A NEED FOR CHANGE: A STRATEGIC ANALYSIS OF CRESTON & DISTRICT CREDIT UNION

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ABSTRACT

The Creston and District Credit Union is a well-run and extremely well capitalized community credit union. The local economy & demographics are changing. It has inadequate loan demand given its level of deposits. This has created a situation where its profits are declining. This situation is unlikely to reverse.

These trends and economic issues combine to create a situation where targeted internal growth is very unlikely to create a substantive change. The strategic question asked is “What should the credit union do to access a younger membership base, a growing market, and/or increase its' stability?”

The conclusions arrived at are that the credit union should enter into a strategic alliance to syndicate mortgages with a credit union experiencing a liquidity shortfall. It should also explore the option of a more permanent partnership arrangement to increase long-term stability for the benefit of members.
DEDICATION

I would like to dedicate this paper to my beautiful and loving wife Tracy. You were there for me throughout this entire program and graciously picked up everything I let drop.

I am looking forward to resuming our evenings together, and spending the rest of my life at your side.
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Under terms of Credit Union Data Sharing Agreement, permission has been obtained from each represented credit union for the use of their respective operational efficiency ratio.
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1 INTRODUCTION

This project is a strategic analysis for Creston & District Credit Union. The Creston & District Credit Union is a single branch credit union located in the Township of Creston, British Columbia. Due to timing of release of the Annual Report, this project will be dealing with financials from the 2005 Annual Report. The credit union as of this date had approximately 5,000 members and assets totalling $80.8 million dollars.

Creston like many other interior communities have been experiencing substantial growth over the past several years due primarily to the influx of retired people from northern communities, the coast and from other provinces. In addition to dealing with challenges created by this changing demographic profile, the local economy of Creston and the surrounding area is changing due to an infestation of the mountain pine beetle.

The Creston & District Credit Union must adapt to this changing environment, and at the same time, it must be able to fend off competition from larger financial institutions. Increased commoditization has led to declining margins throughout the financial services industry. Competition is increasingly on a cost basis and as a result, smaller credit unions are feeling the pinch. The demographic and economic challenges, which the area is currently facing, are making this situation worse.
The credit union is still in a solid financial position, and as a result, still has time to react. Now is a time to determine the strategic direction to take, make the necessary strategic adjustments, and begin implementation while options are still available.
2 CRESTON

2.1 Creston & Area - History and Background

The Township of Creston created in 1924, is approximately half way between Cranbrook and Nelson on Highway #3 in the province of British Columbia. Settlements in the Creston Valley began in the 1870’s. The community has an agricultural past, which extends to today. The Creston Valley is, to a large degree, reclaimed marshland and has had several floods over the last century as high river levels have breached the dykes (Online Performance Ltd., 2007).

2.1.1 The Economy

The local market place within which the credit union is currently operating is Creston Township, Creston Valley, and the townships of Wynndel, Lister, Erickson and Canyon. The economy of this area is primarily resource based, with major industries being forestry, agriculture, mining, and tourism (Online Performance Ltd., 2007).

Locally, residential building permits decreased from a high of $13.5 Million in 2005 to $5.5 Million in 2006 (BC Stats – Community Facts – Creston, 2007). In the past, this area has not experienced boom and bust economic swings. Historically, fluctuations in the local economy have generally been short-lived (Online Performance Ltd., 2007). The local economy is not very attractive for
younger people as unemployment has remained steady at 10-15% in the last several years, due to the seasonality of employment opportunities (BC Stats – July 2006).

In recent years, the relatively low prices for real estate and relatively mild climate have been a major attraction for retirees to move to the area.

2.1.2 The People

Creston’s population is currently about 5,000 residents. There are an additional 31,000 residents in the surrounding area. It has been growing at a rate of approximately 2% annually over the last 5 years. This rate of growth is much slower than the rate of growth than British Columbia as a whole. It has been forecast that population growth will continue to be slower in interior resource based areas as the population ages. This difference is substantial, with forecasted growth for British Columbia in excess of 37% between now and 2031, and the interior regions only 10% (BC Stats – July 2006).

In the current population in the township of Creston, 42% of residents are in excess of 55 years old. When the surrounding area is included, the percentage of population over 55 is approximately 35%. 27% of the population is 35-54 and 14% falls in the 18-34 range. The remaining 24% is under 18 years of age. This distribution is a skewed towards a significantly older population locally than the provincial average (Online Performance Ltd., 2007). Furthermore, the projected population in this area includes a much higher proportion of seniors and retired
individuals than does the projection for general population (BC Stats – July 2006).

The median household income is $33,000 with 52% of households below $35,000, 18% reporting $35,000 to $49,999, 17% $50,000 to $74,999 and 13% over $75,000. Currently unemployment in the area is approximately 12%. Of employed workers (not engaged in agriculture), 5.9% report working in the forest and or logging sector, 6.5% in wood and paper manufacturing, 6.7% in construction, 15.1% in retail, 46.5% in services with the remainder in mining, government and other industries (BC Stats – Community Facts – Creston, 2007).

2.1.3 The Threat from Pine Beetles

Mountain pine beetle is decimating the forestry industry in the Creston area and province wide. Current projections estimate that by 2013, 80% of the merchantable pine will be gone. The provincial economic forecasts for the area have stated “a significant portion of the region’s population (is) facing unemployment” (BC Stats, Sept. 2006).

In addition, these same forecasts advise that the decimation of the forest industry will have a negative impact on cattle and agriculture due to a reduction in shelter, and changes in runoff. This scenario is likely to have even more profound effects on agriculture in the Creston Valley, as most arable land is reclaimed marshland, which is relatively low lying, and in close proximately to the river. Recent projections indicate that there is an increased likelihood of flooding due to snow packs being on average 30% deeper in areas, which are clear-cut.
Due to pine beetle, clear cutting is occurring on an unprecedented scale in an attempt to harvest wood while it still has any value. (BC Stats, Sept. 2006)

The pine beetle will also negatively affect wildlife and tourism. Tourists, drawn to the area for camping and outdoor activities make up the lion's share of tourist dollars flowing into the local economy. (BC Stats, Sept. 2006)

2.2 The Creston & District Credit Union

The Creston & District Credit Union is a one-branch credit union located in the township of Creston established in 1951. It has a history of community involvement and giving. As a result, its local reputation is excellent.

2.2.1 The Board

The Board of Directors consists of seven individuals elected from the membership for a 3-year term. Each year, at the Annual General Meeting some of the Board seats are open for re-election. The Board is experienced; four members have been on the Board from 2 – 4 years, and three members for 12 – 16 years (the Chair – 16 years). The Board appears to be well educated and the mix reflects the membership with respect to family people, business and male/female split. There are no term limits in place for Board members.

The Board is opposed to any mergers as they see this as a loss of autonomy and feel that the best interests of members will not best served if this was to occur. The Board also sees opening new branches as too risky and costly.
The Board receives appropriate information in a timely manner from management and understands its mandate is to deal with strategic concerns and not day-to-day management of the credit union. The Board seems to be moderate concerning its appetite for risk. In the opinion of the Board, the only risks facing the credit union are external. Included in these risks is the desire to stay independent and autonomous, the competition for qualified staff, the aging population, the low market share of younger members, and major changes in interest rates.

2.2.2 The Management

Since it was formed it 56 years ago, and including the current CEO, Jim Miller, the credit union has had just four General Managers (one which managed for only 2 years). Miller is in his early 60’s and has been in the financial services industry since 1971. He has worked for the Royal Bank, followed by 6 years in the credit union system in Manitoba and Alberta. He has been in his current position for 17 years. He has stated that he is unlikely to retire in the near future. His primary objective is to grow the credit union by increasing the share of its members business and overall market share. He believes he has made progress in this direction over the last 6 years.

Miller believes that growth has been flat in the area for the past 6 years because several members of the town council do not want to see additional growth. Miller sees no external risks to the credit union’s future profitability. He does see the loss of either the Manager of Lending Services, or the loss of the
Administration Manager, as internal risks. These are risks, as currently, there are no internal replacements.

The Manager of Lending Services has over 8 years of local loans experience and knows the local economy & members well. He is risk adverse. Low arrears in the loan portfolio demonstrate this. Debt services ratios and consumer risk predictors are low for the total loan portfolio. The Administration Manager has been with the credit union for over 8 years and is in charge of branch administration, including deposits, accounting and reporting. She sees the biggest risk to the credit union as being loss of the CEO. Neither the Administration Manager nor the Manager of Lending Services appears to be planning to leave the credit union anytime soon.

In addition to the management mentioned above there are currently 19 other full and part time staff members.

