

a new paradigm for **CREDIT UNIONS:** FULFILLING THE ORIGINAL MISSION

by Mark F. Herbert

The concept of an organization dedicated to support community and personal development resonates with my personal values and professional experience. I also believe that this sensibility is a differentiation that promises a bright future. After the past decade as a consultant then executive for large and small credit unions and after an additional dozen years as a corporate manager and consultant, the credit union mission remains compelling for me.

Recent experience has also provided a solid case study for how a paradigm shift and brand revitalization can produce excellent results.

In my role as COO during the past three years for Oregon Community Credit Union, a 90,000-member community-chartered organization, it has been an intriguing journey to experience the organization's evolution and unique value proposition.



A work in progress since 2005, the OCCU strategy has gained 4000 new members and a 21% growth asset base including \$150million in net revenue from a new product strategy and launch. The work continues but the lessons learned are clear.

***“\$150 million in net revenue
from a new strategy”***

In my experience, credit unions differentiate themselves from any other financial institution by serving as community development vehicles rather than as a conventional financial services institutions. This is indicated in the industry's mission statement made famous in 1935: not for profit, not for charity, but for service.

To thousands of Americans, credit unions represent the facilitator of their first home, their first vehicle, or the first family member to attend college. CU's improve people's lives; financial services represent the means not the end. This mission is clearly distinct from mega banks and even most community banks. It is a significant and inspirational message. With this in mind, I would like to present a new premise: credit unions sharpen and leverage their distinction from banks while capitalizing on selected best practices from banks and corporations.

Banks are in business to return profit to stockholders, and CU's are in business to deliver member value and reinvest in the community. This differentiation is a fundamentally advantageous marketing premise for consumers; however, its full value is not leveraged to maximize competitive strategy by most credit unions (especially small organizations).

*“not for profit,
not for charity,
but for service”*

*“Inside my empty bottle I was
constructing a lighthouse while all
the others were making ships.”*

Charles Simic

Recently, I've witnessed examples of the continued and substantial discord between credit unions and banks on issues such as taxation, chartering, and related topics. I see credit union colleagues become indignant when members refer to us as their "bank," or members as "customers." I also see the CU industry searching for improved profitability but falling into the trap of pursuing business lines and strategies that blur the distinction between banks and CU's. I submit that if CU's dilute their distinction from banks, then banks will gain more market share with their vastly larger budgets and more extensive partnerships. I propose a different course; I'd like to make a political analogy.

There are relevant lessons that can be learned from the success of the Obama campaign strategy. It has succeeded in selling messages for new thinking, change, and collaboration with a grass roots voice. His campaign has affirmed that many disenfranchised people (bombarded by messages) can be mobilized. In particular, a notoriously apathetic demographic (young people) have been successfully engaged. Key to this strategy is the perception of "choice" – differentiation from the so-called Clinton/Bush machine, convincingly characterized as the (same) old political model.

Similarly, CU's can apply their community message of cooperative principles in a focused way that sharpens the distinction from the old authoritarian banking model. As in politics, consumers will be more engaged if they perceive a real choice in financial models. A vivid, effective differentiation strategy will help attract more new CU members, including the coveted 25-40 demographic.

*“a vivid,
effective
differentiation
strategy”*

Why is a new approach necessary? In today's domestic market, most CU's experience eroding membership, especially in younger demographics. We know of several factors. The commoditization of financial services makes it difficult for smaller CU's to compete in offering the breadth of products and the type of technology and delivery channels that today's consumers demand. Community chartering has often caused market overlap. In addition, service has become an expectation rather than a differentiator, and consumers want to define service rather than have it defined for them.

Traditional success for CU's has been commonly measured in terms of capital, ROA, and other financial metrics. Instead, I propose that CU's focus on defining success at higher levels: return to members and return to the community. Then, financial metrics can provide a more valid portrait of sustainable success. To that end, my tenure at OCCU provides an example of pursuing this strategy.

case study :

Oregon Community Credit Union

When I joined this fifty year-old organization a little over three years ago, they enjoyed a strong reputation as a rate leader, service provider, and corporate citizen. Like other credit union unions, OCCU had embraced community charter and geographic expansion as vehicles to grow market share and profitability.

