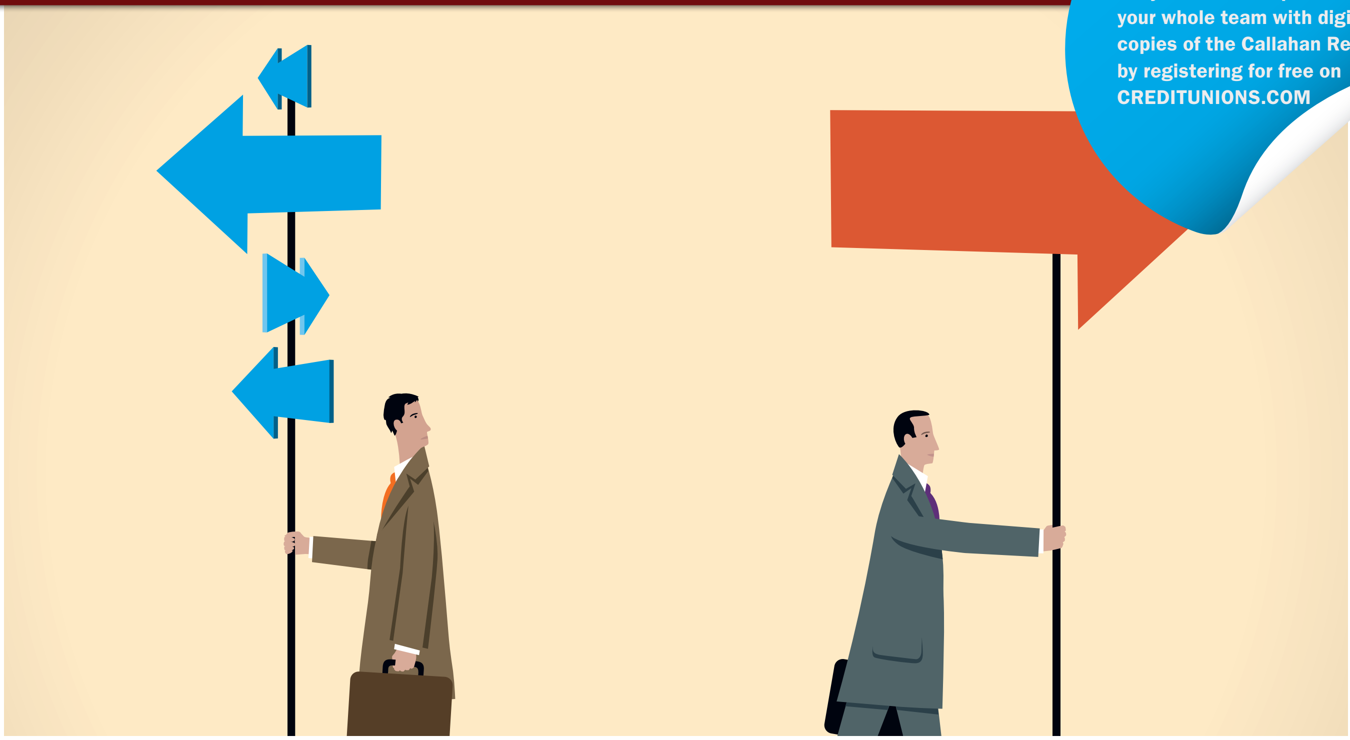
IN THIS ISSUE
FIRST PERSON:
Mary Beth Wilcher, CEO, Erie Federal Credit Union

the
CALLAHAN REPORT
At the Leading Edge of Credit Unions

JANUARY 2014 VOL. 29 | NO. 1



WHEN THE GOING GETS GOOD, DARE TO CHANGE

IT'S NATURAL TO BE COMPLACENT WHEN THINGS ARE GOING WELL, YET THAT'S THE PERFECT TIME TO REIMAGINE YOUR FUTURE.

BY ALIX PATTERSON

THIRD QUARTER 2013 marked the five-year anniversary of the Lehman Brothers collapse, which set off a series of events that profoundly changed the financial services landscape. Despite a struggling economy and a cascade of new regulations from Washington, credit unions have strengthened their position in the market over the past five years. Nearly seven million member-owners joined the credit union movement during this period. Members have added more than $230 billion to their deposit balances and credit unions' share of the mortgage market has more than doubled. Total capital has risen more than 25% to $118 billion.