2.2.3 How is the Credit Union Doing?

The assets of the credit union as listed in the last annual report are $80.8M at end of 2005; this is up from $76.5M at end of 2004. The credit union was holding cash in the amount $34.2M this was also up from $30.7M at end of 2004 (and $25.6M in 2003). The credit union held deposits of $71.9M, which was up $3.8M from a year prior ($68.1M). Of this $29.4M are demand deposits, $32.9M term deposits and $8.9M are RSPs) (Creston & District Credit Union, 2005).
Over this same period loans increased by a mere $1.1M (to $43.8M at end of 2005 up from $42.7M at end of 2004). This increase is attributable to an increase in non-mortgage loans, mortgages actually decreased by $50K (Creston & District Credit Union, 2005).

As required by Financial Institutions Act, the credit union deposits its cash surplus into an authorized financial institution (in this case, the Credit Union Central of BC). These deposits earned 3.27% last year, for the first 8% of assets or $6.5M (this amount is statute required), and only 2.62% for the remainder. The credit union paid its depositors an average of 3.14% on deposits over this same period (Creston & District Credit Union, 2005).

Member deposits grew to $71.9M from $68.1M, and interest income grew by mere $6K to $2.56M. Fortunately, the credit union was able to earn an extra $130K from investments over the same year. Its' operating income from operations dropped by $57K to $949K for the year. The credit union still managed to pay members dividends to members of $379K (Creston & District Credit Union, 2005).

This year operating expenses increased to $3.03M up from $2.58M, which was mostly attributable to increased salaries, benefits and "dues, fees and licenses" (Creston & District Credit Union, 2005).

These factors combined to result in a lower net income. In 2005, the credit union earned $38K less than a year prior. The result was a net income of $475K (down from $513K in 2004). This net income was booked to retained earnings (Creston & District Credit Union, 2005).
2.2.4 The Members

The credit union currently has in excess of 5,000 members (at December 31, 2005). Over 50% of members are seniors or retired people and the average member's age is 50-55 years old. The average personal net worth of members is high.

With respect to loans, the average Total Debt Services ratio is between 27% & 33%. This ratio is low due to two factors: conservative lending practices and an older clientele than most financial institutions.

Overall, older members tend to be net depositors and younger members are more likely to be net borrowers. The credit union has a high market share with older residents and a low market share with younger residents (Creston & District Credit Union, 2005).
3 THE FINANCIAL INDUSTRY IN BRITISH COLUMBIA & CRESTON

Due to legislated market restrictions faced by the credit unions of British Columbia, the "industry" for the purposes of this paper is the province of British Columbia. The financial services sector in Creston and the surrounding area are a sub-sector of this larger market.

The broader global financial service industry has changed dramatically over the past several years. The increased commoditization of core businesses such as residential mortgages and retirement savings plans has narrowed financial margins and adversely affected profitability. As a result, industry members continue to transform and seek new revenue opportunities. The situation is no different in British Columbia and financial institutions in the township and area surrounding Creston are feeling this impact.

The wider, global industry is comprised of large international banks, smaller regional and national banks, caisse populaires and credit unions. Many of these firms are operating in British Columbia (Office of the Superintendent of Financial Institutions, 2007).

3.1 Banks

Canada wide, there are currently 72 banks. Of these 22 are domestic, 24 are foreign owned, 20 are full service domestic branches of foreign entities, nine
are foreign branches which only lend. Several of these banks are operating in British Columbia. Although provincial statistics are not available, as of March 31st, 2007, domestic banks accounted for almost half of the bank assets held in Canada $2,263 billion vs. $2,449 billion held by foreign bank subsidiaries (Office of the Superintendent of Financial Institutions, 2007).

In the Creston area, only RBC and CIBC have local branch representation. Both of these banks have asset bases, which are several thousand times as large as the Creston & District Credit Union. The Bank of Montreal withdrew from this market in 1999/2000 with the sale of its loan and deposit portfolio to the Creston and District Credit Union. Neither RBC nor CIBC locally target commercial lending, and each refers all commercial applications to Castlegar for underwriting. CIBC is actively pursuing investors and retail lending (Online Performance Ltd., 2007).

3.2 Competitors

Province wide there has been significant growth in the number of finance, leasing and insurance, investment and mortgage brokerages. These niche players vary in size and comprehensiveness. Some of these institutions are regional players competing on specific product lines. Others are competing industry wide and target specific market segments.

3.2.1 Finance Companies

As a rule of thumb, finance companies do not generally attempt to compete on price. These companies are involved in financing medium to large
purchases by individuals and small business. These purchases range from cars to appliances to equipment. The rates charged by these companies reflect the risky nature of the financing, the low security offered by the loan collateral and/or the sub-prime borrowers whom they target. These companies are, therefore, able to earn higher margins albeit on riskier portfolios.

3.2.2 Leasing Companies

There are several established leasing companies in British Columbia. The primary market niche for leasing companies is small to medium sized companies or individuals. These leasing companies finance vehicles and/or equipment used by business. Leasing companies are able to charge a premium on riskier leases and provide a service to individuals and companies which otherwise would not qualify for traditional loans.

3.2.3 Insurance & Investment Brokers

Insurance and Investment brokers have in recent years, been expanding the number of products they offer and as a result have been coming into competition with traditional bank and non-bank financial institutions on product lines such as RRSPs, RESPs, etc. In addition, these brokers have been aggressively pursuing clients through smaller store front offices in smaller communities. No longer, does the client have to contact a broker in a major banking centre to take advantage of increased investment opportunities. This local contact brings them into greater competition with traditional financial
institutions. Currently, the market share garnered by these smaller players has been very limited.

3.2.4 Mortgage Brokers

In British Columbia, there has been a substantial growth in the mortgage broker segment of the market. Mortgage brokers can act as competitors by funnelling loans from a financial institution's current or targeted market to its competition. In effect, these brokers act as key decision makers on behalf of their clients.

The perception of using a mortgage broker for the client is one of getting the best deal. There is also a convenience factor for the client as mortgage brokers do the shopping for those individuals who feel they have no time to find the best deal. People who use mortgage brokers are less concerned with relationships with their financial institutions. Mortgage brokers receive a 0.8% to 1.2% fee based upon the size of the mortgage and the length of term entered into (Dunning, 2006).

This segment currently accounts for between 40% and 60% of all mortgages written in the province of British Columbia (depending on whether financial institutions or brokers are providing the statistics) and this segment is growing.

3.3 Credit Union Trends

This section discusses some recent trends in the credit union segment of British Columbia’s financial service industry.
3.3.1 Consolidation

Consolidation of the credit union segment continues. The number of credit unions in British Columbia is currently 50, with two mergers pending. As the remaining credit unions increase in size, their sophistication grows, as do their resources. This trend also leads to a growing potential for diversification into new businesses (Credit Union Central of BC, 2006).

3.3.2 Capital

Some of the larger credit unions are currently better capitalized than they have been at any time in history. This access to capital is a result of the shift from reliance upon strictly member shares to the introduction of equity shares over the last decade. Some of the larger credit unions have generated $10 to $50 million dollars through the issuance of equity shares. However, the most important changes are occurring due to the growth in retained earnings and in some cases contributed surplus, which are at their highest levels ever. Smaller credit unions have also experienced growth in retained earnings, but have had less access to equity from shares (Credit Union Central of BC, 2006).

3.3.3 Products as Commodities

Core businesses such as residential mortgages and retirement savings plans have become more commodity-like. This trend continues to narrow financial margins and affect profitability. This commoditization has led to credit unions seeking alternative revenue sources and to the creation of subsidiaries.
3.3.4 Subsidiaries

In British Columbia, two credit unions own banks (VanCity / Citizens Bank and Prospera / Ubiquity Bank), several others own leasing companies and insurance agencies. Across the province, as legislation permits, credit unions are acquiring and establishing an increasing number of subsidiaries (Credit Union Central of BC, 2006).

3.3.5 Extra-Provincial Activities

Credit unions are actively looking for ways to do business across provincial boundaries. Legislation in British Columbia and Alberta already permits some cross border activity subject to regulatory approval, albeit, this is extremely limited in nature.

Some larger British Columbia credit unions are already doing business outside the province through subsidiaries, particularly in the areas of leasing and insurance. However, investments into subsidiaries are statute barred (by the Financial Institutions Act) beyond 10% of a credit unions asset base. This legislation limits risk, but it also limits extra provincial investment by smaller credit unions.

Several credit unions are currently working together across provincial boundaries in the areas of loan syndication, member services and joint initiatives such as common banking systems.
3.4 Is the Industry Attractive?

This section will examine the attractiveness of both British Columbia’s financial services sector and that of the Creston and area. In examining the threat of new entrants, the bargaining powers of buyers, the threat of substitutes, the bargaining power of suppliers and existing rivalries, Porters’ Five Forces Model is used (Porter, 1985).

