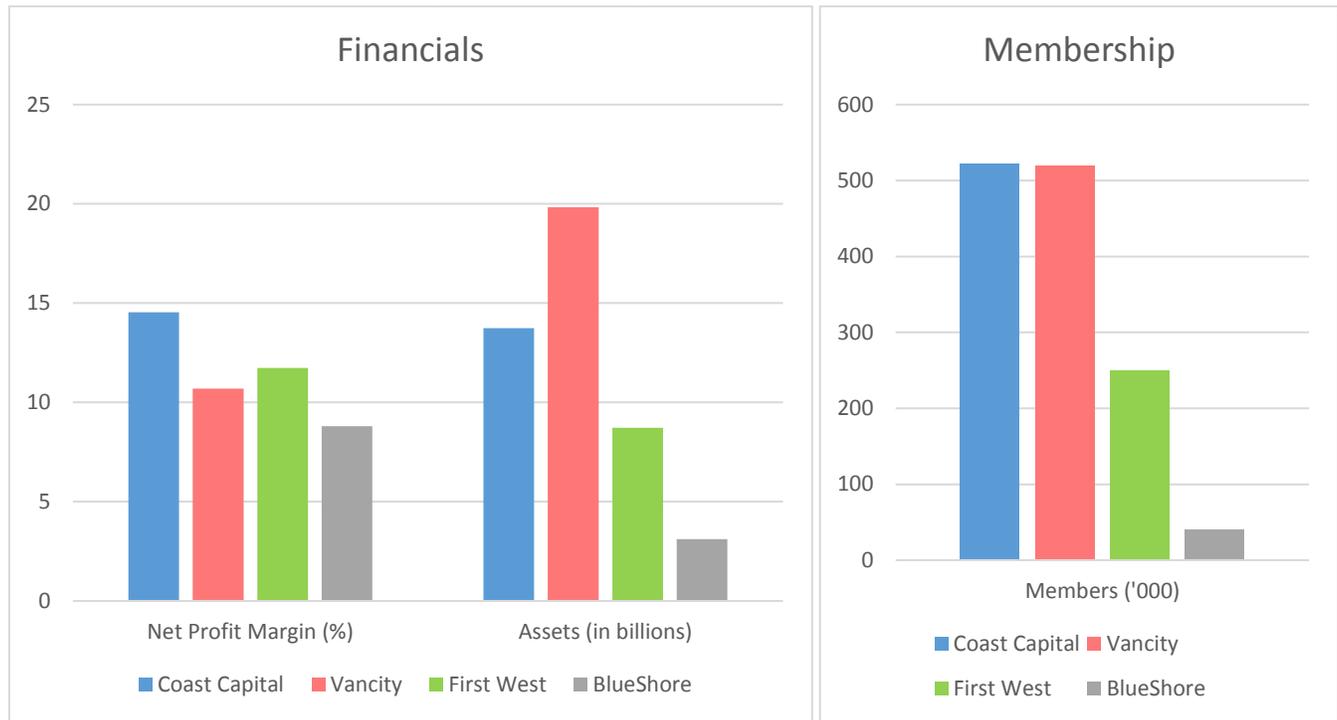
Given that Coast Capital does not charge account fees (and assuming that they are not planning to charge them in the future), it puts the credit union under immense pressure to generate profit from other avenues.

Industry Analysis (continued)



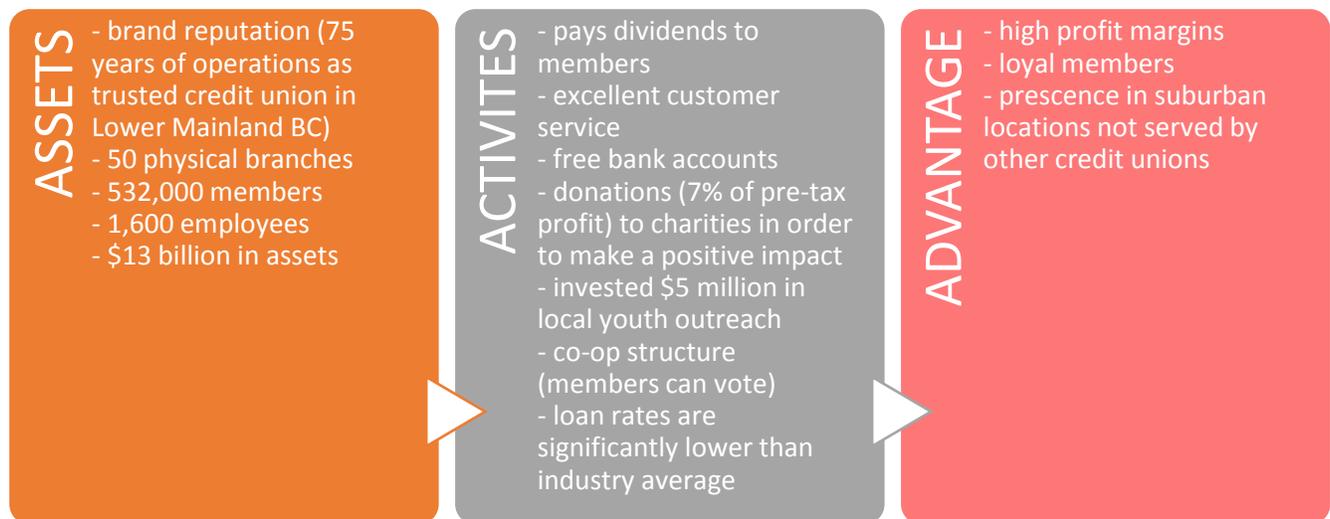
Porter's Five Forces Framework, with consideration of governmental influence.

