SCIENCE OF GROWTH

Shaping your future in a world where strategy is no longer enough.

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Is a good old-fashioned strategic plan in today's highly competitive environment enough to help your credit union truly thrive? Not according to at least one credit union CEO. To quantify real growth from market share, member loyalty and efficiency, the traditional strategic plan must be enhanced with a balance of ongoing growth measures that board and management agree on and measure success by.

STRATEGY NOT ENOUGH

"We have an excellent five-year strategic plan," says Victor Quint, CEO of $691 million/57,000-member 1st United Services Credit Union (*www.1stuscu.org*), Pleasanton, Calif. "We use a balanced scorecard, measure branch and member profitability, have clearly defined goals and an excellent market for growth in California. Despite all that, we're still not growing or achieving the level of growth and success we know we are capable of, and we've been unable to answer, 'Why not?'"

Quint, a CUES member, adds: "We had diverse measures of what growth we really wanted and we needed someone to connect the dots in our branch plans and locations, our marketing programs, our SEG business development, indirect lending, member service, and our brand to see why it's not all working at peak performance. We especially needed a well-defined set of growth strategies and performance measures the board and management all agreed would help us reach our vision of being No. 1 in our market. We felt that average growth was just not good enough for us; we want to be great."

Strategic planning and even growth goals provide an incomplete definition of a "thriving credit union." Is a 3 percent new member growth rate good or bad if it includes indirect members who only have a loan with your credit union? Does 3 percent to 5 percent asset growth indicate success, or is it just survival? When we find banks growing in certain markets at twice that rate, something is missing. It's our job to uncover what those missing puzzle pieces are and help the credit union focus its resources and energies where they are not performing to their fullest capability.

Faced with the increasing challenge of a record low new-member growth rate of 1.5 percent since 2002, credit unions are struggling to find new core deposits (beyond bringing in CDs with costly above-market rates.) In consideration of these issues, combined with low brand and name awareness in their markets, how can credit unions proactively manage and leverage their growth and performance against aggressive banks and increasing competition from other growing community-chartered credit unions?

CEO Advisory Group just completed the 2007 National Credit Union CEO Survey, gathering key strategy input from 116 CEOs throughout the United States. The survey uncovered some interesting—and disturbing—trends:

• While generating membership growth has become a significant industry issue this decade, credit unions continue to focus on wallet share as their primary growth strategy, with 72 percent of CEOs considering this as "very important."

• Surprisingly, only 15 percent of credit unions reported mergers as very important to their growth strategies.

• A quarter of respondents are considering switching their FOM charter in the next three years, with 87 percent contemplating a community charter and only 3 percent assessing a TIP charter.

• 50 percent of the participants regarded their branch structure as "important or very important" in driving new member growth.

• 36.8 percent of respondents said they will add one branch over the next three years, while 32 percent said they will be adding two to six branches during the same time period.

Our growth survey found 50 percent of credit unions do not have or employ either market and member analysis or a strategic branching plan to guide their most expensive capital decisions. Yet over 68 percent of the CEOs responded that they planned to add one to six branches over the next few years, many without a strategy to guide them.

Getting to tough assessments of growth performance will necessitate the best thinking of your leadership and may require an outside third party with the right diagnostic skills. The core question remains: Does your board and management team define and manage growth metrics that are reliable, actionable yet realistic?

Your answer should consider these thinking points:

• Net member growth should also reflect depth of member relationships and be tracked accordingly through time. (Growth by its very nature is not a static view.)

• Is adding 2,500 new members a year profitable or beneficial growth in itself? What if 60 percent are single-service indirect loan members who leave on average every 24 months?

• When you reach that next asset milestone—$100, $250 million or $1 billion—will your worries be over and economies of scale rain down?

NEW CHARTER, NEW STRATEGY

Simply landing a community charter, or changing names without a strong brand program, solid demographic-based media planning, coordinated staff selling and targeted marketing efforts does not usually yield the kind of growth that sets organizations on a solid growth pace in the market.

How can a growth plan boost your strategic plan? By focusing on achieving objectives and tactics that are not yielding adequate results.

A few of the most common failings we find are: indirect lending strategies that do not include retention and branch service and target member household growth tactics; market growth strategies that do not take into consideration the tactics needed to create true market efficiency and productivity; tactical moves that lack assigned personal responsibility; strategic planning that does not clearly link processes and objectives to maximize benefits; lack of multiple growth scenarios that can be pursued simultaneously; lack of "fall-back" strategies; and strategic growth plans that do not include a mutual definition of what growth means or an agreed-to success measurement matrix between the board and management team.

Strategic plans aren't sacred stone tablets. They're meant to be a guide for focusing resources around common goals. But when those objectives aren't working, or an organization lacks certain experience, skills or marketing savvy to perform to its highest level, a realistic and objective outside assessment of performance, trends and problems can help steer a credit union onto a new track and supercharge them back into the race.

Growth planning preparation starts with an objective 360-degree assessment of a credit union's situation, followed by active positioning and creating core strength.

Every credit union must develop and diligently employ savvy growth and defensive strategies to ensure a bright future and prosperity for the institution. Some of these strategies include organic growth instead of cherry picking, maximizing current market potential before cherry picking new locations, not pursuing mergers without consideration of the net gain in terms of efficiency, and strategically enhancing member service and growth.