3.4.1 New Entrants

Porter (1985) describes three basic strategies for successful firms. These are; a low cost strategy, a differentiation strategy, and a focus strategy (As described in Kotler & Keller, 2006). In penetrating this industry, all of these strategies give rise to issues that need addressing.

Large entrenched banking institutions have a definite cost advantage. The commoditization of key products has reduced the size of the rents that are available. As a result, a new entrant intending on competing on a cost basis would have to enter the marketplace on a large scale to reduce costs. This would require a substantial outlay of capital.

Government regulations and oversight are rigorous and this will further increase costs for a new entrant to receive a business authorization to operate. Skilled employees with local market knowledge are an important factor in success. It is likely that this will require paying a premium to recruit key staff members. Mitigating factors include; brand identities not always enough to offset increased costs, switching costs being lower at times of mortgage renewal (and
when customers are seeking new credit), and product innovations being easily copied. Therefore, if a new entrant is able to achieve a cost advantage, it is likely to be successful in penetrating the market.

If a differentiated strategy is going to be pursued a firm will focus on identifying important customer benefits and concentrating on achieving superior results in these areas (Porter 1985). Once the financial institution has identified key benefits, and developed its strengths in these areas, it needs to communicate this to the intended target market. This promotion will likely be costly.

Entrenched firms are aware of the desired customer benefits and are already working at fulfilling these needs. Therefore, a new firm would need to achieve better results, and communicate this to its potential clients and/or discover new unfulfilled needs. Section 5.3 of this paper identifies research done in this area.

Porter (1985) stated that in a focus strategy, brand identity becomes much more important. Existing players are less able to compete on cost due to smaller size and reduced asset bases. Cost is still a factor, albeit less so. Less capital is required, but clients are more loyal to existing institutions. Local market knowledge is still required, and as in the case above, this will require hiring staff with this knowledge, likely at a premium.

Distribution channels can be set up, at a cost, however, existing focus players have already paid for these and as a result a new entrant will have additional expenses which its' competition may not. It will be necessary to identify
narrow market segments, and aggressively pursue them. To be successful, a financial institution needs either superior or differentiated services. Given the relative importance of cost to all consumers, to successfully implement this strategy, only segments not being aggressively targeted by the cost leaders will need to be identified.

These factors combine to reduce the likelihood of new entrants into the province's financial services market. It is more likely that existing competitors will begin competing more aggressively.

Currently, the financial service sector in the Creston area is not as competitive as are more attractive market areas in the province. In recent years, the slow economic growth, limited population, a lack of secure lending opportunities and a relatively older population, in this area, have resulted in a reduced attractiveness to large financial institutions. As a result, large institutions do not aggressively target the local market.

This reduced competition does not mean that competition with respect to cost is weak, but rather that the market size as a whole has not been adequate to attract "intense" competition. The 1999/2000 sale of its deposit and loan portfolio by the Bank of Montreal to the Creston & District Credit Union highlights this. Currently both RBC and CIBC are ensuring that local competition remains somewhat strong.

There are four small investment service offices located in the area, which act as financial planners and investment dealers. These offices have no lending capabilities. Furthermore, these offices are restricted from mortgage lending by
provincial legislation unless they first obtaining registration to do so (The Mortgage Brokers Act of British Columbia, 2006).

It is possible that a new competitor could enter this market place by coming in from the outside. However, the likelihood of this occurring given the limited market potential, the saturation of the market place, the limited availability of skilled staff, and the lack of local market experience is unlikely.

Because of the foregoing, the threat of new entry for the industry is low within British Columbia and for the Creston area.

3.4.2 Buyers

Provincially, a few large banks and financial institutions, each with a large number of customers, dominate the industry. Individually, these customers have little impact. Collectively, they exert a large amount of power.

High switching costs reduce the power of customers at times. Switching costs are lowest at times of mortgage renewal and while seeking credit or investment options. These switching costs are the result of agreement terms, which result in clients incurring substantial penalties during the term of these investments and/or mortgages.

Customers often make decisions based upon perceived or stated costs and are not always aware that they require information as to the specifics of mortgage terms or investment terms. Costs are a key decision factor in most cases. Although there is some evidence that suggests relationships do matter (particularly with older clients). Institutional branding is of limited benefit if costs
are determined to be too high. Furthermore, due to product copying, no sustainable benefits are available from product differentiation.

There has been a recent trend towards the increased use of mortgage brokers. However, the profitability of this segment is declining due to intense competition. Brokers, in essence, become the key decision makers for the potential customer. Several financial institutions have been competing on incentives to brokers in an effort to influence their decisions. The objective of these institutions is to obtain customers who utilize brokers because they are either too busy to examine the sheer number of options available, or who believe that mortgage brokers have access to better rates (Dunning, 2006).

Most of the same arguments with respect to the bargaining powers of customers applied above also fit with respect to the Creston area. The exceptions to this are: the relative importance of relationships to customers, perceived switching costs, a reduction in choices of financial institutions available to customers, and the method of providing incentives to decision makers.

Dunning (2006) stated that the results of a Polara survey showed that older customers place greater emphasis on relationships and trust than do younger customers. Given the relatively high proportion of seniors in the Creston area, it seems to make sense that relationships and trust established by existing relationships would have a greater affect on customer loyalty. Therefore, the effect of these stronger relationships is an increase to perceived switching costs from the customer's perspective. This logically will reduce their bargaining power. The extent to which this is true remains untested.
There are fewer local choices available to customers in the Creston area when compared to the options of the industry as a whole, or in larger market areas. While it is possible to deal with financial institutions at a distance given current technology, this in reality is not always viable and or preferred. Given the smaller size of the Creston market and the limited number of institutions, shopping locally for the best rate is easier. However, locals may utilize mortgage brokers to access lending from firms not locally represented. Currently the Creston & District Credit Union does not accept referrals from mortgage brokers; instead, it relies on an annual loan “sale” to attract new business.

As a result, it is fair to say that the bargaining power of customers is less in the Creston area than that which occurs in the industry as a whole. However, customer power is still moderate to high.

3.4.3 Substitutes

Substitute products are limited in the financial services sector, as most alternatives are competitors. Substitutes to financial products issued by financial institutions are; vendor financing options and payday loan companies.

Many vendors offer financing for larger purchases directly to their customers. Often these offers involve “no interest” or “no payments” for a prescribed period. Often customers are not fully aware of the terms of these offers, and therefore, the true cost end up being in excess of the cost of financing obtained from a financial institution. These offers are substitutes but are not prevalent enough to influence the industry at this time. The only exception to this
is in the area of new vehicle financing which has almost eliminated what was once a profitable product line for most financial institutions, due to low rates.

Payday lending companies are also substitute products. The customers who utilize these services are generally sub-prime borrowers who are not in the target market for most financial institutions. However, this is not always the case; convenience and speed are sometimes factors, which lead to customers of financial institutions utilizing these services. To date these lending companies have not had a large impact on financial institutions nor does it appear that they will in the near future.

In the Creston area, these substitutes are not currently an issue. Retailers in the local area are not large enough to offer “vendor financing” options to their clients. While it is true that local customers from these financial institutions do travel to larger centres to make large purchases, and may take advantage of vendor financing, these financing arrangements are not material as a proportion of total business.

There are currently a couple of payday lending companies, but these are not effectively targeting the clientele of the mainstream financial institutions.

3.4.4 Suppliers

Suppliers in the financial services sector wield a lot of bargaining power. Suppliers include banking service providers, credit card issuers and labour.

Service providers for financial institutions are specialized and capital intensive. Suppliers are few and substitution is unlikely. As a result, service
providers are able to negotiate favourable pricing. For all but the largest of financial institutions, the impact of a loss of business or the threat of vertical integration would be unlikely to have an effect on these service providers. As a result, switching quickly and cheaply is not an option and access to the expertise provided by these suppliers and services is costly.

The financial institutions in the Creston area must deal with the same service providers that serve the market as a whole. The only mitigating factor is that these service providers are very unlikely to vertically integrate into the industry, due to the expense, specialized knowledge and the relationships required.

Labour and staff are also suppliers. The trend to consolidation in the industry has created a situation where there are several qualified individuals for management positions; however, these individuals may not have the specialized knowledge of a geographic area and/or industry. Therefore, labour can also have a substantial bargaining power.

In the Creston area, skilled labour is even harder to come by. As a result, compensation of employees needs to be adequate. A mitigating factor is, of course, the reduced numbers of local employers.

3.4.5 Rivalry

Kotler & Keller (2006) define the “maturity stage” of the market life cycle as being identifiable when “the competitors cover and serve all major market segments” and invade “each others segments, reducing everyone’s profits in the
process”. From this definition, and the decreasing margins throughout the province, it is apparent that the financial services sector has entered maturity.

