

credit union Directors

news letter

TRENDS, EVENTS, & ANALYSIS FOR POLICY MAKERS

JULY 2004

Special Report

Pick Your Strategic Focus

Determine what you want to be good at, and then go after that goal

Selecting a strategic focus for your credit union is one of the most important decisions your board of directors can make.

To help boards understand just how important this decision is to their credit union, I like to use this example:

Why does a lion tamer work in a round cage and carry a chair? The tamer doesn't want to back a lion into a corner. And when the lion looks at the chair, it tries to focus on all four legs at once. If a powerful beast can be paralyzed by a lack of focus, so can your credit union.

If a lion picked one leg of the chair to attack, it would get the chair and the lion tamer. That's a great set of rewards for selecting just one leg of a chair.

When I work with credit union boards, my goal is to help them focus on one leg of the chair and ultimately get the prize: providing excellent member service delivery in one particular area.

Three questions should challenge every credit union board every day:

1. What is our credit union's direction?
2. How do we measure our direction?
3. How do we link credit union performance to CEO compensation and our strategic direction?

Focus doesn't make your board's or your CEO's job any easier, but it makes it clearer.

Credit unions' mantra for the past couple of decades has been "Become your members' primary financial institution." But how many credit unions accomplished that goal? The biggest waste of energy is trying to be too many things to too many people. That's why I tell boards to pick your leg of the chair, and then attack.

Look at top 100 CUs

A CEO of a credit union in Massachusetts helped me realize the power of focus. The credit union has \$185 million in assets and about 8,500 members. The number of members amazed me, considering the credit union's asset size. I figured it probably would have around 25,000 members.

But I realized something after talking with the CEO. It made perfect sense, because this credit union's board decided to be good at providing two things: individual retirement accounts and home equity loans. It had a \$21,000 savings balance per member and a \$19,000 loan balance per member. It beat the average credit union by three to four times in these categories. That's what top 100 credit unions do.

Pacific Service Credit Union, Walnut Creek, Calif., is one of the best credit unions I've seen using

e-services to deliver its lending products. It has one of the highest penetration rates for members' car loans. How did it get there? The credit union decided to focus on being good at preapproving car loans and then making the delivery process simple, fast, and easy. With more than \$1 billion in assets, 90 employees, and three branches, the credit union relies on automation and efficiency to process loans.

Pacific Service doesn't even have a formal written application. It runs members through a preapproval program and then reminds them—through electronic services such as home banking and quarterly direct mail—that they're preapproved.

You want to get so good at something that your members have to think of you the next time they need it. This is called creating "mind share." Pacific Service uses the power of repetition to create mind share.

Find your shark fin

You could be a top 100 credit union and not know it. Look closely at where you stand compared with other credit unions of your size. Look for a shark fin, the one number that stands out when you compare your credit union with others. When you look at peer averages, most numbers will float fairly close to the average.



© 2004 Credit Union National Association Inc. Reprinted with permission.

But the shark fin jumps out at you and is much higher than any others, often beating those of average credit unions by three or four times.

For example, Pacific Service has 80% of members' car loan business, while credit unions overall have an average of about 20% of members' car loan business. How did Pacific Service get there? It decided to be really good at something.

By preapproving members and reminding them repeatedly, Pacific Service took away the anxiety of borrowing. And members don't have to worry if they qualify. They know it before they start car shopping.

Focus also is the strategic vision you determine for your credit union. Some questions credit unions ask as they take a strategic look down the road: What demographic groups do we serve? Which groups should we serve that we aren't currently serving? What does our average member look like? What services and products do we want to be really good at delivering? What will our cost structure look like compared with that of our peers? What's

unique about our credit union? What's our one shark fin?

CU goals & CEO compensation

Once your board picks a focus and transforms it into your strategic vision, tie CEO compensation to that vision. What are the measurement tools you should use to determine you're hitting your goals (Table I)?

According to the 2003-2004 CEO Total Compensation Survey of credit unions with more than \$100 million in assets, published by the Credit Union National Association (CUNA), the top three criteria credit unions use to determine CEO incentives/bonuses are earnings, loan growth, and net income. Carefully selecting these criteria is key. You don't want to have too few or select goals CEOs can achieve too easily.

For example, if you simply set asset growth as a goal, your CEO could run a year-end share certificate special, bring a lot of money into the credit union, and hit or surpass the goal. You pay the bonus, but you weren't very productive for the long-term health of your credit union. If you choose a number of goals, it's

more difficult to achieve just one goal at the expense of the credit union.