By helping the credit union agree upon a new set of key performance indi-

FIVE KEY GROWTH ISSUES

As you and your colleagues take a new look at growth, discuss these questions:

1. How do the board and CEO effectively measure and define healthy or thriving growth?
2. How do you quantify what results your strategic plan is achieving and not achieving to drive the growth level you seek?
3. Do you have a market-share growth plan to quantify market penetration today and for the next five to 10 years of branching plans?
4. Could a proactive merger plan accelerate healthy market growth and match your philosophy and vision goals?
5. Do you have the resources to accomplish the goals and, if not, how do you acquire them?

cators, the board and management can enhance their monthly meetings with clearly defined progress reports on performance and re-align targets of growth to more easily defined impact measures.

These could include monitoring Net Promoter Score instead of simply measuring member service satisfaction to identify the value of referrals and propensity to purchase. Net Promoter Score, in its simplest form, is the percentage of your members who promote your credit union minus the percentage of detractors.

CEO Advisory Group sometimes shifts the measurement of net new members to net growth of target consumer markets, average balances and share of wallet. Many bankers can tell you their share of market and customer retention ratios. Our credit union clients are seeing the value of market share increases in making branches more efficient, reaching profitability quicker and penetrating their regional markets with overlaps and scale economies.

The key to a successful growth plan is creating linkages to the credit union's strategic plan, but with clear targets for measuring constant performance and both good and bad results as they occur.

At its simplest level, for most credit unions growth is a function of three basic components—collectively called "organic growth." These components include: (1) retaining members; (2) generating new members; and (3) growing deeper relationships with existing members. A fourth, but increasingly popular and cost-effective, growth strategy is growth through proactive mergers and acquisitions that can set a faster and smarter pace of leveraging an organization's systems and people to create "wins" for all parties.

Looking at the drivers of organic growth, the science of growth becomes more complex. Credit unions must synthesize data and analysis from a multitude of sources to craft a plan that effectively generates sales leads, converts these leads into sales, and fosters member retention.

In the 2007 National Credit Union CEO Survey, we found that the top four strategies credit unions are currently undertaking to generate organic growth at their credit unions are: 1) improving internal sales culture; 2) increased branding; 3) marketing and advertising; and 4) expanding Web and online banking services. While these are all important strategies, we often find credit unions lack clearly defined measures to evaluate how effective they are in executing them.

With the current climate of stagnating membership growth, credit unions must find new avenues for expansion to be relevant in the future. One of the survey participants in the 2007 survey noted that in the future credit union growth will come from "penetration of small businesses for loans, deposit services, and their consumer needs as well."

To keep pace and thrive, credit unions are increasingly adding mergers to the growth arsenal. There are two sides to every opportunity—be it a merger, the addition of new technology, or a conversion to a sales and service culture. Sometimes member growth comes with short-term cost. Ultimately member growth should show up in enhanced service to members and profitability.

Why do some growth planning strategies succeed while others fail? Often it's the failure of one or more strategic or measurement characteristics.

Unrealistic or unachievable goals: Often boards have unrealistic goals for the management team and aggressive targets for new member growth or return on investment or new branch paybacks they heard someone else reached. Management, trying to

RESOURCES

Give employees a stake in your strategic objectives with Stakeholders. Find out more at *cues.org*. Choose "Stakeholders" from the "Strategic Services" pull-down menu.

Paul Seibert also authored the manual *Credit Union Facility Strategies, Planning and Management*. To learn more about it and other credit union growth products, go to *cues.org* Select "Products." Then select "Growth and Expansion Manuals."

Learn about CU Membership Strategies: A Comprehensive System For Growth. Look for it under the "Strategic Service" pull-down menu on *cues.org*.

EIGHT STEPS TO ACCELERATING YOUR GROWTH

1. Complete an objective 360-degree situation and growth assessment with realistic strategies and tactics.
2. Clearly define what members want vs. what the board and credit union think they want.
3. Conduct board educational sessions to help directors become objective, realistic and clear in their goals.
4. Conduct a comprehensive geo-demographic market and branch performance analysis and adjust, re-engineer and expand member service to maximize market efficiency.
5. Focus on key product refinement and delivery, and core strengths.
6. Enhance marketing and branding in ways that will significantly accelerate market awareness and growth.
7. Create a merger strategy with multiple scenarios.
8. Leverage growth and efficiency through technology.

show they are capable and open, can destroy their credit unions and careers at the same time by striving for the unattainable.

Measurable with a timeline: The difficulty for most management teams and boards is that measurement systems are not integrated with clarity of how measurements may affect real productivity, efficiency or profitability. For instance, are members with low checking balances considered non-productive when they hold a mortgage and car loan? Is a branch really not performing if members are not properly assigned based on recent activity vs. historic association at the main branch? Member growth and member relationships must be assessed over the long term, not in the short-term, annual context.

Clear tactics: Prioritized growth initiatives, markets and marketing must be established and measured.

Parallel strategies: More than one strategy should be pursued at the same time when possible to enhance the potential for measurable success.

Fall-back strategies: It is difficult to think of failure when pursuing growth opportunities, but what if a strategy fails? In growth, the game is about winning more than you lose. Think in terms of best- and worst-case scenarios and constantly expand your knowledge base.

A BRAVE NEW WORLD

Credit unions have thrived because they've kept members first. With that in mind, we must be willing to champion change based on objective analysis and realistic goals.

Most growth strategies are too short sighted. A three- to five-year business plan is appropriate for tactical application of a strategy, but strategies must look more long term. Most viable credit unions will be operating in five, 10 and 15 years; thus the strategies should look at the same period. If the perspective is not long term, short-term decisions may be less effective and even damaging in terms of long-term growth and creating a thriving credit union for the future.

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