*“new metrics
to measure
success:
return to
members and
return to the
community”*



In doing so, the organization had also made a conscious decision to pursue specific three key approaches:

- 1) Use rate as a revenue growth strategy and, coupled that with an aggressive and highly successful indirect auto lending strategy, as a new member acquisition strategy.
- 2) Rely on a traditional customer service model. For many years, OCCU had enjoyed a good reputation. The idea was to “get them in on rate and grow them on service.”
- 3) Expand the active service area to pursue former members and recapture them. As many former members had migrated to new geographic markets, there was an assumed opportunity to grow market share through expanding branch presence and remote delivery. New branches were planned in several locations from Salem to Portland.

OCCU discovered that these approaches were not entirely valid for their particular situation.

The situation.

OCCU faced a changing, more competitive and complicated regional market. Consumers had become very accustomed to convenience and habit. As with many parts of the country, financial services in this region had become an errand or commodity rather than a relationship. With the proliferation of financial products, the lines between a credit union entity and bank entity had become blurred to many consumers. Surveys revealed that most consumers (as many as two-thirds) didn't know the exact function of a credit union let alone its unique advantages or distinction from a bank.

*“more
competitive and
complicated
market”*

A disciple of the collegial CU industry tradition, OCCU's leadership and its culture were not fiercely competitive. They had not identified a need to develop aggressive marketing strategies and tactics. OCCU was not sophisticated in techniques for brand promotion, competitive positioning, identifying high value market segments, detailed demographic analysis, data mining, and proactive customer relationship management. OCCU's previous model and success did not depend on these elements.

Most indirect OCCU members turned out to be "customers." Without an infrastructure to proactively contact these new members, "growing" them on service proved very difficult. In many cases, these members had no personal contact with OCCU branch staff, who in turn were reluctant to "sell" members additional products and services. The staff saw this behavior as "bank-like" and intrusive.

OCCU realized that many of its members enjoyed only a limited relationship and, as a result, most accounts were marginally profitable; penetration of our "core market" was too shallow. In addition, efforts to differentiate itself in a relatively "crowded" market, especially in with new branches in the expanded geography, turned out to be expensive. The expansion would clearly be a long-term rather than a short-term strategy.

With the audacity to change their approach, OCCU chose to embrace a bold strategy of putting the "community" back in the community CU image and develop a more competitive position with a revitalized brand.

*“many members
enjoyed only a
limited
relationship”*

As you might suspect, any new strategy does not occur overnight and clearly includes some risk. I will be forever appreciative for an executive management team and Board of Directors who were willing to take a level of calculated risk not typically associated with the credit union movement. As it turns out, the reward was worth it.

*“risk and
reward”*

The plan.

Our approach evolved into what became a six-point plan:

- Embrace a sales and service culture. As a colleague once said, “inconveniencing our members by forcing them to go elsewhere for a product or service that we offer is not acceptable.”
- Make frontline employees and the branch managers key to customer service (as well as brand evangelism and, when applicable, product promotion) by converting them from “order-takers” to franchise stakeholders.
- Reconnect with business “partners” that had been neglected in OCCU’s conversion to community charter in 2000.
- Reach out to communities through investments in dollars, community involvement, and individual volunteerism in each of the communities we serve throughout ten counties.
- Embrace an initiative to define a “core member” strategy of current and future members whose values, interests, and long term profitability resonate with the CU’s. These members represented the potential for a lifetime “trusted financial partner” relationship.
- Evaluate the “retail strategy” to include products and services, delivery channels, as well as compensation, performance management and measurement, and related systems.

Implementation.

