A Pricing Strategy Success?

In the following case study, your task is to determine whether the firm should continue with its current strategy (which is mainly priced-based) or does it need to adopt a new approach?

Their Strategy Overview

Credit unions are like small banks that usually only offer services to individual customers (that is, non-businesses). What is unusual about many of them is that they have a limited customer base (almost like a club). For example, there are credit unions that market to consumers who work in specific industries and there are also credit unions for people who live in a designated geographic area.

This case study is based on the fictitious 'Alice Springs' credit union. As the name suggests, this credit union exclusively offers products/service to the residents of Alice Springs.

As a financial institution, they primarily compete with the major banks (all of which have branches in Alice Springs) and, of course, they also compete against internet-based banks.

After a few years of sluggish growth and profitability, the credit union's management decided to change its strategy and become quite aggressive on pricing. In order to try and create a cost leadership position, the credit union decided to try and reduce its transaction business (which adds significant costs to the running expenses of the credit union).

This was achieved by very charging high transaction fees, which resulted in most customers taking their transaction business elsewhere. This allowed them to offer special interest rates for home loans and term deposits (investments), particularly for large amounts. A number of independent comparison websites rated the credit union as having among the best interest rates in the whole country.

Needless to say, this strategy was quite successful in generating greater 'share-of-wallet' from their existing customers. A summary of their results are:

Metrics	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**
Total Loans	$100m	$180m	$220m	$230m
Total Deposits	$120m	$190m	$230m	$240m
No. of Customers	20,000	15,000	15,000	15,000
% of Customers Total Business	30%	75%	85%	90%
Customer Satisfaction Score	60%	90%	85%	80%
Gross Profit	$3m	$4m	$5m	$5m

As can be seen from the table:

- When the special interest rates were introduced, their loans and deposits grew tremendously,
- The aggressive transaction fees resulted in many customers leaving the credit union,
- As a result, profits and share of their customers' business increased dramatically,
- Customer satisfaction jumped substantially (partially due to dissatisfied customers deciding to leave),
- Growth of most factors continued into year 2 – the exception being customer satisfaction (as customers are getting 'used to' the special interest rates), and
- By year 4, most factors are starting to 'flat-line'. This is because the credit union has won virtually all of their existing customers' business.

Management of the credit union is concerned that they are not winning new customers. Without new customers they will not be able to keep growing. They have since identified that their lack of new customers is primarily due to its aggressive transaction fee approach.

Apparently their fees are a disincentive to potential new customers. This major problem because a transaction account is usually a 'stepping-stone' to future products. And through their aggressive fees on transaction accounts, they have effectively 'closed the door' to many new customers.

Obviously, the simple solution would be to reverse their decision on transaction fees – but this would remove their cost advantage and their ability to offer special interest rates (which has been the cornerstone of their success in recent years). So the question now is: can they ensure continued growth without losing their existing 'satisfied' customers' loyalty and business.

Student Discussion Questions

1. What are the firm's strengths?
2. What are their weaknesses?
3. How important is price in their overall strategy?
4. Will their strategy continue to prove successful in the long-term?
5. If not, what new/revised strategy would you recommend to the firm?