Provincially, the industry is no longer rapidly growing. Economic cycles affect the industry by increasing competition for new business in good times and fighting to retain it in bad times. Competition is primarily on cost. Fixed costs are high and are a large portion of total costs for most of the industry. Corporate branding attempts are significant, but costs are the biggest factor. For most firms, exiting the industry is not a viable option due to commitments and exiting costs. Substantial size discrepancies also exist between competitors.

Local competition in the Creston area is slightly weaker than the wider industry, despite the fact that the market is growing at an even slower rate. The primary reasons for this are the attractiveness of the local market, and the reduced number of competitors who are actively targeting it.

Given, the lack of apparent interest by the banks in the community in the area of commercial lending appears to reduce competition in other segments. The Creston & District Credit Union can more or less choose the loans it wishes to fund from this segment. As a result, it is not as aggressive in other lending areas as may otherwise be the case.

Locally, there are also increased efforts at relationship building due to the relatively small market size and the higher proportion of seniors who value this benefit.
In summary, provincially, competition amongst rivals is intense and increasingly based on costs. Locally, Creston’s financial institutions are still able to earn slightly above average industry wide margins. However, this does not reduce the credit union’s need to maintain a comparable cost structure.

3.4.6 Summary

Given the strong bargaining power of suppliers, the intense rivalry in the industry, slow growth and a cyclical nature to the industry, the only conclusion is that, provincially the overall attractiveness of this industry is low. Competition is high and margins will likely continue to decline. Innovative firms with additional and new revenue streams will likely continue to dominate and smaller firms which are unable to establish a profitable niche will become less viable.

3.4.7 Market Potential

Actual figures for the market potential for financial services for the Creston area are not available. It is also difficult to obtain statistics, which geographically match up with the area which Creston services. Figures for the Township of Creston are available, as are figures for the entire regional district (as defined by BC Stats). From these figures, it is possible to paint a broad picture of the current economic environment. Furthermore, predictions as to the future economic investment concerning this regional district are available.

The age distribution of the population is 15.5% under 14, 9.5% 15-24, 20.2% 25-44, 24.9% 45-64, and 29.9% 65+. As previously stated, this proportion of seniors has continued to increase substantially in recent years. The prime
borrowing ages for most bank clients are the 25-44 and coincide, for most people with the purchase of a home and starting a family. This demographic in Creston is only 20.2% versus the British Columbia average of 30.1%. In addition, the ages of 45+, which are generally associated with savings, account for 54.8% of the local population as opposed to 28.7% province wide (BC Stats – Community Facts, Creston, 2007). Intuitively this should result, locally, in increased savings and reduced retail borrowing.

According to personal taxation statistics from 2003, employment income accounted for only 53% of total income. Pension and Investment income accounted for in excess of 32%, 4.4% was from self-employed individuals and the balance is from other sources (BC Stats – Community Facts, Creston, 2007)

Building permits also tend to be a good indication of loan demand. Statistics concerning residential building permits show that they peaked in 2005 at $13.5 million and decreased to $5.5 million in 2006. This level is still 50% greater than past historical highs (BC Stats – Community Facts, Creston, 2007)

Another factor, which affects loan demand, is average house price. The greater the price, the larger the average loan size is. The average house price in the Creston area is less than half of the provincial average. Another interesting fact is that the proportion of home ownership in the Creston area in relation to rentals is 2.5:1 compared to 2:1 province wide, meaning that a larger proportion of Creston residents own their own homes. The forgoing seems to call into question the attractiveness of the retail loan (non-commercial) segment of the local market (BC Stats – Community Facts, Creston, 2007)
Commercial loan demand is generally a factor of commercial building permits, new industry and other capital projects by existing business. Non-residential building permits peaked in 2004 at $10.1 million and have since declined to historical levels at less than $1 million. New incorporations in the Creston area are in line with historical trends; however, statistics are not available with respect to bankruptcies for this community. Statistics concerning capital projects are also not available (BC Stats – Community Facts, Creston, 2007).

Given the relatively high proportion of individuals employed locally in the logging, wood and paper manufacturing industries (11.6%) and given that, several service industries are also reliant on these sectors (BC Stats – Community Facts, Creston, 2007); the impact of the mountain pine beetle is likely to have a significant impact on the local economy. As previously stated in this paper, the current projections are for destruction of 80% of the merchantable pine in this area by 2013 (BC Stats, Sept. 2006).

There is of course a chance that several small companies will find niche markets for the distinctive blue hued wood, which is a result of the mountain pine beetle. The likelihood that these small upstarts will be able to replace an industry of the scale and importance to the local economy as forestry is low. Therefore, it is fair to say that the local market for commercial lending products is likely to decline, if not in size, at least in quality and security.

The threat of entry by new financial institutions is low due to the limited market potential, the saturation of the market place, the limited availability of
skilled staff, and the lack of local market experience. Buyers have moderate to high bargaining power. Suppliers exert intense bargaining power. Rivalry is active but not overly aggressive at this time. However, if the existing competition began to target commercial loans, or a new firm did enter the market area, competition would likely become much more intense for all competitors.

While relationships are important and price competition less intense than province wide, costs are still a factor. Price competition will likely continue to squeeze margins, albeit not as rapidly as for the market as a whole. Profits are likely to continue to decline because of decreasing revenues from reduced lending opportunities and from increasing deposits due to local demographics.

Given this, the only conclusion that is the overall attractiveness of Creston’s local financial industry is low to moderate at best.

3.5 Scale and Scope

Growth in the financial services sector is moderate. This is a mature market. Larger financial institutions and banks are aggressively seeking growth into new markets and through diversification into new areas. Most of this growth is occurring through expansion into new markets (primarily outside of Canada). Banks are doing this in an effort to continue becoming larger and globally competitive to achieve increasing economies of scale.

Smaller financial institutions are not in a position to grow in this manner. These institutions do not have the requisite capital to compete on cost. Often legislation restricts opportunities for expansion into new markets, business lines
and regions. Smaller financial institutions with an identified and profitable niche may remain profitable by maintaining a focused strategy. To do so growth will have to result from increasing the share of their clients’ business.

Financial institutions falling in between these two possible strategies, and therefore, mastering neither, will likely become less and less profitable as they fail to adequately capitalize on cost efficiencies and yet lose their niche positions in their attempts to do too much for too many (Holland & Westwood, 2001).

In the Creston area, there is an obvious tension, which exists between scope and scale. To increase scale efficiencies a firm must expand beyond the limited size of this market place. The two existing banks are already in this position. Yet to capitalize on these scale efficiencies requires them becoming more reliant on technology and centralized. This situation results in a limited ability to capitalize on scope efficiencies, which requires increased local knowledge and the building of relationships. An example of this tension is the reliance of standardized loan underwriting by RBC & CIBC. These policies limit the banks ability to make loans based upon local and personal knowledge of an individual.

The Creston & District Credit Union is not currently bound by restrictive lending policies; therefore, they are freer to approve exceptions to their established Lending Policy for what are deemed to be “good guy/ will pay” loans. This increased flexibility currently allows it to earn slightly higher margins. However, if margins continue to decline industry wide, there will come a point
when its profitability will decline due to the relatively higher unit costs associated with running a small financial institution.

3.6 Key Success Factors

Commoditization of traditional product lines is causing financial institutions, including credit unions, to seek new markets, products, business lines and/or profitable niches to contribute to growth and profitability. In addition to the efficient use of capital, a successful strategy and the building of competitive advantage in one of these areas will be the key to future success.

To do so a financial institution must have several key success factors (KSFs). KSFs required to compete in the province and the Creston area are competitiveness with respect to prices, knowledgeable & friendly staff, an effective distribution strategy, a desirable product mix, a good reputation, flexibility, and in the case of Creston, a reputation for community involvement.

3.6.1 Price

Although the relative importance of price differs across demographics, all groups have stated it is one of the most important variables if not the most important variable (Zineldin, 1996). Certain market niches may be willing to accept paying a premium price if other benefits are provided, but there a point where this trade off becomes unacceptable to the customer.

There are many components, which contribute to a firm’s ability to be competitive with respect to price, but the most important component is access to inexpensive capital. If a firm is unable to acquire capital at a price below that
which the customer is willing to pay, it will not be viable for long. Additional factors, which affect a firm’s ability to be price competitive, are operating costs and efficiency. Given restrictions due to competition on the price a firm is able to charge a customer, and the expense associated with raising capital, a firm has a limited margin with which it is able to pay all its operating costs. Beyond this point, it loses money.

In the Creston area, price competitiveness is still an important success factor; however, due to the demographic differences and the reduced competitiveness of the local area, the relative importance of this factor is slightly less than for the province as a whole. Customers still want the best prices, but they may weight other factors as being slightly more important, and therefore, willing to accept a very slight premium to deal locally or if competition does not deliver on other important factors.

