

THE CALLAHAN REPORT

OCTOBER 2013

At the Leading Edge of Credit Unions

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HARNESS THE WISDOM OF THE CROWD

INDUSTRIES ACROSS THE GLOBE, INCLUDING FINANCIAL COOPERATIVES, ARE MAKING GOOD USE OF MOB MENTALITY.

BY ALIX PATTERSON

FOR THE PAST six years, Doritos has crowdsourced its commercial for Super Bowl — the ultimate stage for creative promotion and a true test of a brand’s viability — through its Crash the Super Bowl ad contest. For the 2013-2014 season showdown, Frito-Lay has promised \$1 million to the contest winner as well as \$500,000 to the runner-up. In 2012, the chipmaker brought its internationally embraced Do Us A Flavor crowdsourced concept to the United States when it solicited the public to vote via Facebook for one of three consumer-created potato chips. In the end, a Wisconsin mother rose to the top with her winning flavor, Lay’s Cheesy Garlic Bread. As with the Super Bowl commercial, the winner took home \$1 million and the runners-up, Lay’s Chicken & Waffles and Lay’s Sriracha, each received \$50,000. All three creators got to see their chip flavors in widespread circulation in 2013.

The outlay for prize money, coupled with other contest expenses, is still considerably less than what Frito-Lay would spend to devise its own audience-pleasing ideas and produce new products. The idea of crowdsourcing — or the act of generating ideas or products through the efforts of a large group — has spread in American industry over the past few years. According to wirelessweek.com, seven of the 35 advertisers in the 2013 Super Bowl line up incorporated crowdsourcing into their commercials.

So what do snack foods have to do with credit unions? More than you might think.

Frito-Lay didn’t rely on stale thinking and processes to formulate a solution to a problem, i.e., how to attract new consumers, it looked beyond its traditional boundaries for fresh ideas. It went straight to the source, so to speak, for that little oomph to make it stand out from the crowd. But can credit unions use crowdsourcing to help the institution and its members? Of course. Credit unions have essentially practiced crowdsourcing for decades — and continue to do so today — and new research shows how collective input can genuinely advance common goals.

CREDIT UNIONS ON CROWDSOURCING

Crowdsourcing is at the heart of the credit union industry: People aren’t happy with for-profit providers of financial services, so they get together to create a better solution. Instead

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IN THIS ISSUE

*FIRST*PERSON

Tom Berquist

SVP of Member Strategies, BECU

“Instead of contributing dollars, credit union crowdsourcing today asks participants to contribute brainpower.”

of contributing dollars, though, today's crowdsourcing asks participants to contribute brainpower. There is a great deal of brainpower out there — much more in a collection of a thousand members than in a conference room of executives — so how can credit unions tap it to the benefit of the institution and its membership? For the answer to that question, just look around the industry.

Each year, Michigan-based CUSO CU*Answers holds a contest to solicit video ideas covering a specific credit union-centric topic; for example, credit union ownership. Client credit unions enter script ideas that are applicable to the majority of credit unions. CU*Answers chooses the best ideas and works with a video company to produce the videos, which credit unions can then customize and use for their own promotions. Several years ago, two state leagues chose CU*Answers' video winners for a state-wide promotion of credit unions.

Affinity Plus Credit Union (\$1.7B, St. Paul, MN) uses employee crowdsourcing to tackle a wish list of improvements and pet projects. Through its Make A Change For The Better program, every one of its nearly 500 employees address problems and opportunities within the credit union. Employees work in small groups to hash out ideas and present them to a group moderator. Once an idea has passed through the vetting process, which at times requires the consultation and guidance of an executive team member, the employee who initially had the idea becomes a project manager who is responsible for creating a timeline, assembling an implementation team, keeping the project on track, communicating the project's progress, and measuring post-project impact three months later.

BECU (\$1.5B, Seattle, WA), Washington's largest credit union, uses a crowdsourcing platform to power its “Ripple Effect” initiative. Through the Ripple Effect, BECU posts challenges and invites employees to respond with possible solutions. Everyone can view and vote on the solutions or offer a comment or refinement. Ideas flow in — as do thoughts, suggestions, and

refinements — and evolve through the participation of hundreds of employees. In time, the most popular solutions rise to the top. Flip to page 4 to learn more about this process from Tom Berquist, BECU's senior vice president of member strategies.