Financial Performance As Compared with Largest Competitors



As can be seen from the financial figures, Coast Capital is performing well in terms of profit margins as compared with competitors. However, there is no distinct advantage in terms of assets or membership figures.

Competitive Advantage



Admittedly, Coast Capital is excelling where others aren't. They operate in locations of underserved markets, promote social impact, and focus on customer needs, leading to a competitive advantage.

Considerations Prior to Expansion

Target Market

It is quite apparent that Coast Capital's target market is the millennial generation based on the marketing messages from the website, as well as the notable \$5 million in youth investments. This age group represents 27% of Coast Capital's existing members, and are the ones most frequently banking through mobile and desktop-solutions.⁶ They are technologically-adept and keen to adopt emerging products. This is indicative of an open attitude toward banking-without-branches. More importantly, many have not yet reached significant milestones in their lives; for instance, landing a job, tying the knot, purchasing a home, or starting their own business. These milestones represent opportunities for Coast Capital in that they bring more business to the credit union.

However, millennials are also likely to follow their parents' financial institution choices unless prompted by powerful marketing messages to choose other options. Therefore, the conversion rate of potential millennial customers in cities with no physical branch is a question mark that requires further market research.

The existing customers that benefit most from a national expansion would be business-owners with operations outside of BC. However, additional measures need to be taken to ensure that the cost of expansion is offset by additional revenue generated by these business-owners and new customers.

Differentiate from Intense Competition

Due to the nature of Coast Capital's services, competition involves not only local credit unions, but also national banks such as the Royal Bank of Canada (RBC) and Toronto-Dominion Bank (TD), ... etc. The differentiating factors that set Coast Capital apart from the competition is the no-fee chequings account, low-interest loans, customer service, and voting rights under the co-operative structure. In order to expand, Coast Capital needs to build presence remotely in cities where other institutions have already built their reputations.

UNI Financial Cooperation, the first credit union to expand across Canada as a federal credit union, also targets millennial customers. The credit union has a strong foothold in Quebec, which essentially prevents Coast Capital from gaining much market share in the province. Outside of Quebec, Coast Capital could compete against UNI, national banks, and other local credit unions solely on price, which is not a profitable long-term strategy. It is difficult to compete on the grounds of customer service due to the lack of physical branches. In other words, Coast Capital's current competitive advantages do not scale well when expanding across the nation.

Another notable competitor is Tangerine Bank. Tangerine has established itself in multiple cities across Canada and ran a powerful marketing campaign to build brand awareness in the past few years. Large, brightly-lit, neon-orange shipping containers are not easy to miss. Tangerine Bank also has a distinct advantage in that it has access to all Scotiabank ATMs. Coast Capital currently does not have this partnership with national financial institutions. Thus, another question arises as to where members can go to use an ATM if they were to avoid ATM fees. Charging them to use non-Coast-Capital-owned ATMs would defeat the competitive advantage that Coast Capital currently holds.

⁶ Appendices to Deloitte Consulting Case Material

Existing and Potential Partners

Currently, Central 1 is the sole supplier of credit unions' technological infrastructure in BC. The network of credit unions benefit from the arrangement as it is possible to achieve economies of scale through the expert partner. However, this indicates that Central 1 has strong bargaining power with the local credit unions. Central 1 manages not only the payment forwarding process, technology support structure for Coast Capital, but also implements their mobile and web banking solutions. Furthermore, they are able to collect and analyze customer information, giving them even more expertise in the industry. This also poses a threat because Central 1 has the ability to forward-integrate into the consumer banking sector, and even more specifically, the credit union industry.