Sales and Service. The “sales and service” culture involved a comprehensive training initiative including over 40 hours of relationship-based selling and service models for **every** employee starting with the executive team and following through to all others. Employees in leadership roles had that training supplemented by training in coaching and performance management. The “profile” of employees was changed to reflect relationship acumen and “commitment” rather than just technical skills.

We began looking for staff with outgoing personalities and “retail” skills rather than balancing and transactions. In short we wanted staff that understood and embraced the mission. In addition to seeing reduced turnover and increased employee productivity, this also contributed to OCCU ranking in the top 100 places to work in Oregon for the last four years.

In 2006, our Recruitment Specialist was recognized by the University of Oregon’s career placement office as Recruiter of the Year. Given that the university plays hosts to other organizations including Nike, Intel, Columbia Sportswear, and other high profile employers, we are very proud of that achievement.

Make frontline employees and branch managers key stakeholders in customer service. Our decentralization strategy meant that branch management staff and member-facing employees (e.g. tellers) needed to become conversant with OCCU’s marketing strategy, key brand talking points, community involvement, and business strategy beyond the routine financial transaction skills. Each branch aspired to be an embassy of brand ambassadors fluent in OCCU attributes and mission. As a colleague from a competing bank commented to me, “Your managers are just better than ours, more motivated, more articulate, and more engaged. We’re envious!”

Reconnecting with Business Partners. The credit union had significantly decreased direct outreach to business partners and employers in the area. Our new approach created meaningful and productive outreach with an enhanced version of a conventional SEG program.

Our Corporate Business Partner program provided a number of opportunities and advantages for employees such as ATM’s at high traffic locations, advance announcements for new products, and seminars addressing extensive financial issues from financial planning to ways to prevent identity theft. OCCU routinely offers assistance to our partners through shared training programs, speakers for various community and business organizations, and selected sponsorships.

For the last three years, OCCU has been a presenting sponsor of the regional Economic Forecast annual event and the title sponsor for a regional human resources conference offered jointly by the local chamber of commerce and SHRM (Society for Human Resources Chapter). This provides exposure to the region's leading managers and executives.

Community Investment. Our Corporate Business Partner program also invites former SEGs and new business partners to join us in community involvement. Partners were also invited to participate in our training and development opportunities where appropriate. Not only did we offer competitive products, but also a compatible value proposition for the organization and its employees. We offered great rates and improved service, but now our values delivered added value – a chance for partners and members to collaborate on building better communities.

As one example, we chose to invest in the capital infrastructure for the upcoming Olympic Track and Field trials that will be held in the summer of 2008. The University of Oregon responded with a “titled” event for OCCU for the next four years. That investment became even more valuable when the governing body of Track and Field announced that Eugene would be hosting the regional trials in 2009-2011 and the Olympic trials in 2012.

The reasoning behind this investment was two-fold: 1) collaboration with our Community Business Partners on an initiative that will bring millions of dollars to the local economy over the next four years, and 2) investment in local infrastructure rather than merely promotional spending solely to enhance our presence. In selecting the Eugene site for the regional trials and Olympic trials for 2012, the sponsors cited the enormous sense of community collaboration as a deciding factor in their analysis.

OCCU's efforts in community involvement and engagement represent to me the embodiment of CU philosophy. Every full time employee is given the opportunity to participate in serving the not-for-profit or community organization of their choice for up to eight hours per month. This voluntary employee volunteer time is compensated at the employee's normal pay rate by OCCU. Choices include schools as well as other social service organizations. National statistics note that participation at 30% to 35% is considered highly effective. OCCU now enjoys a level of participation exceeding **70%**.

As the executive director of a social services provider said to me, “Other organizations may write checks. The employees and management of OCCU show up prepared to do the work.” This program has been praised as a critical component in our employee’s rating of OCCU as one of the state’s top employers for the fourth year in a row. It is also a logical extension of our service-oriented culture.

OCCU sponsors scholarships at the major public universities in the state. We continued our legacy of giving and added donations to universities in our new branch territories. This is a conventional model, so we took a step out of the box.