Check with the National Credit Union Administration (NCUA) to find your ratio and determine which measurements will work best for your credit union (ncua.gov).

Once you select which measurements to use, pick your shark fin. This goal may be a bigger part of your CEO's compensation package. Again, consider what you're really good at and what portion of your CEO's compensation you want to tie to the shark fin.

A unified vision

A credit union without a vision someday will be a candidate for merger. That's why your board must pick a vision that will unite everyone involved with your credit union.

Anyone can be average. Don't set your goal to be average at everything. In studying top 100 credit unions in seven different asset ranges and in a variety of service categories, it's apparent these credit unions made a conscious decision to get there. It didn't happen by mistake.

Leaders at \$630 million asset IBM Southeast Employees Federal

Table I

Measurement Tools

	Goal
Members to full-time employees	> 340 or <400
Net operating expense to average assets	< 4.0
Net margin	> 4.77%
Share draft penetration	> 30%
Net worth to total assets	> 8.8%
Net charge-offs to average loans	< .50%
Delinquency to total loans	< .97%
Loan growth	> 6%
Asset growth	> 8%
Total loans to total shares	> 85% to < 95%
Member growth	> 4.5%
Return on assets	> 1.10%
Member survey	Due by 10/04
Employee survey	Due by 10/04

Source: Rory Rowland

Additional Resources

- Your state credit union league.
- CUNA:
 1. 2003-2004 CEO Total Compensation Survey for credit unions with \$100 million or more in assets: 800-356-8010, ext. 4157; Stock No. 25341-DN1; or advice.cuna.org
 2. Schools, conferences, and self-study certificate programs for credit union boards: training.cuna.org



Rory Rowland

Credit Union, Boca Raton, Fla., have employed focus. They can tell you what demographic they're pursuing within their membership, and they don't seek select employee groups that don't meet their criteria.

According to NCUA 5300 call report data, IBM Southeast Employees Federal was a top 100 credit union in terms of the number of

members using e-services. The credit union got there by having a focus and knowing which specific demographic group to serve.

When you focus on something and get really good at it, members start talking about you to their friends and you create a word-of-mouth campaign. Your credit union can be like Nordstrom, Wal-Mart, or one of the forgotten retailers in the middle.

Putting focus to work isn't easy. But top 100 credit unions do it.

Focus helps you more closely tie your CEO's performance and total compensation directly to your credit union's performance. It helps you distinguish your credit union among every other competitor you identify. Putting focus to work at your credit union leads to peak performance. ■

RORY ROWLAND is a business consultant and seminar leader. Contact him at 816-478-3249 or at rrr3@ix.netcom.com.

The Power of Focus: Nordstrom vs. Wal-Mart

Fashion retailer Nordstrom decided its business strategy would be full service and full price. Wal-Mart took the self-service, discount approach. These companies are on opposite ends of the retail continuum, yet both are successful at serving their selected market.

That's because both companies chose a focus, or vision. Nordstrom doesn't market to Wal-Mart's customers, and Wal-Mart doesn't attempt to attract Nordstrom customers.

There's a simple technique for accomplishing this task for your credit union. It's called the quadrant exercise (top right). The quadrant exercise is one way to help a board choose a focus, make a commitment to that focus, and make it measurable.

It's never a surprise to me that boards may have some difficulty with this exercise, however. It's hard to make a decision and stick to it. When you pick something, it means you choose not to do other things. And sometimes we want to do everything. It's the trap of trying to be everything to everyone. You can do everything. You just can't do everything great.

During planning sessions, I ask a credit union's leadership team to work on this exercise. We draw quadrants specific to the needs or goals of that credit union. And then we give stickers to board members to put in the quadrant, signifying the direction they want for their credit union.

For example, your credit union really wants to serve particular member groups with more loans. The board should consider, for example, where you want to be on the loan-to-share continuum and the resulting effect on net income (bottom right). Or the board should determine the acceptable level of delinquencies or charge-offs.

We can do as many charts as necessary to help the credit union establish its focus. After a number of these exercises, a much clearer vision of the credit union emerges.

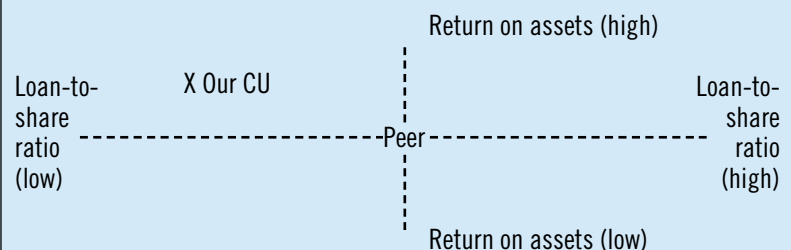
This is a great board exercise. It forces you to decide what you want to be and to actually push your balance sheet to that end. Seeing all the dots clustered in particular quadrants is a visual way to help you define your focus.