HBR ON CROWDSOURCING

An article in the April 2013 Harvard Business Review titled “Using the Crowd as an Innovation Partner” looks at the instances in which the crowd is likely to produce better results than internal management. The article's authors, Kevin Boudreau and Karim Lakhani, break down successful crowdsourcing into four categories: contests; collaborative community; complementor; and labor market.

Contests are the classic search for ideas — invite a crowd to develop a solution, often for reward, and from a large number of proposals pick the best one. Hello Frito-Lay. These work best, according to the authors, when the problem is “complex or novel or has not established best practice approaches.”

Collaborative communities work together for a common goal or common advancement. Whole industries have resulted from the intentional or serendipitous collective efforts of individuals. The 19th century steel industry is an example; so is Wikipedia; so are credit unions. Proprietary information is difficult to protect.

Complementors contribute solutions to an existing platform. Think app creators for mobile devices. The more creative and useful the apps, the more desirable the mobile devices.

In labor markets, an organization looks to external crowds for labor skills, that is, outsourcing tasks on a large scale. Naturally, someone in-house is responsible for coordinating the efforts of these outsourced workers.

EXTERNAL INDUSTRIES ON CROWDSOURCING

There are countless examples across the globe of successful crowdsourcing techniques. The examples below should serve to inspire new thinking at the credit union. Instead of looking at a single prob-

lem through the lens of a single credit union, consider what new voices at the credit union or within the community at large can bring to the discussion.

OpenIdeo is a community-oriented crowdsourcing website that tackles social challenges such as how to use social business to improve health in low-income communities or how to design an accessible election experience for everyone. Sponsors put forth a challenge and the OpenIdeo online community collaboratively works on and refines ideas until it develops a viable solution(s). Once the challenge sponsor declares a winner, it or the OpenIdeo community works on implementation. OpenIdeo tracks successful implementations, such as the solution to the challenge of how to increase the number South Asian descendants in the bone marrow registry to increase the possibility that minorities will find matches.

InnoCentive is similar to OpenIdeo but with a bent toward the scientific and medical communities. The site has more than 300,000 “solvers,” has received 40,000 submissions, and has solved more than 1,500 challenges. When InnoCentive put forth the challenge of how to separate oil spill material from frozen seawater in barges, the solution came from an unusual source. John Davis is in the concrete business and uses vibration to keep cement liquid during long concrete pours; he suggested applying the same principle to the barge content. Indeed, vibration does keep the petroleum in liquid form as the seawater freezes, which allows spill crews to separate the petroleum from the water, pour it out of the barges, and dispose of it. Companies, public sector agencies, and nonprofits partner with InnoCentive and offer cash rewards for solutions. Davis won \$20,000 for his participation.

TopCoder invites participants to crack tough software problems. Companies post challenges, the website markets the solutions, and winners receive royalties. Participation in TopCoder contests offers prestige for programmers — thus increasing their personal marketability and employability — and innovative solutions for the companies. It's a win-win for both the

company that posted the challenge and those that participate in it, even if they don't ultimately receive the financial reward. Another crowdsourcing company, Appirio, purchased TopCoder in September, creating the world's largest community of developers and designers.

Finally, Danish toy company LEGO uses lego.cuusoo.com to solicit new ideas from AFOLs (adult fans of LEGO). Submissions can address original model ideas, original part ideas, or original models based on the licensed intellectual property of a third party. Fans have suggested kits that create exotic birds and ones that represent popular video games. Viewers of the LEGO site vote on submissions, the company develops the winning ideas, and the winner receives compensation. LEGO unveiled the fourth and most recent CUUSOO winner, the DeLorean Time Machine from the Back to the Future movie franchise, during the 2013 Comic Con; fans could purchase the kits starting Aug. 1.

