

CREDIT UNION JOURNAL



THE NATION'S LEADING INDEPENDENT CREDIT UNION NEWSWEEKLY

October 8, 2007

Boost the Bottom Line by Cutting Expenses and Learn to do More with Less

By Ron Schmidt



In recent months credit unions have found it difficult to improve their margin position—the difference between what is earned on loans and investments and what is paid to members' deposits.

Competition from mortgage lenders and auto companies has continued to depress the rates they are able to charge members. The performance in the stock market and the earnings in money market accounts have made it costly to pay competitive rates to keep members' deposits. In addition, rising costs for health care and the need to keep valuable employees continues to be a challenge. What is at risk here and what can be done?

In order for credit unions to stay competitive, they have the following options:

- Grow the business and take advantage of economies of scale.
- Increase margins.
- Add more fee income.
- Reduce expenses.
- Do more with less
- Cut costly and underused services.

The first three approaches are centered on revenue and rates subject to competition. Generally, these items are not within the credit union's control. The last three are centered on management decisions, areas less subject to marketplace conditions. Certainly, the first three are more positive and

adventurous and give the management team new horizons to seek and goals to accomplish. The last three seem less desirable because they may be harder to motivate others to pursue.

Management may spend 80% of its energy on the first three and only visit the remaining three if there is time left over, even though they can be just as effective in helping maintain a competitive advantage. This article will focus on the latter three and will discuss the role of the board and management in carrying out these tactics.

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The tactics of reducing expenses, doing more with less and cutting costly and underused services are part of an overall strategy of being competitive in the marketplace. This approach requires a commitment that is psychological-

ly challenging, because it is often seen as a defensive tactic, as opposed to a growth or offensive approach. These tactics are not mutually exclusive, nor should they be carried out independently. An endeavor of this sort usually begins with goals and objectives agreed upon by both management and the board. This may be done at a special meeting devoted to this mission or at the annual planning session.

Setting goals in essence requires establishing priorities of management's time and resources. Since it is challenging for management to juggle all the balls at once, the board must be committed to this direction, realizing that attention to some of the more traditional growth approaches may be minimized.

Looking at the overall picture requires patience and instinct. Organizations are complex and are

constructed slowly over time. Peeling back the layers of the onion, finding the core, will help identify what they do best. Since the early 1980s, when credit unions started adding services never before allowed, management began adding employment positions to support them. Today with the many services offered and the ranks of management growing, there needs to be a willingness to assess which of these services members use and are profitable. This is the first step in regaining that competitive advantage.

The tactic of doing more with less is a script right out of manufacturing playbooks. The manufacturing world has embraced “lean manufacturing” for the last 15 years in its effort to compete globally. While the manufacturing tactic is an approach to manage inventories and respond to customers, it also adopts a discipline that manages peoples’ time and talents effectively.

In other words, where can they get the most output for the resources they are expending? Credit unions would be wise to examine this approach. How can we insure that our human resources are maximizing their potential? One way is to Cross-train employees to insure more output. Cross-training also develops a more professionally well-rounded employee which leads to satisfaction of accomplishment. Doing more with less is the second step to competing aggressively in the marketplace. The third tactic, reducing expenses, is usually seen as the butcher shop approach: cutting out the fat. But we want to carefully use the surgeon’s knife and not the meat cleaver as we go after, not “the fat,” but expenditures of time and resources that no longer fit the game plan. First, a 50 year old credit union probably has a 50 year tradition of spending money. A number of small expenditures in the aggregate can certainly impact the bottom line. Just as an exercise, find out the number of professional journals that are paid for, then determine the number that reach your office, then ask how many are read? Pick 10 line items in your general ledger and ask yourself, if this were “day one” of your credit union opening its doors, would you “need” that product or service? In addition, look at the big picture of your credit union’s mission and strategic plan and identify expenditures that don’t fit into the plan.

While mentally this may seem like a fair approach for any executive to execute, it could be exhausting for many to undertake. So just take a

baby step, do this exercise for 30 minutes, and see if it makes sense to pursue more vigorously. Remember as the executive, having fun means adding to the bottom line.

The overall strategy of regaining that competitive edge does make sense when you are approaching tactics that you have some degree of control over. Since it comes within the four walls of your shop, taking pride in these tactics does send the message to your board and management team that there are issues on which you can make an impact. While you patiently watch interest rates and wait for margins to grow, nourish your bottom line today with the nectars that allow you to make a difference.

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