CU*Answers Bi-Annual Report to Owners “Front & Center”

Highlighting the Cooperative Business Model

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The Evolution of Our Marketing Message

CU*Answers has spent the last several years promoting the idea that the organization’s design is what guarantees its competitive difference. We said we were a network. That message continues to resonate with the marketplace. By referencing the networked world and the success of network businesses and entrepreneurs, we connected with the market. As a data processor, the connection was easy for our customers to understand: a technology business building on the wave of technology backbones and network successes.

We moved easily from using the network, to riding the network, then on to building the network. We then took it up another notch and focused on building businesses using the template of a network architect, doing the things that we saw other effective networks doing.

It made sense to credit unions, too. Credit unions already saw themselves as cooperative. Although credit union networks are more social and political than technical, credit unions still identified with the concepts of networks and could see the value of doing things differently based on the connectedness and speed of shared resources.

Beyond being cooperative, in the sense of coordinating activity and interactions, credit unions are cooperatives in the sense of business charter and definition. That connection brought it full circle. Cooperative business designs are based on a community recognizing a mutual need for solutions. Cooperative business designs represent a method to gain access to those solutions through ownership and the direct creation of value by peers. We need it, we’ll create it, we’ll use it, and we’ll own it.

When the available solutions don’t fit, then peers need to network to get things done. A group of people can’t get a local business interested in taking a risk on their venture, so they get together to do it themselves. Sound familiar? It is the credo of the Internet and the networked world. Take some people interested in new solutions, connect them with speed, access, and visibility to each other and to a marketplace, and voilà!, you have new value creation at a whole new pace. Better yet, let consumers invent it, own it, and share it and you have a consumer revolution – the same one envisioned the day someone charted their first cooperative business model.

Why Highlight the Cooperative Business Model Now?

When you put it all together, cooperatives have a natural alignment with today’s business environment. The networked world makes it easier than ever before for communities to get together. And consumers want better solutions. In an age of consumerism, customer owners can grab the moment and network together like never before.

That is why CU*Answers has undertaken the Cooperative Score initiative. Cooperative Score is intended to help strengthen our marketplace by highlighting the strength of cooperative business models, and then making sure that credit unions walk the talk and set themselves apart.
Marrying Customers and Owners:
Two Engines That Drive for Success

From the CU*Answers perspective, cooperative principles speak to the general business concepts and not the credit union vocabulary. For example, I like the power of the words “customer owner” in place of member. Sometimes using the word “member” generically allows credit unions to understate the power of what it means to hold the interest of a consumer or customer competitively.

Likewise, I think that the requirement to make a customer feel like an owner can be washed out a bit by taking the phase “member” for granted as more connected or engaged (like club members). So while we have presented these principles in the light of a CU vocabulary, I like to reference them more purely when we speak of our CUSO – we are a cooperative in the purest sense.

Cooperatives have two primary engines to drive their development: The Customer Owner engine, and the Business Line engine. A cooperative works best when there is the proper focus on both engines at all times: ensuring that the owners’ intent is consistent with what the customers deserve, and building the solutions that a customer will use.

The Customer Owner Engine

Generally, customer owners elect representatives to serve on a Board that drives the cooperative health of the organization. This Board uses the 7 Principles of a Cooperative to set the core thinking for how the cooperative model should work for the owners. The cooperative guarantees it is a cooperative.

Through the Board, customer owners drive their interpretation of cooperative principles into the very fabric of the organization and all of their interactions with the marketplace. A customer owner’s key responsibility is ensuring that walking the talk is the rule for the organization in designing and executing every solution. That includes fostering the continued spirit of the cooperative concepts with the customer owner community and the general marketplace. The principles must be alive in the actions, words, and lives of the current consumer as much as they were with the founding consumers.

A cooperative is a consumer-focused model. But for it to thrive it must sell the strength of that focus, the tactics that guarantee that focus, and the responsibility of the consumer in those tactics. Above all else, the current customer-owner leaders must be focused on the renewal of the leadership pool, the securing of new leaders, and the maintenance of the processes which will push for these ideals. Once we stop being a cooperative, we’re just another business, potentially outgunned and underfunded to compete.

While a Board does have responsibilities to the next engine, I contend that their priorities should be 80/20 in fostering the customer owner engine as the competitive advantage of a cooperative.