NEXT STEPS FOR CROWDSOURCING

No group should be able to tap the power of the crowd like credit unions. Now it's time to use that power to form deeper ties with members and communities. For example, instead of relying solely on the tried-and-true newsletter, which is predominantly a one-way communication vehicle, consider how tweets, podcasts, and interactive surveys allow members to comment back. Credit unions can offer up challenges to gauge members' reactions to new products or ideas before making an investment. Member feedback can range from a simple Facebook "like" to a refinement that makes a product or service more amenable to a full-blown idea that appeals to either the entire membership or to a niche. The point here is to harness the brainpower of the many rather than the roomful of execs.

Don't confine your challenges to products and services, though, think about community outreach, too. Find out not only what members think of that road race sponsorship or public school financial literacy program but also how they would refine it. When credit unions reach out to members, they are reaching out to their owners. That relationship is intimate and binding; therefore, the collective energy spent on designing new solutions should be more effective. ✕

IN PERSON & ONLINE WHERE YOU'LL FIND CALLAHAN

CALLAHAN INVESTMENT FORUM

Oct. 9-11 | Boston, MA

Callahan & Associates and TRUST for Credit Unions is partnering for this three-day forum featuring a strong lineup of speakers with impressive industry and investment experience. Sessions include The Strategic Business Model, Improving Your ALM Modeling Process, and Credit Union Investment Strategies: What Can We Learn From the Leaders? This conference provides up to 11 CPE Credits via one credit hour in Economics, two credit hours in Specialized Knowledge and Applications, and eight credit hours in Finance.

For more information or to register, visit www.callahan.com/investmentforum or contact Carissa Heckathorn at checkathorn@callahan.com.

CALLAHAN WEBINAR: MAKE THE MOST OF YOUR MEDIA SUITE SUBSCRIPTION

Oct. 18 | Online

Callahan & Associates offers print and online resources that help busy decision makers evaluate a credit union's performance. Learn how to identify industry leaders, pull ratios, build peer groups, analyze performance data, and benchmark goals with the help of the Callahan Media Suite.

Learn more or register online at www.creditunions.com/connect/calendar.

AICPA NATIONAL GOVERNMENTAL AND NOT-FOR-PROFIT TRAINING PROGRAM

Oct. 21-23 | Orlando, FL

Chip Filson, co-founder and board chair of Callahan & Associates, is presenting a speech titled "The Cooperative Financial Model" during this annual American Institute of CPAs training workshop. Filson will address challenges and opportunities in today's credit union environment.

For more information on the program, visit <http://www.cpa2biz.com/>.

CALLAHAN LEADERSHIP PROGRAM CMO ROUNDTABLE

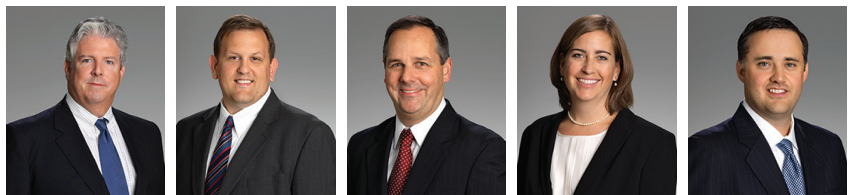
Oct. 22 | Chicago, IL

Roundtables evolve organically as participants contribute to the discussion and suggest topics most relevant to themselves and their peers. This roundtable is an opportunity for credit union CMOs to discuss topics such as advertising channel allocation, approach to and experience with social media, and tracking ROI across campaigns.

Contact vneeb@creditunions.com to register. For more information about Callahan roundtables, visit pages.callahan.com/CallahanRoundtables.html

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BECU ENCOURAGES EMPLOYEE ENGAGEMENT THROUGH SHARED PROBLEM SOLVING

Crowdsourcing software enables the Washington credit union to solicit ideas from employees and build off the solutions of one another.



FIRST PERSON

Tom Berquist
SVP, of Member Strategies, BECU

CU QUICK FACTS

BECU
HQ: Seattle, WA
Assets: \$11.5B
Members: 826,182
12-MO Share Growth: 8.19%
12-MO Loan Growth: -1.27%
ROA: 1.94%

BECU (\$11.5B, Seattle, WA) was founded in 1935 to serve employees of The Boeing Company. What began as a cooperative with 18 members and \$9.00 in assets has grown to include more than 826,000 members and more than \$11.5 billion in assets. The state-chartered credit union is the largest in the state of Washington and the fourth-largest nationally. Although it has more than twice the number of full-time equivalent employees than its asset-based peers, those employees are also more productive. BECU serves 716 members per employee compared to 482 for credit unions with more than \$1 billion in assets. As of June 30, 2013, its employees originated \$2.1 million in loans per FTE versus \$1.0 million for similarly sized credit unions. Likewise, it generated more net income per employee than its peers — \$94,933 versus \$29,072. Tom Berquist heads the credit union’s efforts for member strategies.