As we begin 2014, the financial services environment is again at a turning point. The economy is gaining traction, employment is picking up, and consumers are regaining their confidence. By all measures, things are going well. So why am I about to encourage you to start thinking about how to turn your business model, product line, and culture upside down? As William Shakespeare said, "Better three hours too soon than a minute too late."

IDENTIFY THE PROBLEM BEFORE IT'S A PROBLEM

In 1991, Encyclopaedia Britannica sold more than 100,000 units of its iconic bound reference set. By 1996, that number had dropped to 3,000. In 2012, the year the publisher announced it would cease production of its printed suite — the company sold just 4,321 sets. The change up in the company's business model elicited speculation on its demise — and some outrage — from the general public. But for Britannica insiders, it was a nonevent.

"We had no need for a wake because we weren't grieving," Jorge Cauz, president of Encyclopaedia Britannica, told the *Harvard Business Review* for a 2013 profile. "We had known for some time that this day was coming. Our employees held a party the day of the announcement, celebrating the fact that Britannica was still a growing and viable company."

How can a company that has literally just stopped the presses on its flagship product claim to be growing and viable? Because back in the 1980s — before Encyclopaedia

continued on page 2 »

Britannica had its best year ever, before it witnessed the slow disintegration of its sales model, before anybody had even dreamed of Wikipedia — Britannica and already started preparing for the next phase in its rich 200-year-plus existence.

"By the time we stopped publishing the print set, its sales represented only about 1% of our business," Cauz says. "Our people have always kept the mission separate from the medium, which has allowed the company to handle one competitive threat after another."

Over the past couple of decades, the company staked a claim in the K-12 "digital learning space," eliminated door-to-door salesmen, reinvented the brand for an Internet age, and used disruptive forces such as Wikipedia to sharpen its strategy and tout its competitive advantage (which is expert, vetted information).

> "Our people have always kept the mission separate from the medium, which has allowed the company to handle one competitive threat after another."
>
> Jorge Cauz, president of Encyclopaedia Britannica

According to *Harvard Business Review*, even as far back as the 1970s — the editors at Encyclopaedia Britannica knew the future of the business was in digital publishing, and the company began exploring new strategies for this model in the 1980s. It developed electronic, CD-ROM, and web-based versions of its product and struggled with incorporating multimedia and interactive experiences. It wasn't until the late 1990s that the company's business model, sales strategy, and price point started to align. External forces, such as widespread Internet availability, contributed to the company's momentum. Encyclopaedia Britannica's current strategy did not come easy; it required diligent work and underwent several iterations, but it is paying off.

"Over the past five years, we've seen 17% compound annual growth in our digital education services businesses and a 95% renewal rate," Cauz says.

Encyclopaedia Britannica embraced organic change before its business environment was dire. So what is the lesson for credit unions? It's that if you wait until you need to change, it's already too late. One way to gauge whether you're meeting your members' needs is to ask yourself: "If we ceased to exist, would our members rebuild us?" That's a popular question that Wright-Patt Credit Union ($2.7B, Fairborn, OH) CEO Doug Fecher likes to pose to his institution's leaders. The approach forces them to stop worrying about how much the credit union has invested to get where it is and start thinking about the institution's core mission. Such an exercise can be especially difficult for a long-serving board that is entrenched in the traditional way of doing things, but leaders that want to ensure future success can't be worried about making a few miscalculations along the way. To remain competitive in tomorrow's world, you need to be willing to change today.

DIFFERENTIATE, DIFFERENTIATE, DIFFERENTIATE

How did Best Buy survive a recession that took down big box competitors Circuit City, Ultimate Electronics, and CompUSA? Moreover, how did the Minnesota-based electronics company compete in a world where most of what's on its shelves is available for a better price online? The answer: With a little help from its geeks.

In 2002, Best Buy joined forces with a Minneapolis-based tech support service know as the Geek Squad to offer better technical service and customer support. Best Buy might sell a commodity, but it differentiates itself through service. Its insurance plans protect consumables as well as provides peace of mind. When that is not enough, Geek Squad agents across the globe are also available for one-on-one support. Agents located at a central repair site in Louisville, KY, assist with the most challenging cases. According to the CNBC television special "Best Buy: The Big Box Fights Back," technicians at Geek Squad City have an impressive 95% success rate in fixing all manner of gadgets that pass along the Kentucky conveyor belt.