In 2006, within its core market, OCCU created an innovative recognition initiative for the educational sector. We developed a proposal and convened two chambers of commerce, three schools districts, the University of Oregon and several of its community business partners, to create a program recognizing educators and support staff in the county’s K-12 educational system. An unprecedented collaboration and event in Lane County, this program’s attendance exceeded 400 including community leaders and educators. Now in its third successful year, the expected attendance will require a larger venue. The positive media coverage honored educators (too often overlooked in our society), and OCCU enjoyed tremendous positioning at all levels of the community.

In late 2006, OCCU collaborated with Oregon Health and Sciences University, a nationally recognized research and teaching institution, and funded an innovative program to train physicians and health care providers. This program addressed the impending critical shortage of skilled healthcare professionals. Unique in the United States, the program was funded by OCCU through interchange income. We were able to communicate to our membership that by using their debit card, they were indirectly contributing to funding healthcare resources for current and future generations. It was a win-win scenario at all levels and, as a bonus, provided tremendous marketing value for OCCU. Additionally, OCCU has presented our healthcare initiative concepts to other financial institutions and invited them to join us in addressing these issues.

OCCU has also taken a collaborative approach in actively seeking other credit unions and financial institutions to become involved in community initiatives and development strategies. When we created the localized concept of the ACE awards, our first requests for sponsorship went to our credit union colleagues.

We have also proactively sought out and received participation from other credit unions and banks in our efforts to support education through Project Literacy and involvement with Smart Reader, programs aimed at increasing reading proficiency at the middle and elementary schools. OCCU is currently working with other financial institutions to offer a financial literacy curriculum in the local school districts.

Core Membership. Developing a “core member” strategy meant defining how to improve wallet share of existing members and how to acquire new members that were strong core member prospects. We considered how these members and future members wanted to have their needs met and how we could optimize our value propositions to meet those needs. Our approach affected everything from delivery channels to product development and community involvement. Deployment of this strategy indeed resulted in deeper “wallet share”, greater member satisfaction, and focused expansion plans. It also specifically addresses the issue of attracting younger members faced by credit unions on a national basis.

Younger demographics were explicitly included in the approach as both current member targets and as “feeder” groups based on research indicating people are beginning their affiliations with financial institutions in their teens. They also tend to be loyal as long as their changing needs are met. In the fall of 2007 OCCU beta tested a product specifically targeting youth with rewards being delivered in the form of iTunes and fee free ATMs rather than traditional interest for balances and transactions. Our retail strategy addressed this group as well.

The importance of developing a core member strategy cannot be underestimated. In 2005 less than 50% of OCCU’s membership could be defined as “core” (i.e. desirable average balances, multiple accounts and relationships). Membership consisted of far more mature members while our penetration in the highly desirable younger demographics was below expectations. The new OCCU core member strategy is successfully addressing both these issues. Knowing how to define and cultivate members with the best profit potential allowed us to carefully target marketing and improve services for all members.

Anyone with experience in retail or manufacturing can tell you that retaining customers is cheaper and more profitable than acquiring them. It follows that proactively optimizing the relationship with existing members makes sense. A high “wallet share” from a smaller group of members is more profitable in the long-term than large numbers of people with a shallow relationship.

As a result of our core member strategy, we identified a flagship product to spearhead marketing. Based on information we gleaned from focus groups about what is valuable to existing and potential members, we launched the BancVue Reward Checking program, which we private labeled as Remarkable Checking. This was launched with a tagline (“Nice. Remarkably nice.”) in our revitalized branding initiative of being a lifelong ally to our membership.

- In its first nine months, this product brought in over 2000 new checking accounts from existing members and 4000 new member relationships.
- The average balances in checking accounts increased by 127%.
- Loan balances increased by 43%.
- Investment services dollars under management increased by 28%.
- The “all in” value of this product after expenses represents approximately \$150 million in its first year.