A LITTLE MORE than two years ago, we had a strategic conversation with our board about the role of innovation at BECU and how to weave innovation into our culture. We figured we were not going to invent hardware or the like, so we felt we should move away from thinking about innovation as solely the realm of technology.

What we could see was room for innovation in terms of service, processes, and similar areas. Our initial effort included conducting an innovation audit and developing an innovation playbook with the help of a professor who teaches innovation at the University of Washington. At roughly the same time, we learned about a San Francisco company called Spigit that produces software to tap the creative resources of many people at once. We decided to implement our playbook using the Spigit platform in an attempt to stimulate ideas for innovation from among our 1,100 employees.

THE RIPPLE EFFECT

We have internally branded the Spigit software, which is essentially a crowdsourcing platform, as the “Ripple Effect.” It allows us to solicit ideas from a large population, in our present case, BECU employees.

The software allows for different “challenges,” or problems the population is

meant to address. For example: How do we increase auto loans? How do we increase the number of people contributing to the BECU Foundation? How can we better promote health and wellness? These are all challenges — framed a bit better — we have actually put before our employees. The software also allows us to put a challenge before a smaller group, such as employees in a division or employees on a special team.

Once we post a challenge, employees post their ideas as solutions to challenges on the Ripple Effect website. Each challenge has an ideas and suggestions deadline, say three weeks or a month. Everyone can view the solutions posted by employees, and anyone can vote on an idea, similar to a “Like” on Facebook, or offer a comment or refinement. This is when the platform begins to show its real power. Ideas flow in — as do thoughts, suggestions, and refinements — and evolve. They improve with the input of scores and through hundreds of employees participating in the challenge. In time, the ideas that attract more positive votes and positive comments than the others rise to the top.

Management then scrutinizes ideas that have risen to the top. Some require analysis from expert teams. An idea concerning ATMs, for example, would go to an expert team in ATM operation. If an idea passes

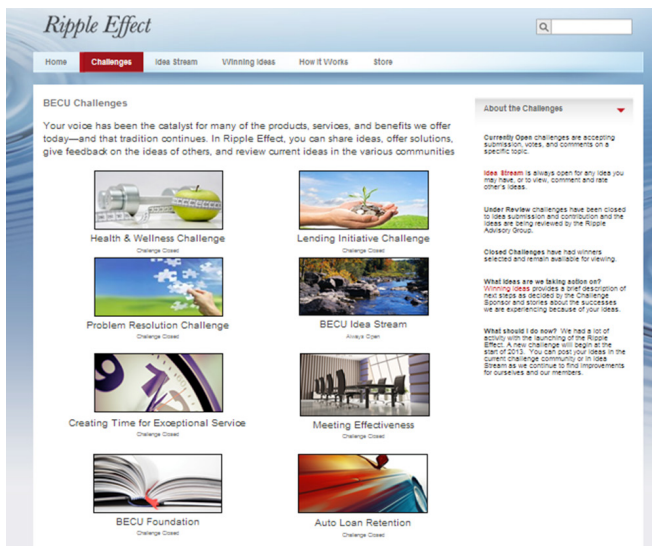
muster with a team, then upper management considers it for implementation.