Although the threat of forward integration is very real, the opportunities of partnership within credit unions are high and could prove to be extremely valuable. For instance, Coast Capital's expansion efforts will strain its financial resources without any doubt. It is worth considering potential partners who would be willing to merge and join forces to spearhead the voyage across the country. First West Credit Union is one of those potential partners who have shown interest in national expansion.⁷

Risk Management

Building technology solutions to support a federal credit union is a hefty investment with massive risks that need to be carefully considered and planned for. Funding for these investments come directly from the members and customers of Coast Capital, some of whom may not be comfortable with the idea of their hard-earned savings being used toward a highly risky investment for federal expansion. Hence, the board of directors must manage member expectations to ensure their ongoing satisfaction, or risk losing them to competitors.

It is also worth investigating why Vancity decided against expansion, considering their abundant cash reserves.

Compliance and Regulatory Adaptations

Coast Capital has always operated under the provincial financial institution guidelines, and will need time to transition to the new guidelines under OSFI (Office of the Superintendent of Financial Institutions). This transition signifies that changes must be made to amount of insured deposits.⁸ Additionally, staff need to be retrained for the new regulations and the credit union must undertake significant costs for the retraining.

Going Forward

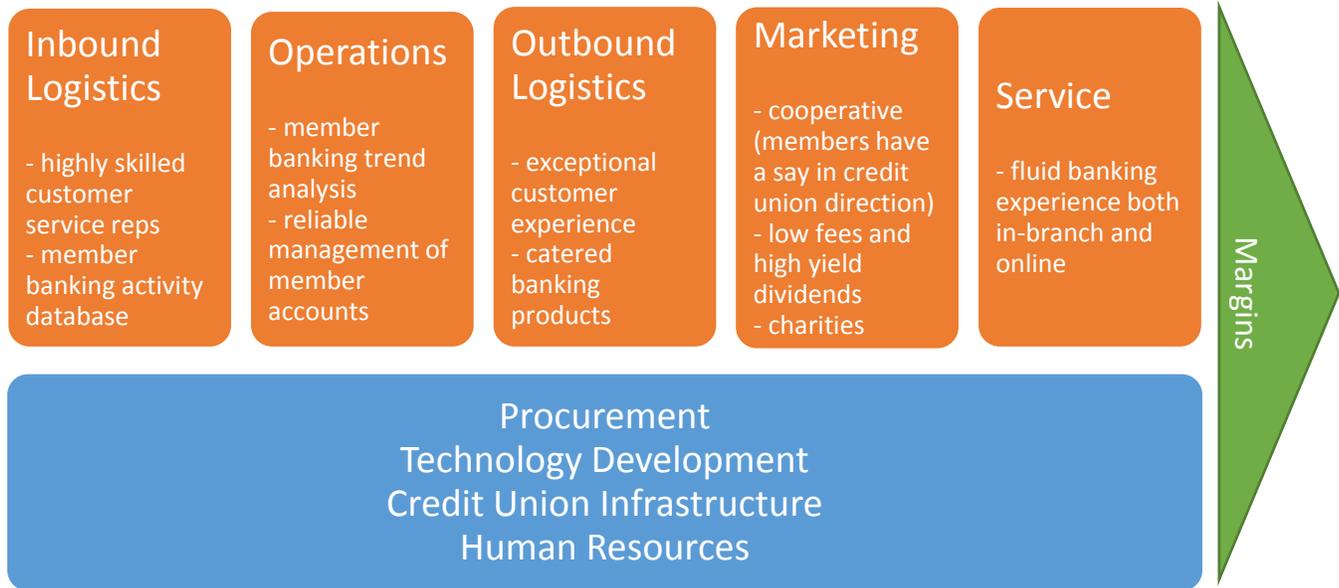
Federal expansion certainly is attractive due to the potential to grow Coast Capital's customer base and increase its profits. Addressing the above cited concerns should be made a first priority in evaluating the potential benefits it brings to Coast Capital's future success. These concerns provide a qualitative view of the challenges in expansion. As such, a detailed financial cost-benefit analysis based on market research should be commissioned.

⁷ (First West Credit Union) - <http://www.firstwestcu.ca/media/first-west-credit-union-positive-toward-new-federal-regulations-credit-unions>

⁸ (Penner) - <http://vancouver.sun.com/business/local-business/debate-emerges-on-coast-capital-savings-plan-to-go-national>

Appendices

Value Chain Analysis



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