The Business Line Engine

This engine drives the development of the products and services that the consumers will use. The leader or leaders might be volunteer customer owners, or professional staff, or a combination of both, but the cooperative must create the value that responds effectively to the needs of the consumer community it serves and for which it was created. The cooperative goes into business.

By definition, the business line of a cooperative can be any consumer-focused product or service, such as financial services, groceries, or utilities. For CU*Answers, our initial and continuing focus has been data processing solutions for the credit union community. Our network has developed additional products and services, and we continue to grow our core cooperative and to start others.

The customer owner is significant to business line thinking by guaranteeing that the customer perspective remains the ultimate focus. Participants in the cooperative come together with the intent to manufacture products and services that yield a different outcome from what is being offered elsewhere. “We’re not getting what we want; we should do this ourselves.” What they want might be a different product, or a different consumer experience, or even just a different sense of control and the right to the distribution of the returns.
Like any business, the constant struggle for what consumers want is what creates a viable business. Cooperatives are not immune from the changing perspectives of their consumer base. One of the key value propositions in a cooperative is that the consumer perspective is baked in by the consumers being owners. They are represented by peers with an oversight responsibility to business line thinking.

Here is the 20 in the 80/20 comment above. Oversight for business line thinking is an imperative for the customer-owner Board. The trick is to avoid the trap of allowing technical concerns (running the business) to have too much influence over the consumers’ interest. It’s easy for customer volunteers to become insiders and adopt the perspective of business line technicians and professional commentators (auditors, examiners, etc.).

The leader or leaders of the business line engine are significant here in driving the business as a competitive force to attract consumers and introduce them to the opportunity to be customer owners. In practice, the business line engine relies the same talents, tools, and procedures as any other competing business.

The difference is how this engine uses cooperative health to differentiate its product line and the consumer experience. The business line engine sees cooperative design and resources as a product, an asset to differentiate the business and build an advantage.

In this era of professional management for cooperatives, the leader of this engine must take on the responsibility of working with the customer owners and their representatives (volunteers, Board) to ensure cooperative health, as much as they might worry about the technical value of a copyright or key production process. Assets are assets, and a leader cannot allow assets to decline if they are key to the sustainability of the firm and potential advantages in the marketplace.

Focusing On Both Engines

In many ways the business line engine can sometimes dominate the agenda, in its fever to compete in the general marketplace. That domination of the agenda washes away the value of the customer owners’ intent. The organization ends up simply playing the game of its competitors. The customer owner perspective is lost because the business unit and its needs are dominating the organization’s focus.

Without a doubt, the organization must have competence and correctness in their business initiatives, especially in regulated industries. But it is the difference in the owners’ intent and the way it is crafted as a competitive differential that will tilt the consumer and the community to the cooperative solution.

That’s why the person (or persons) leading the business unit must see the advantage in the cooperative design principles as the foundation for building tools, building the brand, and building connections with consumers and the community. In seeing that advantage, the business line leader is best served by fostering both engines. They take responsibility for encouraging both engines, and make sure the design is true to the potential of the organization being customer owned.

Customers ensure the intent; business unit leaders ensure the execution. When that leader is ready to be the bridge for both efforts and engines, the cooperative has the best opportunity to function at a high level.

7 Principles of a Cooperative Business Model Design

From the CU*Answers Perspective

CU*Answers’ perspective is one built with the recognition that we serve two communities with ultimately one set of customer owners. The first and closest community is the credit union community and organizational owners of the CUSO. The second and once-removed community comprises credit union members as customer...
owners of the equity that is used to purchase CU*Answers stock.

Ultimately the consumer owners of our credit unions are the focus of our efforts with and through the credit union leaders representing them. CU*Answers must work to make sure that we are in harmony with the intent of the credit union member (customer owner) if we are to truly create the value that meets the agendas of our organizational customer owners.

While it is a profitable model to remember that we are focused both on our B2B and B2B2C solutions sets as a business entity, it is embedded in our design that we connect our owners’ intent effectively with the intent of the credit unions’ owners. We respect and must respect that consumer power, right down to the newest depositor on any given day. Our difference is baked in, guaranteed, and front and center on everyone’s mind at CU*Answers.

