Strategic Approach at USAA

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United Services Automobile Association (USAA) is a financial services company that differentiates itself by having a membership that is available only to members of the United States Armed Forces, and their families. USAA has found a niche market that allows it to compete with major insurance corporations by offering a focused differentiation strategy that appeals to servicemembers and the unique situations they encounter.

**We Know What it Means to Serve**

The mission of USAA is to “facilitate the financial security of its members, associates and their families through provision of a full range of highly competitive financial products and services; in so doing, USAA seeks to be the provider of choice for the military community” (USAA, 2018) The life of a member of the United States military is a unique experience that is quite different from the life of a typical civilian. Service members are frequently deployed to faraway places where communication with their loved ones is not always easy. Having a company where one can place confidence that they and their family’s financial affairs will be well taken care of when they are unable, allows service members to focus their full attention on the mission at hand. USAA trains its employees to understand the sacrifice that involved with this kind of service from the first day of training, and relies on word-of-mouth advertising from positive experiences to grow the company’s membership. USAA operates on a closed-membership basis with strict requirements on who is allowed to join. One must be either active duty, reserve, be a member of the National Guard, or be a relative of such a person in order to qualify for membership in the organization. USAA is not a public company owned by shareholders, it is owned by its members who receive a dividend. Employees of USAA must pass an extensive background check and will not be considered for employment if there are any signs of having a questionable moral character. All of these factors contribute to USAA cultivating a successful competitive advantage. Porter (1985) describes competitive advantage with two characteristics “The first is the attractiveness of industries for long-term profitability and the factors that determine it.” and “the second central question in competitive strategy is the determinants of relative competitive position within an industry.” (Porter, 1985) For USAA the relative competitive position is that it markets to the difficulties military families face in keeping on top of their financial situation when the servicemember is otherwise disposed of in his service to the country. This sets the company up for long term success as these needs will always exist, as the nature of military service is unlikely to change. The mission of USAA is to be the provider of choice for this type of solution and it is usually not the cheapest option available. This means that the company must strive to deliver good value for its cost of services and outperform its competition. This is achieved by providing its membership with peace-of-mind. Peace-of-mind is a simple concept that is incredibly difficult to deliver in a chaotic place and time. There are many factors involved in achieving this state and a single negative experience can erode the trust that had to be earned over a period of years or decades. Customers are willing to pay a higher price to achieve this peace-of-mind and having a selective differentiation of products intended for military families goes a long way when thinking about the relative level of service being offered by the company’s competitors. Everybody has financial needs, but by focusing on a unique segment of this market USAA is able to make its members feel protected in a way that other major firms simply can not. A large part of this is minimizing or eliminating the customer’s perception of corporate greed by public shareholders whose primary motivation is a return on investment. Instead, when the members collectively own the company there is more room to provide a higher quality of services that may not be acceptable in the eyes of public shareholders. This strategy benefits the company in the long-run as “ higher quality products would presumably lead to greater market demand, allowing the company to adopt a low-cost strategy through the attainment of higher market shares and cumulative volumes of production.” (Pulaj Kume & Cipe, 2015) The relationship between USAA’s competitive strategy and the company’s performance suggests that there has been a strong demand for these services since this strategic differentiation was started in 1925 The company was founded by 25 officers looking to insure each other’s automobiles and the business model has grown into the company we recognize today. USAA has grown to nearly 13 million members and collects $31 billion in revenue each year. (USAA, 2018) USAA has never seen a decline in membership which suggests that members of the company recommend its services to people they know and once in, remain members for life. USAA is a unique company that has shown how successful differentiation of products and services can provide long-lasting stability for an organization now and into the foreseeable future.

References

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