SUCCESS AT BECU

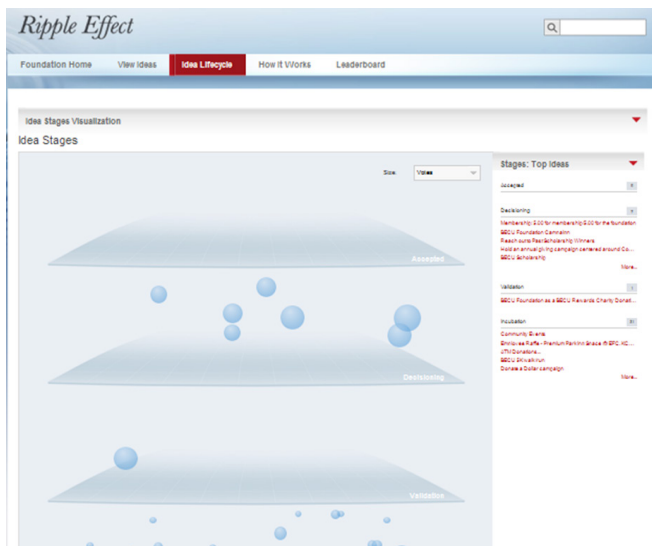
We really like the employee engagement we’ve witnessed. More than 80% of our employees have at least accessed the Ripple Effect system to have a look. Moreover, 46% of our employees have submitted an idea or commented on one; this is a considerably higher participation rate than we expected. We have received more than 500 ideas, including those submitted to not only challenges but also a section welcoming new ideas to help the credit union or its members. All ideas together have received more than 20,000 votes and more than 7,000 comments or refinements.

To this point, we have implemented 11 ideas that arose out of this Ripple Effect effort and are considering four more. We are pleased with the level of engagement. This is a way for the entire employee body to contribute ideas in a transparent manner. People can see their ideas, read comments on them, see how they might be refined, and track whether their ideas are rising or falling among others.

This is a huge improvement over what we had before, which was something like a suggestion box. Employees were free



BECU poses challenges to the entire organization as well as to smaller groups. Nearly half of its employees have submitted solutions or commented on one.



On the BECU Ripple Effect website, ideas flow in — as do thoughts, suggestions, and refinements — and evolve. Through the input of the crowd, the best ideas rise to the top.

to make suggestions, but it was like placing the idea into a black box. Employees never knew what happened to their idea, if it came close to further development or was simply overlooked or forgotten. There was no feedback mechanism. Not surprisingly, employees lost interest. What we like about the Ripple Effect process is that people can see if an idea is gaining traction or not. They can see comments on how their idea might be enhanced, why it would not work, or solutions to obstacles that might otherwise hobble it. We have been especially pleased with the way this effort has worked out culturally, that is, among our employees. People are contributing; that has helped the credit union and it has helped them.

When an idea rises to the top, we have a more formal means of getting in touch with people promoting the idea, prompting discussion, and ultimately saying why upper management is or is not moving forward on the idea.

Besides those mentioned above, challenges we have put forward include (not in these exact words): How can we do better at problem resolution when members call in? How can we retain more auto loans? How can we create more time to deliver better service to members?

Something we have had to wrestle with is how to handle ideas that have risen to the top. Some ideas are small enough for a small team or department to implement. For larger, cross-functional ideas that require significant resources, we must

prioritize them in light of other projects. With these larger ideas, the time lag from recognition of a good idea to implementation is a concern, but I believe we have worked out a path for this.

ASSESSMENT AND THE NEXT STEP

This program offers the power of focus and taps people in a way that yields a better result. You can frame a question that really is a priority for the organization and get people thinking about it and working on it. The focus is sharper and the result is better matched to the problem. Creating a challenge that is focused on a specific issue tends to yield better results, ones that are strategically aligned with your priorities.

If we deem this platform successful, we would consider expanding it to tap into the thoughts of members. This would require more resources and we are not quite ready to do that. But it can be done. Starbucks has a place on its website, called My Starbucks Idea, for soliciting thoughts and suggestions from customers as well as commentary and voting on those suggestions. Reaching out to members in this way, of course, would require some software rebranding and a different dimension of management. But we are at the point where we could begin thinking about it.

