Are You Ignoring the Most Important Metric of All?

The Purpose of a Business

Peter Drucker is famous for saying, "the purpose of a business is to get a customer", and "the two main functions of a business are marketing and innovation, everything else is a cost." Think about it, without innovation there are no products or services members will value, and without marketing no one knows how you can help them.

If Drucker is right about the purpose of a business and it's two main functions, why is it so hard for financial services firms to differentiate themselves from each other, and why is marketing at most financial services firms so ineffective? I have the answers, but you may not like them.

Financial Institutions Have Lost Their Way

First and foremost, many financial institutions try to be all things to all people, with the result that they are nothing to everyone. Their brand is so diluted that it is impossible to market a meaningful brand promise across a multitude of member segments and business units. For example, "People Helping People Find Financial Solutions for Life" might be a good mass-market brand, but how does it apply to middle market companies? That takes real work.

Second, in their quest to develop sales cultures that sell more products to members, financial institutions have forgotten that the real metric they should be using is Return on Member, or ROM. However, Mortgage Lenders are incentivized to sell mortgages, Commercial Lenders are incentivized to sell commercial loans, and Treasury Management officers are incentivized to sell those products. In all these product siloes, who is accountable for looking at the member holistically and making sure the institution creates enough compelling value for those members to make them profitable?

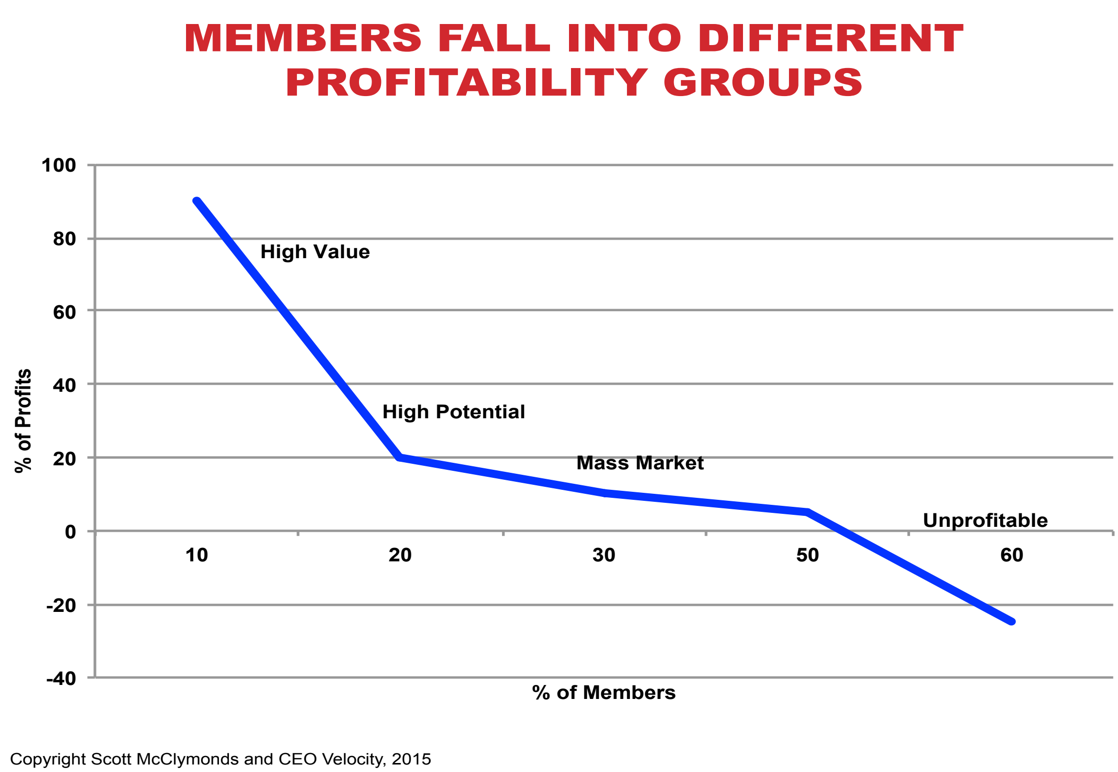
I once worked for a bank that rolled out product and customer profitability, and front line sales people would constantly ask me, "What is the most profitable product I should be selling customers next?" Of course the answer is, "The one they need". Clearly it was very difficult for customer-facing people whose compensation was based on sales to consider the customer's best interests beyond the scope of their incentives.