### 3.6.2 Staff

The importance of maintaining the customers, which a financial institution serves, cannot be overstated. The costs associated with attracting new customers are large and to be successful a financial institution must offer incentives sufficient to overcome the switching costs a client will incur, which further reduce margins.

Zineldin (1996) stated, “an unsatisfied bank customer is probably a potential customer for a competing bank.” and that “word-of-mouth from a disappointed and unsatisfied customer may cause a bank’s image to deteriorate”.

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His studies also showed that the friendliness and helpfulness of staff was one of the most often cited reasons for a consumer’s selection of financial institution.

Given the mature nature of the financial service industry competition for customers is intense, financial institutions must ensure they retain their existing clientele. Interestingly enough, Zineldin’s (1996) studies have also shown that this is one of the areas, in which, the largest discrepancy between customer expectation and perception occurs.

Employees with industry or market specific knowledge are in demand. Qualified staff are difficult to recruit and crucial to the implementation of market strategies. Financial institutions are rarely able to hire the people with the skills they need without paying a premium and generally must develop the requisite talents and knowledge internally. If a financial institution fails to develop the required expertise internally and/or if key employees are lost to the competition, a firm may not be able to implement its market strategies. This situation could have long-term negative implications on growth and profitability.

Given the fact that the demographics of the Creston area are skewed towards a greater proportion of seniors, knowledgeable and friendly employees and personal relationships are even more important locally, than for the industry as a whole. Seniors require and expect a more personal relationship with their financial institution. Seniors also place a greater emphasis on the importance of this relationship when choosing a financial institution.
3.6.3 Distribution

A financial institution must have an effective distribution strategy (Zineldin, 1996). This strategy may include branches, ATMs, internet access, telephone banking or any combination of the above.

The strategy of the financial institution must be desirable to its clientele and be cost effective to operate. If a financial institution fails to meet the needs of its clientele, it is very unlikely that they will remain customers for long. If the costs associated with the strategy chosen are too high, the financial institution's ability to be price competitive will be impaired.

The need for an effective distribution strategy in the Creston area is no different from elsewhere. The differences are in what constitutes a successful strategy. The relative importance of internet, telephone banking and ATM service is lower because of the older population. However, to attract younger clients these services are required. The need for timely and friendly personal service is also relatively more important.

3.6.4 Products

If a financial institution is going to be successful, it must offer the products wanted by its customers. This focus on products does not mean that it must be all things to all customers but rather that it knows which products are most desirable to its specific clientele. To do so the financial institution should be close enough to its clients to determine if market changes or preferences are changing.
For the Creston area, as anywhere, the need for a product mix, which is in tune with the demand of the local community, is very important. The required product mix with respect to investments and retail lending is similar to that required in other areas of the province. Notable differences are; agricultural loans are a larger proportion of the total lending, commercial loans tend to be smaller and less secured by real property adding to their risk, and mortgages tend to be lower in value than the industry averages. The reason for these lower value mortgages is primarily due to lower property values.

3.6.5 Flexibility

Closely tied to the preceding section is the need for a financial institution to be flexible. When customer preferences shift, the institution must be willing and able to adapt quickly so that it does not lose customers to the competition. Quick adaptation to new products will also benefit the institution by increasing its ability to attract new customers from the competition.

Flexibility with respect to product innovation is not as important in Creston and area as it is in areas where greater competition exists. This reduced need for innovation does not mean that the financial institutions do not need to stay on top of current trends, but rather, that the importance of early adoption is lower.

Flexibility also refers to the ability of the financial institution to tailor its offerings and policies to meet the requirements of its clients. Bureaucratic procedures and rules, which limit flexibility, may become an irritant to customers leading to their loss. Flexibility with respect to loan underwriting and the
elimination of bureaucracy, which hinders establishing relationships, is much more important in a small community like Creston.

3.6.6 Reputation

Reputation is the overall quality of character of an organization as seen by the public. Next to the friendliness and helpfulness of personnel, accuracy and efficiency are the two most often stated determinants of bank selection according to Zineldin’s (1996) findings.

If a financial institution cannot provide accuracy and efficiency, it will not be long before its customers lose confidence in its capabilities and its reputation will suffer. A failure to maintain a good reputation will make it very difficult to hold onto existing customers and almost impossible to obtain new ones. Customers need to have confidence that their money is secure investments are being wisely managed.

Reputation is very important for all financial institutions, but in a small market like Creston and area, reputation is critical for success. Relationships built on trust and reputation goes along way in establishing this trust. Furthermore, word-of-mouth communication is a very strong factor in small communities.
4 WHAT IS THE CREDIT UNION DOING NOW?

This section evaluates the fit between the organizational resources, capabilities, and management preferences of the Creston & District Credit Union and the key success factors required by the external environment. The framework utilized for this section, will be the “Diamond-E Framework” as described by Crossan et al (2005).

Demographic and economic trends in the Creston area (as previously described) are then considered, and this section will end with an examination of what will occur if the credit union continues to operate in the manner in which it is currently operating.

4.1 What Does It Have?

The Creston & District Credit Union has been in business in Creston since 1951. It has been member owned, and controlled and has been providing financial services to the local community in a profitable manner for many years. Its management has been amazingly consistent, with the current manager in place for in excess of 18 years. As such, it should be obvious that in a small local community such as Creston, management’s local knowledge is extremely high.

Management estimates that current market shares are 85% in the Township of Creston and approximately 40% in the surrounding valley. The
market share is higher for the 55+-market segment and lower for younger age groups.

4.1.1 Resources

Credit union staff is well trained and knowledgeable. In house training is available and complimented by external training as required. The current staff complement is adequate for the credit unions needs, however, additional staff would be required if expansion was considered.

The credit union’s management team has a great deal of local knowledge and is very well trained and stable. Three key individuals oversee most aspects of the credit union operations and lending.

The credit union has capital adequacy far in excess of the 8% required by legislation (currently between 35% and 40%). The capital base which is currently being maintained by the credit union is far in excess of industry averages when compared to its peer group (other interior credit unions), its asset group (credit unions of a similar size), and the credit union system as a whole (see Figure 1). This capital base has been experiencing growth over the past several years.
Figure 1 - Creston & District Credit Union's growth in Capital relative to its comparables.

Chart created by Author from Audited Data from Stabilization Central CAR Extract

The capital held in excess of 8% is a resource, which is available for the credit union to utilize within certain legislative guidelines. Investments into subsidiary companies are restricted to 10% of total assets by the Financial Institutions Act of British Columbia. This legislation means that, in the credit union's case, only $8 million dollars is available for investments into a subsidiary or subsidiaries. In addition, investments into non-guaranteed securities are restricted to 5% of total assets. Furthermore, all investments must have a secondary market for liquidity purposes.
Additional resources available to the credit union are a high market share and an excellent local reputation for service to both customers and to the community as a whole.

4.1.2 Capabilities

The credit union has managed to achieve a relatively efficient operation given its limited size. Efficiency as determined by the operating efficiency ratio is based upon total assets per staff member, salaries and benefits per staff member, income from member’s services per member, data processing expense per member and assets held by the credit union. The lower the ratio the more efficient the credit union is deemed to be.

As seen in Figure 2 below, the Creston & District Credit Union has made good improvements with respect to its efficiency ratio over the past several years. Its results are superior to both its peer and asset groups.
In 1998, the credit union bought Herchmer Insurance in an effort to find a new revenue stream and to open up opportunities for cross selling (Creston & District Credit Union, 2007). The credit union has been successful in generating income from this endeavour, but results have been moderate due to issues of long-term employees not fully embracing the task of cross selling.

4.1.3 Preferences

Several members of the Board of Directors have been with the credit union for several years. The Board is a knowledgeable source of community information is extremely well connected within the local community and surrounding area.
The Board has stated that they are not in favour of opening additional branches and/or merging with any other credit unions. The Board values the security and independence, which the current organization offers and feels that the community well served by a stable and locally controlled credit union.

The credit union does not have any local market knowledge of other market areas, nor does its excellent reputation extend outside of its existing service area.

4.2 Can it do what it needs to?

This section contains a comparison of the Key Success Factors previously identified and the resources, capabilities and preferences of the Creston & District Credit Union.

4.2.1 Price

As stated, customers want their financial institution to be competitive on prices, but are willing to accept a very slight premium for the convenience of dealing locally. The Creston & District Credit Union is currently able to meet its member's expectations in this regard. Efficiency improvements have, for the time being at least, put it in a position where it is able to effectively compete in the local market place with respect to cost.

4.2.2 Staff

The credit union's staff is knowledgeable and friendly and this is appreciated and valued by the community it serves. This factor is important in
Creston, given its relatively high proportion of seniors. This is a definite area of competitive advantage locally, which increases perceived switching costs for its members.