When asked what differentiates your credit union in the market, is your go-to answer "service?" Does your definition of service reach further than first-name familiarity with members? Today, the concept of service must include actually acting in service to the member. This means knowing their needs before they do and solving problems they might not realize they face. For example, after you approve a new mortgage, take the next step and make it easy for that member to sell their house.

This is the type of relationship that Internet-only models can't replicate. If you're worried coveted Gen Y members fall into this category, don't be. Yes, they expect hi-tech services, but they also value authenticity, and they're the first generation projected to earn less than their parents. They need credit unions to steer them on a path toward financial success — that's a service worth paying for.

HOW MANY COATS ARE IN YOUR CLOSET?

When newly named Burberry CEO Angela Ahrendts brought together more than 60 top managers in 2006 for a strategic planning session, one thing struck her: Despite the dismal British weather, no managers sported the iconic Burberry trench coat on which the fashion house had built its reputation.

"It was a sign of the challenges we faced," Ahrendts told the *Harvard Business Review* for a 2013 profile. "If our top people weren't buying our products, despite the great discount they could get, how could we expect customers to pay full price?"

When Ahrendts dug deeper, she found a troubling array of mismatched Burberry-branded items that spanned the globe and ranged from polo shirts and dog cover-ups to kilts and leashes.

"There's nothing wrong with any of those products individually, but together they added up to just a lot of stuff," Ahrendts says.

So Ahrendts launched a strategy that doubled down on Burberry's trench coat heritage and refocused its brand vision. She

continued on page 7 »

ALIX PATTERSON,
Chief Operating Officer

Specializes in case study development of proven credit union strategies, vendor insights, and the long term view on product development and strategy within the credit union industry

Call us today at 202-223-3920 to start the conversation on how Callahan can bring value to your future programs.

NOTES FROM THE ROAD

CUES DIRECTORS CONFERENCE + CREDIT UNION VISITS

MAUI, HI

In December, Callahan COO Alix Patterson traveled to Maui, HI, to present at the CUES' Directors Conference and visit with local credit unions as well as the Hawaii Credit Union League. On the way home, she spent two days in San Francisco, visiting with local credit unions there.

****

During the CUES' Directors Conference, I was thrilled to talk about the credit union of the future; it's a topic I've written about and lectured on many times. Attendees packed the room for my two breakout sessions, and the standing-room-only crowd was interested in learning how leading edge credit unions are changing their approach to people, data, networks, products, delivery channels, and revenue to anticipate — and meet — the evolving digital demands of members.

As Hawaii is quite a haul from DC, I took the opportunity to also visit a few Callahan clients on Oahu, including HawaiiUSA, Aloha Pacific, and the Hawaii Credit Union League. Hawaii didn't experience the dramatic housing price declines that occurred in other markets across the country, and its overall economy is starting to rebound.

HawaiiUSA Federal Credit Union ($1.35B, Honolulu, HI) is launching a major effort to improve the financial literacy of its employees and members. This will serve as a key market differentiator for the credit union. HawaiiUSA has coined the program "LEAP," which stands for Life Events Assistance Program. Rather than focus on broad demographics, the LEAP program helps members navigate life events that carry significant financial impact regardless of the age of the person experiencing them. These events include things like purchasing a car or home, becoming financially independent, going through a divorce, having an identity stolen, and retiring. HawaiiUSA is requiring all employees to take seven core classes from the BALANCE financial literacy program to receive a certification before the end of January 2014. The core classes include checking account management, identity theft, financial first aid, the world of credit reports, and more. The credit union has designated roughly 20 employees as Trusted Advisors who will complete the entire BALANCE curriculum of 14 classes.

In 2014, the credit union will roll out the LEAP program to its members. But the website — leapwithhawaiiusa.com — is already available and offers resources such as worksheets, calculators, podcasts, and links

THE CALLAHAN EXECUTIVE TEAM

SEAN HESSION,
CEO

Specializes in strategy and performance, financial industry and trends, and new concept development.

JON JEFFERYS,
MANAGING PARTNER

Specializes in new product development, big data, credit union investing, CUSO development, and student lending.