Obviously the credit union industry is very different from banks philosophically, but I submit to you that even credit union CEOs and their executive teams can take their eyes off of Drucker's key tenets if they are not careful. In a world of dizzying complexity that includes regulatory exams, asset and liability management, cyber security, and people management, I believe the member can sometimes take a back seat in the boardroom.

That last remark should get under your skin. I can hear some of you recoiling defensively and saying, “That’s not us. We really know our members and are responsive to them. That might describe banks or other institutions, but we pride ourselves in knowing our members”.

Look, I get it. I’m striking at the very core of your credit union. No one likes to be told they’ve forgotten their members, or that their members have taken a back seat, especially a credit union CEO. However, unless you are truly exceptional, and a few are, I am describing you and your institution, at least from time to time.

If you still don’t believe me, and my guess is you don’t, look at the following chart, and then see how accurately you answer these questions:



1. What percentage of your members make up 70% to 90% of your profits?

2. How do those members break down into categories such as retirees wanting second homes, business owners wanting to sell in the next five years, and families in their early thirties buying their first homes?

3. How many of those high profit members have deep relationships with your institution, and how many hold you as their secondary institution? What would it take to convert more to a primary position?

4. What are the evolving needs of these high profit members, and how do they want you to meet those needs?

5. How can you acquire more members like these high value ones? Are they already in your member base? How many are in your market that aren't your members?

6. How much profit do each of these members provide annually and during the course of their lifetime with you?

7. What are you doing to actively stay in touch with your most profitable members, and how are you aggregating the information they give you in order to innovate and better serve them?

8. How many referrals are these high profit members giving you each year, and what have you put in place to generate more?

9. For your business members, what types of referrals and non-financial services can you provide them with that would be so valuable that they would minimize rates as a strong differentiator?

10. Who in your institution is responsible for gathering all this information and making it actionable? (I hope it isn't your IT department).

Raising the Bar, Not the Guilt
I'm sure you would agree those are difficult, but important questions. Remember, we're talking about the members who enable you to take relaxing vacations, make mortgage payments on the home you love, enjoy dinners out with family and friends, and give generously to your favorite charities. These members are why your institution is able to exist. They keep your doors open.

If you don't have all the answers to these questions, I want you to feel disturbed, but not bad. You are in the same boat as most of your industry peers. However, I don't want you to feel comfortable about being in that boat either.

My job is to help you raise the bar on your performance and provoke you to meaningful action, and you will raise the performance bar for yourself and your organization if you make an all-out focus to understand your most valuable members and find answers and solutions to questions like those listed above.

How Will You Lead?
The way I want you to do that is by taking data and analytics seriously as a way to help you do what Drucker described: acquire members, innovate, and market. This does not require any technical or analytical skills on your part. You can hire those. However, what it does require is a relentless focus on the member, the humility to acknowledge that there might be a lot more for your credit union to learn about your members, and the passion and discipline to focus your

company on acquiring more profitable members by innovating and marketing around their needs and preferences.

People try to make data and analytics way too complicated. Yes, there are many technical and quantitative techniques that come with it. You want to hire professionals; that's for sure. However, at its core, analytics is about focusing your institution on your members, and showing you how to create value for them.

Your role as the CEO is to understand that there is value to be discovered and unlocked for both your members and your institution, and to make sure your analytics professionals have the support they need to be successful. That support can come in various forms, such as:

- Providing a sufficient budget and access to needed resources and personnel
- Making sure their solutions are compatible with cultural values and the credit union's strategy
- Eliminating territorial, political, and even cultural obstacles when necessary
- Providing industry and line of business expertise and input
- Ensuring training is provided for new endeavors
- Becoming a passionate and enthusiastic proponent who motivates other key players

Without your involved leadership even the most talented analytics team will flounder. That's not good for your analytics team, but even worse, it's not good for your members or your credit union. You will still be in the same boat with your peers that I mentioned above, and you won't have moved the Return on Customer Needle.

Unfortunately, about 80% of your peers in the financial services industry don't believe their firms need to be data-driven. They believe things will be great if they just keep plugging away, doing business as usual. Is that the road you want to take, or will you lead your credit union down the road less traveled?

It's your choice, and what you choose can lead to either an exceptional future, or an average one. Choose wisely.

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