—Rory Rowland

Quadrant Exercise: Nordstrom vs. Wal-Mart



Quadrant Exercise: Sample CU



Write Measurable Goals

A goal is what you want to accomplish, expressed as an end result. It specifies a certain performance or outcome to be completed within a given period of time.

A goal represents progress—a gain beyond past accomplishments. Goals are specific and measurable—whereas statements of intent are not.

Consider these five basic characteristics of a measurable goal, as stated in CUNA's Volunteer Achievement Program (VAP). Each goal your board writes in a planning session should meet all of these criteria. If it doesn't, it's probably less than measurable.

1. Goals state desired results or outcomes. There should be a clear picture of what has to occur before you accomplish the goal. Examples include:

- ▶ **Increase** membership;
- ▶ **Build** a new credit union building;
- ▶ **Send** out a newsletter.

2. Goals include a specific time frame or deadline. Either the goal or the action plan should have a specific statement of when you should complete the goal. Examples:

- ▶ **Complete** by Jan. 1, 2006;
- ▶ **Complete** by the December board meeting;
- ▶ **Complete** by the end of the 2004 fiscal year.

3. Goals should have a standard for success. There should be a measurable way of determining when the goal, as stated, has been accomplished. This characteristic adds a quantitative yardstick to the desired results or outcomes stated in the first criteria. Examples include:

- ▶ **Increase** membership to 3,400;
- ▶ **Build** a new credit union building according to the board-approved plan;
- ▶ **Send** out a monthly newsletter to every member household.

4. Goals should be realistic and attainable. Consider the available labor, time, and budget as well as the nature of your credit union, field of membership, and location. Is it practical to expect that you will complete the goal?

Set your goals high, but make them realistic. Example: Increase membership from 3,200 to 3,400 by Jan. 1, 2005 (indicates a moderate increase within a known amount of time).

5. Goals should be clearly communicated. By reading only the goal, anyone familiar with credit unions should be able to understand what has to be done, in what area, and when it should be done. Example: Send out a monthly consumer information newsletter to every member household beginning May 1, 2005. (You know what its content will be, to whom it goes, and when the first newsletter will be in the mail.)

At first, goals may seem vague. But adding the other four characteristics gives your goal substance until it becomes clear and precise. Only the use of the five characteristics together makes a goal measurable. A simple formula to remember if you get stuck:

A well-written goal = action verb + measurable result + deadline date. ■

Table II

Sample Goals

Vague	Measurable
1. Increase membership by the end of the year.	1. Increase membership from 2,800 to 3,400 by Dec. 31, 2004.
2. Improve office layout by April 20, 2005.	2. Develop and implement an office layout plan using work flow simplification methods, which improves member traffic flow 15% by April 20, 2005.
3. Increase auto loans by June 1, 2005.	3. Design and implement a marketing program resulting in \$240,000 in new auto loans between Jan. 1, 2005, and June 1, 2005.

Source: CUNA's VAP



CREDIT UNION DIRECTORS NEWSLETTER (ISSN 1058-1561) is published monthly for \$78 per year by CUNA & Affiliates, 5710 Mineral Point Road, Madison, WI 53705-4454. (Multiple-copy discounts available.) Periodical postage paid at Madison, Wis.
POSTMASTER: Send address changes to CREDIT UNION DIRECTORS NEWSLETTER, P.O. Box 461, Annapolis Junction, MD 20701-0461. Advertising is accepted only from reputable firms, but inclusion of advertising does not imply endorsement by the newsletter or CUNA Inc.
Editorial staff: Kathryn Kuehn, editor, kkuehn@cuna.com; Ann Hayes Peterson, managing editor, apeterson@cuna.com.
Contributing editors: Sue Lanphear, slanphear@cuna.com; Bill Merrick, bmerrick@cuna.com; Mary Mink, mmink@cuna.com; Judy Weidman, jweidman@cuna.com.
Editorial: 608-231-4211 ■ **Subscriptions:** 800-348-3646, fax 301-206-9789, or www.cuna.org ■ **Advertising:** 608-231-4434
© 2004 Credit Union National Association Inc. All rights reserved. Produced in cooperation with your league.