JAY JOHNSON,
EXECUTIVE VICE PRESIDENT

Specializes in credit union strategy and performance, economic trends and drivers, and industry data and trends.

to other non-profit, government, or community group websites that provide financial or educational assistance. The site even allows members to schedule one-on-one meetings with a Trusted Advisor.

I stopped through San Francisco on my way home from Honolulu. In between my nieces' basketball tournaments, I was able to schedule some time with with Steve Stapp, CEO of San Francisco Federal Credit Union ($848.1M, San Francisco, CA). It was great to see their new branch, whose renovation we profiled in an April 2013 webinar. During the webinar, SFFCU described how the credit union turned aging facilities and the need to differentiate itself in a crowded marketplace into an opportunity to undertake some serious self-evaluation and determine what it was versus what it wanted to be within the market. The result was an 18-month, organization-wide revamping of everything from its physical branches to mobile delivery and service levels. These efforts culminated in a re-launch that touted the credit union as the place to go for "Uncommonly Good Banking." After seeing one of the branches firsthand, I'd say the renovation hit the mark. I especially like the sleek coin counting machine in the lobby.

For 2014, the credit union is planning an expansion into San Mateo County. SFFCU already has a large membership presence by the airport, whose employees are in SSFCU field of membership, and the credit union is now opening a branch in Burlingame, CA, to serve anyone who lives, works, or worships in San Mateo County. This community's large Guatemalan population — the largest outside of the country itself — presents a new opportunity for SSFCU. And the institution plans to help Guatemalans connect with local credit unions back home for money transfers. ✕

2014 ROUNDTABLE DATES:

CFO

JUNE 10: ORLANDO
SEPTEMBER 16: CHICAGO
OCTOBER 21: SAN FRANCISCO

TOPICS COVERED

What does the economic and consumer outlook mean for loan and share growth?

How is the regulatory environment influencing balance sheet management?

What investment strategies are being employed as interest rates shift?

What opportunities do interest rate movements present for margin expansion?

CLO

MARCH 19: SAN DIEGO
JULY 29: BOSTON

TOPICS COVERED:

What are you doing to shift from a refi-driven market to a purchase mortgage market?

Which products and market segments are presenting growth opportunities?

How are you allocating resources across delivery channels to generate loan volume?

How is your pricing strategy evolving in today's rate environment?

CMO

MAY 6: DALLAS

TOPICS COVERED

How much of your budget are you allocating to new member acquisition v. member retention?

Where do you allocate channel spend and why?

What is your approach to/experience with social media? How do you staff these efforts?

How does your credit union track results and measure ROI for marketing and brand initiatives?

HR

MAY 9: NASHVILLE

TOPICS COVERED:

How do you identify and retain top talent at your credit union?

What training initiatives are in place to keep staff up-to-date on changing products and policies?

Are you evaluating any salary and benefit changes in light of the recent health care legislation?

How do you monitor the "health" of your workforce (satisfaction, etc.)?

BRANCHING

APRIL 9: WASHINGTON, DC

TOPICS COVERED

How do you measure branch profitability?

What efforts are you taking to use technology to complement face-to-face conversations?

Where are you investing in your physical branch locations?

What skill sets are needed to staff the branch of the future?

TO REGISTER FOR A LEADERSHIP ROUNDTABLE please visit http://pages.callahan.com/2014Roundtables.html or contact Victoria Neeb at (202) 223-3920 x248 or vneeb@callahan.com.

ALIX PATTERSON,
CHIEF OPERATING OFFICER

Specializes in case study development of proven credit union strategies, vendor insights, and the long term view on product development and strategy within the credit union industry.

SCOTT PATTERSON,
VICE PRESIDENT OF NEW BUSINESS

Specializes in cutting-edge credit union solutions, credit union analytics, and student lending.

Call us today to start the conversation on how Callahan can bring value to your future programs.

Call Carissa Heckathorn at 202-223-2920 or email at checkathorn@callahan.com.

FIRST PERSON

BY MARY BETH WILCHER, CEO, ERIE FEDERAL CREDIT UNION

A NEW CULTURE FOR A CREDIT UNION

Erie FCU is upgrading its relationship-building efforts and empowering its leadership team members to make their own decisions.