HOW WE GOT STARTED

You may be interested in how we got started with this activity. As mentioned,

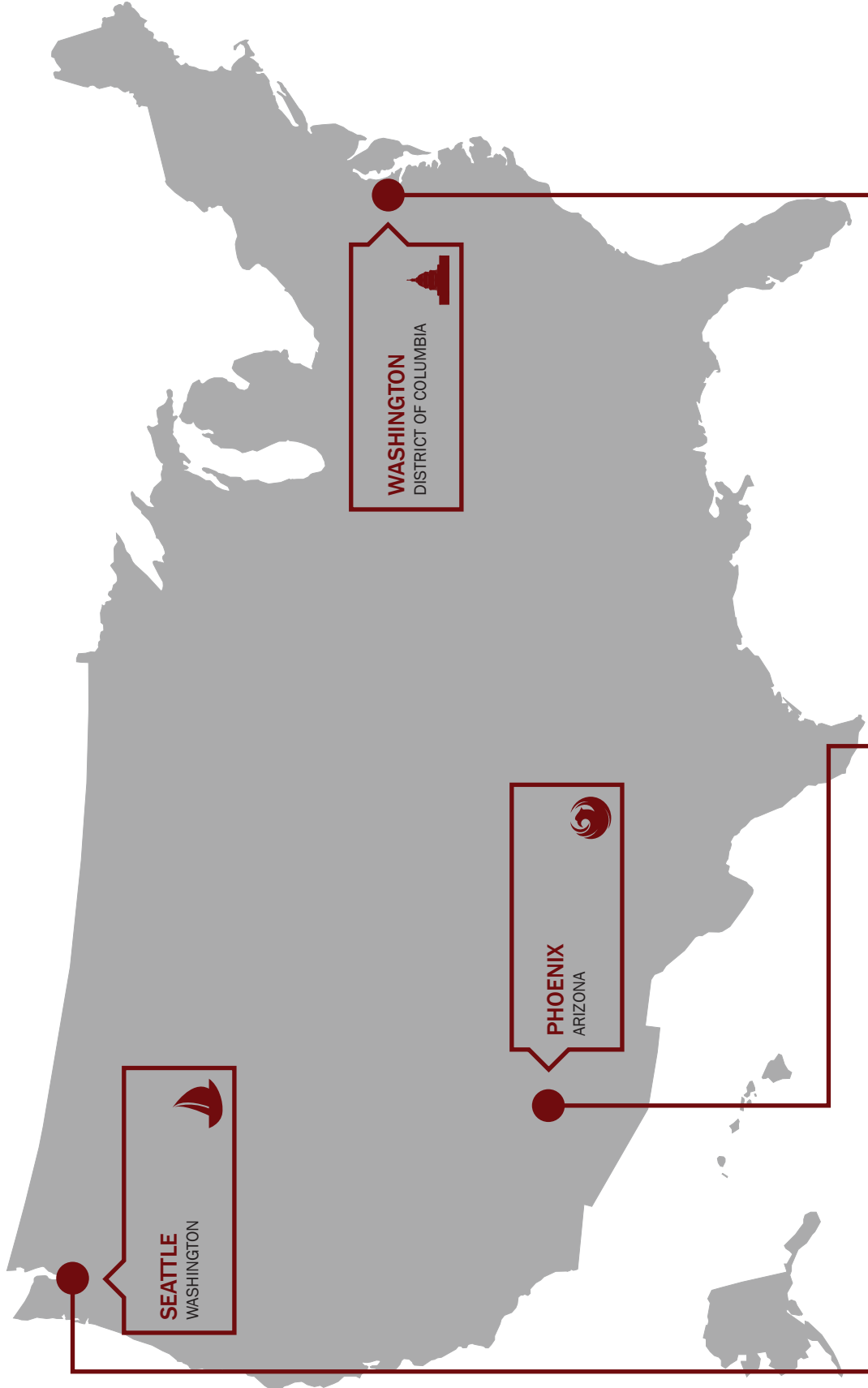
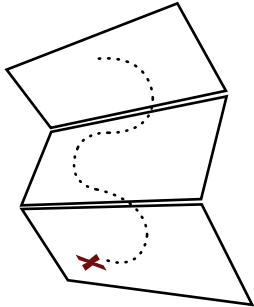
we were looking at our culture and felt we were not living up to our expectations at fostering innovation. Our chief information officer had been talking to people about innovation and learned about a professor at the University of Washington, to whom we reached out. He said innovation does not have to be by luck and it does not have to be focused on technology. A company can stimulate a culture of innovation, so we tried to define what innovation meant to BECU and how we could purposefully weave innovation into our culture. The professor did an “innovation audit” of BECU and felt that with a little bit of infrastructure and leadership, we could build on our member-oriented focus.