4.2.3 Distribution

The credit union is conveniently located and offers ATM, telephone and internet banking, all of which are desirable to its clientele. The distribution channels locally are adequate for the market place.

4.2.4 Products

The credit union has never been an early adopter with respect to new products. It does adopt products if members require them, or if it feels, it will lose members if it does not. As is reflected by the relatively high market share, the product mix is desirable and adequate for the local market place.

4.2.5 Flexibility

Given the credit unions flat organizational structure and its local approval process, it remains very flexible to its members. New product development has not been a capability demanded by the local market or existing members to date.

4.2.6 Reputation

In fifty-six years of community support and service, the credit union has built up a lot of local trust and name recognition. Word-of-mouth communication has been, and continues to be, instrumental to transferring this reputation to newer community members.
4.2.7 Community

The credit union consistently provides financial support to worthy causes and community projects, as such; it is a valuable participant in the local economy and community.

4.3 Results of Status Quo

It is apparent that the credit union has the key success factors to be successful in the local market place. However, the local market place has limited opportunities to lend securely at a level, which is commensurate with the level of deposits in the credit union’s portfolio.

Therefore, continuing on the path, which it is currently following, can only lead to reduced profits and stability for the credit union. Inevitably, this will lead to an eventual decline in the viability of the credit union.

4.3.1 Deposits, Capital and Cash

The Creston & District Credit Union has experienced a substantial increase in deposits over the past several years. As stated, these deposits are for the most part a result of the changing demographics for the area and within the credit union’s membership. As can be seen in Figure 3, the growth of deposits has outpaced the growth in the loan portfolio. This trend has resulted in an increase in cash and liquid investments held by the credit union.
Unfortunately, for the credit union, this trend has also resulted in the credit union paying a greater proportion of its interest income (from loans) to depositors (as interest on deposits).

As stated earlier in this paper, the credit union is able to invest 5% of assets in secure and liquid investments earning a market return. After that, it earns 3.27% on the first 8% of assets for money deposited into Credit Union Central of BC, and 2.62% on all deposits thereafter. It paid an average of 3.14% to depositors over this same period. As a result, it is easy to see that any cash in excess of 13% (8% required equity plus 5% invested) of assets results in a reduction to the credit union’s profits (Creston & District Credit Union, 2005).
The trend of deposit growth outpacing loan growth in the credit union is nothing new. Portfolio growth (in loans) began to stagnate in the late 1990s. The issue became larger for the credit union with the purchase of the Bank of Montreal's deposits and loans as it closed its branch and exited the area in 1999/2000. Since 2000, the trend has continued to worsen. Figure 4 shows the trends in deposit, loan and liquidity growth since 1995.

Figure 4 – Long-Term Trend in Growth in Deposits, Loans & Liquidity

Chart created by Author from Audited Data from Stabilization Central CAR Extract

Given the expense associated with maintaining this position, this is not a desirable position for the credit union to be in.
4.3.2 Liquidity

While it is desirable for a financial institution to maintain adequate levels of liquidity, too much liquidity is not a good thing. Minimum liquidity levels are legislated (currently at 8%), and larger financial institutions generally try to maintain liquidity at levels close to these limits. Figure 5 compares Creston & District Credit Union’s liquidity with the average liquidity levels for the credit unions of British Columbia for the last 10 years. Provided are separate averages for all credit unions, for credit unions of a similar asset size to Creston & District, and for the credit unions in the same general geographic area.

Figure 5 – Long-Term Liquidity Growth relative to Comparables

Chart created by Author from Audited Data from Stabilization Central CAR Extract
It is apparent from Figure 5 that the Creston & District Credit Union is consistently maintaining liquidity far in excess of industry averages irrespective of the group to which a comparison is drawn.

4.3.3 Membership & Loans

As stated, demographics have played a large part in the poor growth of the credit union's loan portfolio. The aging membership of the credit union and the community as a whole, have a reduced demand for loans when compared to a younger clientele and/or community. This trend is unlikely to change without a significant demographic shift in either the credit union's membership or community.

Loan growth for the credit union appears to be the biggest issue they are facing. To put this issue into perspective, Figure 6 depicts both the deposits and the loans as a percentage of assets for the credit union over the past several years. It is very apparent when viewed in this manner, that since 1998, loans have been decreasing as a proportion of the assets of the credit union. Considering that loan income is the primary source of income for the credit union this trend, if it continues, is not sustainable.
4.3.4 Margins

As has occurred in the entire financial services sector, the credit unions of British Columbia have been experiencing decreasing financial margins. This trend is the result of increasing competition on their traditional products.

Figure 7 highlights the decreasing margins, which these credit unions have faced over the past several years. This trend will to continue as competition increases, technological advances reduce search costs, as customers become more price conscious and as relationship banking further declines in importance with the next generation.
Figure 7 – Reduction in Financial Margin for all Credit Unions.

Chart created by Author from Audited Data from Stabilization Central CAR Extract

Figure 8 shows the financial margin of the Creston & District Credit Union over the same period. In the Creston area, the trend is the same, albeit the competition locally is less active and this allowed for slightly higher margins earned by the credit union.
4.4 Conclusions

Zineldin (1996) states that to be successful in this environment smaller financial institutions must find a profitable niche not adequately served by the larger players.

Currently the Creston & District Credit Union is operating in a niche not targeted by larger competitors. Fortunately, the credit union is able to charge a slightly higher margin than the larger market allows. Unfortunately, the economics and demographics of the area are resulting in this market becoming increasingly less profitable.
Currently, the Creston & District Credit Union has a very high liquidity and a strong member base. This position means it still has options and time to implement them. The following section reviews the results of several studies concerning efficiency, optimal size, mergers, and reasons for bank selection.
5 WHAT DOES THE EVIDENCE SUGGEST?

In this time of increasing competition and tightening financial margins, mergers or acquisitions are strategies used by many credit unions to become more competitive through achieving greater economies of scale, or gaining access to new markets and resources. This section will review existing literature in the areas of scale, scope, efficiency, strategic positioning, customer expectations, customer satisfaction, and growth opportunities.

5.1 Scale & Efficiency

Scale efficiency is a measure of the relationship between average cost and production (Berger et al, 1999). In an effort to achieve greater economies of scale, many credit unions are currently utilizing mergers or acquisitions. The reasons for these mergers and acquisitions are varied. They usually are the result of either value maximization motives or non-value maximizing motives (Berger et al, 1999).

5.1.1 Value Maximization Motive

The two ways to maximize value through a merger or acquisition are to increase market power relating to the setting of prices or by increasing efficiency (Berger et al, 1999). As of March 31, 2007, all credit unions in British Columbia accounted for a total asset base of approximately $39 billion, whereas the largest of the bank competitors (the Royal Bank at March 31, 2007) had assets in
excess of $505 billion. It is therefore obvious, that a single credit union will not have the prerequisite size to garner sufficient market power to become a price setter.

Traditional wisdom suggests credit unions can benefit from increasing efficiencies. One way to do this is by taking advantage of increased economies of scale or spreading out costs over a larger base. Mergers and acquisitions can be fast ways grow in size. Studies, however, have produced mixed findings.

Results with respect to the true impact of efficiency gains from mergers and acquisitions are mixed. Berger et al (1999) found "little or no cost efficiency improvements (from mergers and acquisitions) with the exception of to the most inefficient firms". Rather, efficiency gains were the result of management "waking up" by adopting management best practices, rather than cost savings based on size. Therefore, efficiencies improved due to the merger process, but not due to scale efficiencies. Furthermore, the smaller or acquired firm seems to benefit to a greater degree (Berger et al, 1999).

A study of credit union mergers and acquisitions in Australia shows that the most important determinant in a merger is the relative size of the credit union (Worthington 2001). Worthington (2001) goes on to state that it is possible to show that efficiency of the merged credit unions increases relative to non-merged credit unions.

Ralston et al (2001) determined that mergers have the tendency to improve efficiency the most in inefficient firms only and efficient firms have the least to gain. This study also determined that mergers did not improve efficiency
more than did internal growth in non-merging credit unions (Ralston et al, 2001). The first result strengthens Berger et al’s (1999) finding, however, the second result seems to be in conflict with the reason for increased efficiency being an improvement in management practices learned from a takeover or merger partner, as suggested by Berger et al (1999). Instead, it seems to suggest that the growth process in and of itself is the reason for increased efficiencies (Ralston et al, 2001).

5.1.2 Non-value Maximizing Motives

Berger et al (1999) also found evidence that managers may not always be acting in the best interests of the financial institution and in the best interests of its shareholders and or members. Management objectives may differ or become misaligned with the best interests of the financial institution if they are compensated based on firm size or asset growth. In this case, empire building may be financially rewarding to the manager. Alternatively, he also found that management entrenchment might cause management to resist a beneficial merger (Berger et al, 1999).