ERIE FEDERAL CREDIT UNION *($380.7M) began as the credit union for teachers in Erie, PA. It picked up nearly 300 SEGs before changing to a community charter for the largely urban Erie and largely rural Crawford counties 10 years ago. As of Sept. 30, the credit union had 45,747 members, 111 employees, and seven branches. CEO Mary Beth Wilcher started working at the credit union shortly after graduating from college and has spent most of her career there, rising to chief marketing officer before taking the role of CEO three years ago.*

Our former CEO was a brilliant man who, over 40 years, built Erie Federal Credit Union into what it is today. But that is a long time under one leader, and when I came in as CEO, I felt we needed to re-energize to make the credit union the best it could be for the members and the community we serve.

The previous CEO had his own style and vision. He did his own due diligence, research, and so on as he built the credit union into a modern financial services institution. As a result, the leadership team was more accustomed to taking direction from him than in assuming control over their departments and researching, making, and being accountable for their own decisions.

Under the old leadership, I was a bit of an anomaly. As the chief marketing officer, I tended to research a decision and then make it. When I became CEO, I discovered much of the leadership team wanted to defer to me for decisions. After years of doing things a certain way, many of them did not know where to go for data or outside contacts that might help them make better decisions. I learned the leadership team members were not like me — and I couldn't expect them to be like me — so I decided to move their cheese to get them out of their comfort zone.

So my first year was a bit rough, and I felt we needed some new energy, a culture shift. We could not survive as a commodity enterprise; we had to succeed as the best relationship institution in our market. We did Net Promoter Scores. I brought in a consultant to do a cultural assessment. If that isn't a wake-up call to make you do something profoundly different, nothing is.

A BOOK ABOUT CULTURE CHANGE

At about this time, I read a book by Ray Davis called "Leading for Growth." Ray had taken over tiny Umpqua Bank in Portland, OR, and grew it into a local powerhouse. The subtitle of the book is "How Umpqua Bank Got Cool and Created a Culture of Greatness."

Ray took charge of the $140 million, 40-employee Umpqua in 1994 and built it into a $7 billion institution in 11 years. He had employees answer the phone by saying, "World's greatest bank." He also sent employees to Ritz-Carlton to learn how its employees greeted guests and continued to treat them as highly valued individuals throughout the remainder of their stay. Ray empowered his employees, especially with respect to treating customers, and he held them more accountable. In short, culture was the key.

Ray emphasizes the need to truly understand what business you are in. He feels small banks — and credit unions — are not in a commodity business but a retail services business.

CU QUICK FACTS

ERIE FCU

HQ: Erie, PA

Assets: $380.7

Members: 45,747

12-MO Share Growth: 3.88%

12-MO Loan Growth: 2.44%

ROA: 0.65%

GETTING STARTED

I agreed with Ray, so in my second year as CEO, I began to look at overhauling our culture. We launched a major culture-change kickoff a little more than a year ago. I gave copies of Ray's book to everyone on the leadership team. I told people that reading the book would get them closer to understanding where I thought the credit union should go.

At our kickoff, we discussed the word "profit." To some, this was a dirty word, but I said we had to get over that. Profit was the word we were going to use for a surplus of income over expenses. I preached that profit was what kept the doors open and the lights on.

As we got underway, I encouraged members of the leadership team to make and own decisions. To this point, as noted, they had not had the data, the facts, and the tools they needed, so some of the decisions in this first year of culture conversion were not particularly good ones, though they made for learning curves we could all grow from. I could see then that we were in for a long haul. I've heard that cultural change requires five to seven years, and I believe it. It's a gradual thing, and it has to be undertaken with patience and a long view.

Indeed, there has been some rubber banding, there is some stop and start, and there is some recoil to the old way of doing things. This is all to be expected and has to be dealt with in the sense that we make it clear we're not going backward. We're moving forward, and we want all employees to come along. But ultimately, buying in is their choice.