Then we learned about Spigit. Not only did we lease its software, we also had its people come in to do a considerable amount of consulting, which I think proved beneficial. We made a concerted effort to roll out the initiative to the employees on the afternoon of an all-employee meeting. We demonstrated how the system was going to work so everyone received the information and introduction at once. We also used the event to kickoff our first challenge. Since then we’ve had employee-wide challenges as well as a number of smaller team-oriented challenges. The results have been very encouraging. ✕

— As told to Brooke C. Stoddard

NOTES FROM THE ROAD

What we've learned from where we've been.



SEATTLE
WASHINGTON

PHOENIX
ARIZONA

WASHINGTON
DISTRICT OF COLUMBIA

LEADERSHIP PROGRAM CFO ROUNDTABLE



Callahan's Roundtable Series provides an open forum for credit union leaders to discuss the challenges and opportunities facing their roles. In August, Callahan executive management team members Sean Hession, Alix Patterson, and Jon Jeffreys headed west to the Emerald City, Seattle, WA, for the final CFO roundtable of 2013. Here, Victoria Neeb, client relations and marketing manager for Callahan & Associates, highlights the hot topics of the daylong event.

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Seattle greeted us with bright sunshine and perfect temperatures. After meeting the roundtable participants over dinner and drinks at a trendy wine bar the night before, the entire Callahan team was looking forward to the next day's discussion.

The 12 credit unions, primarily from the West Coast and ranging in assets from \$112 million to \$10 billion, did not fail to deliver on dynamic conversation. As we've seen at a number of 2013 roundtables, CFOs wanted to discuss how to manage expenses, enhance productivity, and improve profitability; how to manage the balance sheet in today's rate environment; where to find new investment strategies; what resources to devote to compliance and risk management; and how the CFO role is evolving.

For information about the 2014 Roundtable Series, please contact Victoria Neeb at vneeb@callahan.com or 202.223.3920 x248.

LEADERSHIP PROGRAM CLO ROUNDTABLE



Callahan's Roundtable Series provides an open forum for credit union leaders to discuss the challenges and opportunities facing their roles. In September, Callahan EVP Jay Johnson and COO Alix Patterson flew to the Grand Canyon State for Callahan's final CLO roundtable of 2013. Here, Victoria Neeb, client relations and marketing manager for Callahan & Associates, reviews what was on the minds of this roundtable's participants.

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A geographically diverse group made for a great discussion. We hosted 12 senior level lending executives representing credit unions from across the United States and ranging in asset size from \$400 million to \$1 billion. Despite the relatively high number of attendees, conversation flowed naturally and all attendees openly shared their perspectives.

The group discussed best practices in lending strategies for mortgage, auto (both direct and indirect), and credit cards. The group was also interested in hearing peer feedback regarding operational efficiencies, delivery channels, and the regulatory environment. And in a testament to the cooperative credit union spirit, one attendee talked about launching a refinancing program after learning — and being impressed by — a similar program at a fellow attendee's credit union.

For information about the 2014 Roundtable Series, please contact Victoria Neeb at vneeb@callahan.com or 202.223.3920 x248.

TRENDWATCH 2013



At the end of August, executive vice president Jay Johnson hosted Callahan & Associates' quarterly Trendwatch webinar. During the webinar, Johnson outlined how the industry has performed for the quarter, at midyear, and year to date. Although he covered the gamut of credit union financial performance, the most notable activity occurred in the lending portfolio.

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To be the best stewards of credit union resources, leaders must understand how their credit union is performing within broader industry trends and be able to benchmark their successes against those at other credit unions.

For the first time since 2008, loan growth has surpassed deposit growth. The \$621 billion credit union loan portfolio has expanded by 5.4% over the past 12 months; that's the fastest growth in five years. Origination activity so far for 2013 amounts to \$1 billion a day and is on pace to break last year's record activity.

The effects of consecutive years of record lending are evident. Every loan category in the portfolio is growing at a faster rate this year than in 2012. New auto loans take top spot for the fastest growing component of the loan portfolio; however, used auto, credit cards, and real estate lending are also strong.

Visit creditiunions.com/industry-overview to watch Trendwatch 2013 on demand.

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