Government regulators may also exert influence, which may have the effect of either blocking a merger if it is worried about too much consolidation, or may actively push for increased consolidation if it deems it in the financial best interests of a troubled financial institution (Berger et al, 1999).
5.1.3 Does Size Really Matter?

Stabilization Central of British Columbia tracks the monthly financials of all 50 existing British Columbia credit unions in its CAR system. As stated above, the efficiency of these credit unions is determined by calculating the operating efficiency ratio based upon total assets per staff member, salaries and benefits per staff member, income from members services per member, data processing expense per member, and assets held by the credit union per member.

To test the theory that credit unions with a larger asset base are more efficient than credit unions with a smaller asset base, raw data obtained from Stabilization Central (See Appendix A), was used to create the following scatter plot. Asset size in Figure 9 is on the horizontal axis and the operating efficiency ratio on the vertical axis. The resulting trend line shows almost no correlation between assets size and efficiency, with a co-efficient of determination ($R^2$) of just .0005. This shows that, in the case of British Columbia’s Credit Unions, asset size accounts for very little if any of the variance concerning efficiency. In summary, size does not seem to matter with respect to efficiency, over the asset range measured.
To take this one step further and in an effort to determine what if any relationship exists between the financial margin earned by a credit union and the size of the credit union, the financial margin (as a percentage of assets) was plotted against the assets of all 50 credit unions in British Columbia below (See Appendix B). This time (see Figure 10) there is a slight inverse relationship, which shows that increasing asset size seems to have a negative effect on financial margin.

Care must be taken to read too much into the relationship between asset size and financial margin because the co-efficient of determination ($R^2 = .1009$) shows that asset size accounts for only a small proportion of the variability in financial margin. These results do not necessarily apply to larger financial institutions.
5.1.4 Optimal Size

At first glance, these results tend to be counter intuitive. Why would getting larger result in either lower margins or a decreased efficiency?

Christopher P. Holland and John B. Westwood (2001) postulated, in their paper “Product-Market and Technology Strategies in Banking”, that the banking sector is undergoing a major transition caused by technology and globalization. They go on to suggest that the financial services sector can be broken in three groups based upon asset size. They refer to these three groups as “Focus”, “Juggernaut” and “Death Valley”.

Holland and Westwood (2001) state, that the vast majority of financial institutions are currently located in the Focus category. The major focus
strategies they identified are market focus, geographical focus, supply chain focus and a product focus. They also state that many financial institutions are able to be successful with a focus strategy if they are able to successfully outsource, and therefore, achieve the benefits of size without asset ownership. In essence, they suggest that smaller financial institutions should focus on becoming a “gateway with the consumer” (Holland & Westwood, 2001).

The Juggernaut strategy as described by Holland & Westwood (2001) is a position held by a few of the very largest financial institutions. These institutions are essentially what Berger et al (1999) referred to as “price setters”. These large institutions have sufficient market share that they are able to control the market.

The final area referred to by Holland and Westwood (2001) encompasses all of the financial institutions, which fall in the area between these two strategies. They state that financial institutions in this segment are too big to focus successfully on market niches, and are not big enough to compete against the market power of the Juggernauts (Holland & Westwood, 2001).

It is possible; therefore, that many of the credit unions’ past mergers have been reducing efficiency by weakening their traditional geographic or client focuses. It is also possible that many of these mergers and acquisitions have been the result of the “non-value maximizing motives” described by Berger et al (1999).

Although, not directly involving British Columbia’s credit unions or smaller financial institutions, the reasons for the consolidation of the US banking industry
was tested. This study examined industry data from the 1980s and 1990s. In this 2005 study, Allen Berger, Astrid Dick, Lawrence Goldberg and Lawrence White tested the theory that “that technological progress improved the performance of large, multi-market firms relative to small single-market firms”. The alternative “hubris hypothesis” tested was that consolidation was the result of corporate hubris (Berger et al, 2005).

The findings of this study show that “on net, technological progress allowed large, multi-market banks to compete more effectively against small, single-market banks in the 1990s than the 1980s” (Berger et al, 2005). This study does not rule out that empire building, pride or other non-value maximizing motives are the cause of some mergers and acquisitions. Rather it states that the “net result” of these mergers and acquisitions is increased efficiency (Berger et al, 2005).

These findings while significant, do not rule out that hubris may have been a relatively more important factor in the case of British Columbia credit unions, which have decided to merge. This study also does not rule out that the cause of increased efficiency may be the result of geographical expansion as opposed to scale increases (Berger et al, 2005). In which case, legislated restrictions on the extra-provincial expansion of British Columbia’s credit unions could be another reason for limited efficiency gains in the British Columbia credit union system.
5.2 Scope and Scale

Economies of scale are important if a financial institution is to compete on price. As shown the preceding section, it is not realistic to assume that even the largest of British Columbia credit unions will be able to compete with the large banks on this basis. This inability is due to a huge disparity in size and geographic restrictions limiting growth potential. Gaining efficiencies of scope on the other hand is possible for smaller financial institutions.

Increasing efficiencies of scope, in this context, requires focusing on gaining a larger share of existing customers or members’ banking and/or increasing market penetration in existing markets. This focus on scope efficiency means turning unprofitable or marginally profitable clients into more profitable clients while at the same time increasing switching costs by making them more connected to the credit union and/or targeting a new demographic.

5.3 Positioning & What People Want

Phillip Kotler and Kevin Keller (2006) define “positioning” as “the act of designing the company’s offering and image to occupy a distinctive place in the mind of the target market”. No bank can offer all products and services and be the best bank for all customers. “A bank must examine its strengths and opportunities and take a competitive position in a competitive marketplace.” (Zineldin, 1996)
5.3.1 Options for Positioning

Zineldin (1996) goes on to describe four positioning strategies for banks. These are institutional positioning, product/service line positioning, delivery/delivery system & staff positioning, and finally segment positioning.

Institutional positioning is deciding on the scope of operations. Is the financial institution going to be regional, domestic, national or international? Product or service lines positioning is being more concerned with the offered product. Delivery/delivery system & staff positioning is about the delivery of the product and or service (tellers, branches, ATM etc.).

Segment positioning concerns itself with deciding upon what basis to compete. For example, will the financial institution have the broadest possible offering? A low cost strategy? Will it target a narrow market based on product, sector, region or some combination of the above?

5.3.2 Determinants of Selection

Zineldin (1996) surveyed 300 individuals in Sweden and as a result identified five factors that determined the choice of primary bank. These factors were trust & confidence, price competitiveness, flexibility, contact with bank decision maker, and speed of decision (Zineldin, 1996). Other studies in Canada found these factors, and location convenience perceived as being important, with location convenience being most important (Gupta & Torkzade, 1988, and Laroche et al. 1986). Zineldin (1996), points out that the reduction in the relative importance of this factor is likely due to an increase in banking options associated with technological changes within the industry.
In a relatively small random sample of 400 individuals (with a 54% response rate) from four metropolitan areas in Sweden, Zineldin (1996) showed that friendliness, accuracy, price, availability of loans and flexibility all were deemed to be important factors in choosing a bank. Interestingly, it was also in these areas where there was the greatest discrepancy between expectation and actual reported satisfaction levels. Zineldin (1996) states that these gaps need addressing and failure to do so will result in “a persistent gap may lead to conflict arousal and the bank can suffer from disappointed customers.”

5.3.3 Demographic Differences

A national telephone survey conducted by Polara on behalf of the Canadian Institute of Mortgage Brokers and Lenders identified several “reasons for satisfaction” with loan products (Dunning, 2006). The most important key factors identified were cost, flexibility & service, and trust (Dunning, 2006).

These results from this survey were broken down into three demographic groups based on age of respondent. These age groups were 18-34, 35-54 and 55+. Although all three groups identified the order of priority of these three factors as being cost, then flexibility and finally service & trust, the relative importance of the weighting given to each varied.

Of those 18-34, 74% mentioned cost as a factor, 67% of the 35-54 of those mentioned cost as a factor, and only 55% of those 55+ mentioned cost. The relative importance of flexibility, as judged by the number of times mentioned by each age group was reversed, in that, of those 18-34, only 29% mentioned it as a
factor, whereas, 35% of those 35-54 mentioned it as a factor, and 39% of those 55+ thought flexibility ranked high enough to mention. Trust & service ranked similarly with the 18-34 age group mentioning it 22% of the time, 35-54 year olds mentioning it 25% of the time and the 55+ group mentioning it more often than either, at 29% (Dunning, 2006).