Just as importantly as the financial returns, this product serves members as they choose to be served. These relationships are highly inelastic. Even with rate changes to reflect market conditions, the runoff or disintermediation from this product has been minimal. As a bonus, word-of-mouth referrals have been far beyond expectations. The total actual value has yet to be quantified, but it is clearly a win.

By redirecting focus to high value core members in existing membership and targeting strategies towards the acquisition and retention of new core members, profitability and sustainability are greatly enhanced.

Retail Strategy. This involved considerations for the size and deployment of “branch” infrastructure, the development of products and services, and efforts in strategic partnering to meet the needs of core members. Unlike many other credit unions, OCCU has opted not to pursue an aggressive business lending strategy, choosing instead to pursue “Blue Ocean.”

We focused on core competencies and data from members on products and services they would like to see offered. That led OCCU to smaller branch “footprints” and interior layouts that make member flow intuitive and convenient.

Most recently, OCCU opened a true “retail branch” with a long-term partner, the University of Oregon Bookstore. This “mini branch” is located inside of the Bookstore’s flagship location and the hours replicate the hours of the bookstore – seven days a week. This was not only an investment in a new footprint model, it was an investment and alignment with a significant cultural force (i.e. the University’s Duck sports teams, which appeal far beyond the student population). OCCU benefited from great market acceptance not only from the students and faculty, but from businesses in the surrounding area that have employees working multiple shifts.

The compensation and performance management systems reflect the retail culture. In addition, we emphasized “at risk” compensation and achievement of member acquisition and retention goals. In this strategic approach, the acquisition of core members and performing services efficiently and effectively are built into the performance evaluation and reward structures at every level.

There are no “bonus” systems or cost-of-living increases. Compensation and rewards are based on setting appropriate targets and then meeting or exceeding them. Individuals who cannot or will not meet the performance targets are reassigned or let go. The “line of sight” for employees in the importance of achieving the goals becomes very clear and they become invested in the member’s satisfaction and the CU’s success.

Measuring Performance. Perhaps most compelling, OCCU has chosen to embrace new metrics such as Return to Member and efficiency (the most cost-effective means of delivering services) rather than the traditional financial metrics. The accepted “best practices” of many credit unions include retention of high levels of capital. I view this as inconsistent with the goal of delivering optimal member value and community investment.

Capital in the 10% to 12% range on the balance sheet can be considered excessive capital that is not working in the community to support the CU mission. Static capital does not help acquire and retain membership, increase member’s satisfaction, or improve communities.

Next steps.

During this three-year journey, it became clear that OCCU could grow membership by presenting compelling value propositions instead of targeting or trying to emulate other institutions (whether banks or credit unions). It became apparent that the CU industry must rise above the acrimonious and dualistic mode of thinking – CU’s battling banks.

That does not mean that business concepts such as profitability, market share, competitive research, marketing strategies, and related ideas should be rejected or marginalized. Many corporate and bank strategies are relevant to the CU industry. If a CU is not sustainable it cannot serve anyone.

Even with its accomplishments as a revitalized brand based on a new paradigm, OCCU has not “arrived” at its ideal position. There are still course corrections, restructuring, and costs associated with shifting to the new model. It will also require improved business intelligence, properly deployed technology, and continued leadership with courage to achieve sustainable success.

With that being said, I can assure you that in my decades as an executive, consultant, and change agent, the opportunities I shared and the milestones OCCU reached represent some of the highlights and greatest satisfaction of my career.

The future can be bright for OCCU and all CU’s. Here is a well-known quote by Brian Andrews given to me by a member of my OCCU staff: if we fail, it will be a failure of imagination.

Not for profit, not for charity, but for service. It is vivid differentiation from banks. Beyond a tag line, it is the basis for a successful national credit union strategy. It is also a powerful vision of hope.

*“In my dream
the angel
shrugged and
said if we fail
this time it will
be a failure of
imagination...
and then she
placed the
world gently
in the palm
of my hand.”*

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