1. Voluntary and Open Ownership (Membership)

While credit unions have defined market demographics for their field of membership, the cooperative principle of Voluntary and Open Membership speaks to the idea that all qualified consumers are welcome, embraced, and valued. You own, by simply participating. Your challenges mirror those of your peers, and your life dreams are welcome here. By pooling the challenges of all members, we can innovate together, building CUSO solutions that help everyone succeed.

“Why do we hope members choose credit unions? Because there’s real value in belonging. Here at CU*Answers, we want every credit union to see the same value in belonging to our community. Not because every credit union is the same or agrees with us, but because every point of view is important to making it possible for everyone to thrive.” – David Wright, CU*Answers Board Director

2. Democratic Ownership (Member) Control

Credit union members enjoy equal voting rights, and the men and women who serve as elected representatives are accountable to the membership. Likewise, CU*Answers leaders are accountable to all of the CUSO’s customer owners. The power of ownership is at its strongest when owners experience the democratic process and understand that they have a voice in the governance and direction of the organization they own.

“As a credit union CEO, I do everything I can to make sure my members know they do have a voice in how the credit union evolves. As a leader in the CU*Answers CUSO, I see the same commitment to our owners through the spirit of our annual election process. We want people to run for the Board – even if they are taking our seat. We want participation and lively debate. We want the power of ownership to be something real for every credit union.” – Jeff Jorgensen, CU*Answers Board Director (and 2012 Nominating Committee Chair)

3. Customer-Owner (Member) Participation

Via their elected representatives, members have control over how the cooperative’s capital is used – for developing the cooperative, paying dividends, or supporting any other activities agreed upon by the members. The power of that ownership is amplified when the member owner is paid in dollar and cents.

“When it comes to economic participation, you have to respect the intelligence of the customer owner. It has to be win-win: cooperative owners must share in the proceeds of the business they own. As both a credit union CEO and a CU*Answers Director, I can tell you this is a constant focus of the CU*Answers Board. We get it. After all, we all enjoy lower prices and dividend checks.” – Scott McFarland, CU*Answers Board Vice Chairman
4. Autonomy and Independence
Cooperatives value the autonomy and independence of their communities and the rights of members to be individuals, unique within the cooperative. The common bond is at its strongest when its members see diversity as strength. “We” are our community and our community values individuals and their dreams.

“I love to encourage innovation and new ideas – especially in my community. The key to innovation is the freedom of each individual to explore and experiment. By encouraging individuality and innovation, credit unions help make dreams come true. And that’s good for everyone. The common bond is strongest when we see diversity as strength.” – Vickie Schmitzer, CU*Answers Board Secretary/Treasurer

5. Education, Training, and Information
The power of ownership is the ability to gain insight into how cooperative businesses work, so that members can become better buyers and better owners of cooperative services. Cooperatives – credit unions – educate members to see the value from both sides of the table. Education is a foundation, and life learning for all participants of the cooperative is the goal. Cooperatives educate their members, elected representatives, managers, and employees so that everyone can contribute to making the cooperative stronger. They inform the public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

“I encourage my members to learn about what goes on behind the curtain so that they can get a perspective they can’t get from other types of businesses. After all, they own the place. At CU*Answers, we not only have an open book, we

6. Cooperation Among Cooperatives
Cooperatives can serve their member owners best by working together – locally, regionally, and nationally – and by encouraging all participants to default to collaborative responses when approaching business problems.

“As a technical professional, I’ve grown up around network concepts. They make perfect sense when you are trying to make one good idea work a million times. While at CU*Answers, I’ve learned a lot about cooperatives. It makes sense for cuasterisk.com to network business cooperatives, to make things work for millions of members.” – Jody Karnes, CU*Answers CIO

7. Concern for Community
Communities are not just defined by geography! Today “community” is used to represent a common mindset, affiliation, or any other way in which people identify with each other. This principle speaks to a respect for peers who share common goals, challenges, or opportunities, and who choose to work together toward everyone’s success. Cooperatives wear their community pride for everyone to see!

“Concern for community cannot just be a marketing slogan to a credit union CEO. You have to feel it. And then you have to build a business that actually communicates that sincere sentiment in everything you do. That’s what the CU*Answers Board tries to get every participant in our cooperative to experience. We care about the credit union industry and what it needs.” – Don Mills, CU*Answers Board Director