> Are you going to shape your own future, or are you going to let others and circumstances shape your future for you?"
>
> Mary Beth Wilcher, CEO, Erie Federal Credit Union

RELATIONSHIPS ARE KEY, IN THE BRANCH AND IN THE COMMUNITY

A big part of our new culture is on building relationships at the branch and lobby level. Previously, some branch employees got caught up in lending policies and procedures, worrying that they would do things incorrectly. I want to move us more to a centralized lending model. Lending officers in a central location can worry about conforming to policies and procedures; the people in the branches should be working on getting to know members and building relationships. They should be having conversations with members, treating them like Ritz-Carlton guests, and making sure the credit union is answering all their financial services needs. The branch people can pass along loan applications to a central office where we can work on the nuts and bolts out of sight. If the people doing the underwriting have questions, then they can attach them to the e-docs they send back for signature. Moreover, when a regulation or procedure changes, we don't have to retrain 30 people; we only have to retrain a few in our centralized loan underwriting.

As noted, I am a big proponent of greeters at the door. Members should be treated as guests and know immediately that there's a person who can guide them if they have a question about who to see or how something is done. Greeters also deter robbery and fraud. They look people in the eye right at the door, and people greeted like that are less likely to be obnoxious or worse.

We prefer to work with current members to increase wallet share, but I recognize that we also have to reach out into the community, especially to those parts that could bring us the largest and best loans. I've made substantial steps reaching out to the realty community, attorneys, and CPAs, all of whom can bring us loans or make referrals. I joined the Greater Erie Board of Realtors on behalf of the credit union and took our business development people and lenders to the realtor annual luncheon. We sat at separate tables and worked at building relationships with other attendees. This is referred to as getting to know your Centers of Influence for they will send you the best leads. Some have said such networking is marketing's job, but it's actually everyone's job. This is not so much about marketing as it is about people; we need to be a people credit union inside our community. All the marketing brochures in the world cannot bring in what good luncheon networking can.

AN EYE ON THE FUTURE

We aren't setting specific goals with respect to the cultural change. This isn't like shooting for an ROA, where the numbers are plain. Cultural change is less tangible. In a way, it is something you feel, like a brand. You can't easily define a point at which you've been successful.

I have found out that not all employees buy into a new cultural change equally. Change is hard and comes easier to some than to others. We've seen push back, but we have to keep in mind the long-term benefit to the members. That's the important thing.

In the end, you have to take a hard look at yourself and the future. Are you going to shape your own future, or are you going to let others and circumstances shape your future for you? If you are going to shape your own future, then you have to say goodbye to some of the things in the present. It's the future of the institution and our members that is most important to us. ×

When The Going Gets Good, Dare To Change

continued from page 3 »

centralized Burberry's design team, which required relocating and dismissing designers from around the world, and closed factories in several countries — this at a time when the recession was hitting the pocketbooks of consumers around the world.

"We've always said we're not immune to the ebb and flow of the macroeconomy, but that doesn't change our vision," Ahrendts says. "As a company, we always do what's best for the brand."

These difficult growing pains have paid off. According to *Harvard Business Review,* 60% of Burberry's business today comes from apparel, and of that, outerwear makes up more than half. Its revenue and operating income has doubled in five years. And as far as outwear goes, shoppers now have more than 300 distinct items to choose from in various styles, colors, and material.

"If you ask a Burberry senior executive how many trench coats he or she owns, the answer is likely to be eight or nine," says Ahrendts, who confesses to owning more than a dozen herself.

Every credit union needs employees to proudly wear its coats. What percentage of your employees do business with the credit union? I'm not talking about keeping a simple share account so they can say they're a member. How many have share draft accounts, CDs, auto loans, and mortgages? How many have opened accounts for their own children? How many actively use home and mobile banking or deposit checks using remote deposit capture? If the answers to these questions disappoint you, then it might be time to re-evaluate your offerings. After all, if your own people don't believe in your product, then why should anybody else?

3 HOURS TOO EARLY

After a rough period, it's a natural tendency to want to take a breather before tackling the next challenge. But this is a great time to strategize with your leadership team about an alternative future. That kind of discussion is too hard to have when things are going poorly and you're paralyzed by indecision. So take this time to defy the norm and think creatively about where your next challenge or opportunity may lie. ×

the
CALLAHAN REPORT

At the Leading Edge of Credit Unions JANUARY 2014 VOL. 29 | NO. 1

COMMENTS
editor@callahan.com

EDITORS | Brooke C. Stoddard and Rebecca Wessler
DESIGNERS | Kristine Chatterjie and Michelle Hoopes

CALLAHAN & ASSOCIATES