5.3.4 Conclusions

Given the information provided in this section, it is clear that there is no one solution for all credit unions. Furthermore, not all credit unions benefit equally from mergers. Reasons for success differ, as do determinants of bank selection by consumers. Therefore, the Creston & District Credit Union must decide what its’ optimal solution will be given its’ own unique situation and membership.
A NEED FOR CHANGE

The Creston & District Credit Union has many factors working in its favour. It has a strong history of community involvement and financial stability. It has an excellent local reputation and a loyal membership base. Its management and Board are active within both the credit union and the community at large. It is currently financially strong and has a large market share in a community, where larger firms are not aggressively competing, allowing it to earn a slightly higher margin than the larger market allows. Its membership base continues to grow and assets are increasing.

Unfortunately, all of these strengths can also mask the issues of the changing local economy and changing demographics of the area. Local unemployment levels are already twice the provincial average. The majority of those unemployed are in the 25-44 age group which is a key borrowing demographic. This rate of unemployment is likely to increase given, the relative importance of, and the outlook for the forestry segment, which is on the verge of a huge downturn due to the mountain pine beetle.

The local community and surrounding area is also going through an unprecedented change in demographics. Older residents are moving to the area due to its moderate climate and inexpensive real estate, while simultaneously, younger residents are leaving to find work elsewhere.
Because of the foregoing, the credit union is experiencing a growth in deposits without having a similar increase to its loan portfolio. This trend is due to seniors being net depositors, and the younger members of the community, who would normally be borrowing, leaving to find work elsewhere. This trend is not sustainable because the credit union is paying a higher rate on deposits (3.14%) than it is currently able to earn on excess liquidity (2.62%) given its limited lending opportunities (Creston & District Credit Union, 2005).

Furthermore, given the industry trending towards commoditization, it has to absorb this loss due to excess liquidity with lower margins. This trend is also not showing any signs of declining. Although the credit union is still earning a profit, this situation is resulting in Creston’s financial services market becoming increasingly unprofitable.

Unless there is a major demographic and/or economic shift in the local area, and the population becomes more representative of the overall population with respect to age and industry this credit union will be in trouble. Change does not appear likely given that the forestry industry and its associated services will start to downsize over the next several years due to the mountain pine beetle. The demographic shift will likely increase as more young workers leave the area seeking employment elsewhere.

These trends and economic issues combine to create a situation where targeted internal growth is very unlikely to create a substantive change and a profitable client base for the credit union. What this credit union needs is access to a younger membership base, access to a growing market, and/or the
increased stability offered by a broader geographical presence. Fulfilling any of these requirements will lead a healthier credit union for the benefit of its members.
7 TYPES OF GROWTH

Presented below are the generic options for growth as identified by Kotler and Keller (2006). These opportunities for growth fall into three basic areas: Intensive Growth, Integrative Growth, and Diversification Growth.

7.1.1 Intensive Growth

Igor Ansov’s “product-market expansion grid” as found in Kotler & Keller (2006), as depicted in Figure 11, identifies possible Intensive growth opportunities.

Figure 11 - Igor Ansov’s “Product-Market Expansion Grid” *

*Reproduced by author from Kotler and Keller, 2006
From the credit union’s perspective, substantive growth in its current market and with its’ current product portfolio is very unlikely due to economic and demographic challenges which exist. New product development for both its’ existing market and/or new markets is also unlikely to provide a sustainable advantage do to the ease of duplication by competitors. Furthermore, new product development has never been a strength, or core competency, for the credit union.

This leaves new market development as its only option for intensive growth. The transferability of its current product portfolio to other markets is not been tested. However, given the generic and commodity like nature of its offering this is not an issue.

7.1.2 Integrative Growth

Integrative growth as defined by Kotler & Keller (2006) involves “backward, forward or horizontal integration” within the industry. Obviously, a credit union the size of Creston & District cannot hope to acquire its suppliers given their size. Given its place at the end of the supply chain, forward integration is also not an option. Horizontal integration by way of merger, alliance or partnership may also provide feasible options.

7.1.3 Diversification Growth

Diversifying into new businesses is only an option for the credit union on a limited scale given legislated investment caps.
7.2 Options to Consider

Diversification strategies and other income generating options, such as the creation of a subsidiary (or subsidiaries) has been considered and subsequently discarded. The reason for this decision is the limited availability of capital within the credit union’s investment limit (as this is legislated to 10% of assets, currently $8 million). The current insurance subsidiary in using almost $1 million of this limit and additional investments would limit the credit union’s available resources without providing a long-term solution to the current issues it is facing.

Although additional revenue streams would help this credit union in the short term, it is not in the business to invest, it is in business to operate a financial institution and that is where its’ core competencies are. Furthermore, the revenue generated from a maximum $7 million investment would likely be nothing more than a temporary patch given the current demographic and economic challenges it is facing.

Several strategies have been identified which could potentially provide with access to a younger membership base, access to growing markets, and/or the increased stability offered by a broader geographical presence. These options are either Business-level strategic alternatives or Corporate-level strategic alternatives. In addition, the alternatives presented are not necessarily mutually exclusive.
7.2.1 Business-level Strategic Alternatives

In an $80 million credit union, very few changes involving the credit union, which are significant in nature, do not require Board level approval given the potential impact on the business. Having said this, there are obviously some decisions, which will require less of a Board commitment and are less likely to permanently alter the way the credit union does its business and are considered “Business-level”.

7.2.1.1 Mortgage Brokers

This strategy is an “Intensive Growth” strategy, in that it requires development of new markets (Kotler & Keller, 2006). As previously stated, the growth in the use of mortgage brokers in sourcing loans and lending opportunities in British Columbia has been rapid. Currently, depending on who is reporting the statistics anywhere between 40% (reported by banking industry) and 60% (reported by mortgage brokers industry associations) of mortgages are placed utilizing the services of a mortgage broker.

This option will allow the credit union to increase the size of its loan portfolio, however, competition in this area is intense, based on price and “flexible” (read easy) underwriting terms. This alternative will involve establishing a reliable base of quality mortgage brokers and cultivating relationships with them.
7.2.1.2 Strategic Alliance

This strategy is “Integrative” in nature as it involves a temporary horizontal integration with another credit union to the benefit of both (Kotler & Keller, 2006). The objective of this alternative is to enter into a strategic alliance with another financial institution to syndicate loans and/or mortgages. The key to this alliance is identifying a partner who will benefit from an alliance with the Creston & District Credit Union. For this to occur the alliance partner needs to have a complementary loan/deposit mix.

The deposit rates Creston are receiving on its capital are inadequate to cover the rates it is paying on deposits resulting in reduced profits. In a strategic alliance, the other party will have a loan demand in excess of its available capital. Furthermore, the other party should be paying a premium on borrowed capital, which will make it beneficial for both parties to deal directly rather than through intermediaries (such as Credit Union Central of British Columbia).

For this strategy to be effective and this strategic alliance not considered an investment, and subsequently fall within the legislated investment cap, each party to this transaction must have an actionable interest in the property. This type of interest can secured by ensuring that both parties are identified on the mortgage document, which is registered at the land titles office, or by way of an assignment of a portion of the loan or mortgage.

The objective of this alternative is to create a win-win situation for both parties.
7.2.2 Corporate-level Strategic Alternatives

Kotler & Keller (2006) state that Corporate-level decisions involve defining the corporate mission, establishing strategic business units, assigning resources to each business unit and assessing growth opportunities. The following alternatives are Corporate-level decisions because of these issues and the potential size and enduring nature of the impact on the credit union and its operations.

7.2.2.1 New Branch

This strategy is an “Intensive Growth” strategy to develop a new market (Kotler & Keller, 2006). This option consists of identifying an attractive community in which to open a second branch. This option could entail the purchase of an existing credit union or local branch and/or the portfolio of a larger financial institution provided it is limited in size. The key features of a purchased portfolio or purchasing a smaller credit union are that it has a relatively large loan portfolio compared to its deposits, or at least the potential for a larger loan portfolio due to community growth and demographics.

The factors, which make a community attractive from the Creston & District Credit Union’s perspective, are: growth, economic diversity, adequate size, limited competition and a younger, or age diverse population. Ideally, the community will be able to provide adequately trained and/or capable staff. If not available, the community should be attractive enough so that recruiting key qualified staff to the area will not be too difficult or expensive.
There needs to be available land, and/or buildings in an attractive location at a reasonable cost to the credit union.

### 7.2.2.2 Merger

This is an "Integrative" strategy, which will increase stability for the credit union. Credit union mergers are a fact in this industry. The key for the Creston & District Credit Union is to locate a credit union with which to merge who has a similar culture. It should be looking for a potential merger partner who will agree to a level of autonomy for management to operate in a manner, which will affect existing membership minimally.

Agreements need to be in place, which will allow the credit union to continue with its local community support and responsiveness to the communities needs. Flexibility in lending practices and deposit terms need to be maintained so that membership does not feel that the credit union is no longer looking out for their or the community's interests.

### 7.2.2.3 Partnership

This is also an "Integrative" strategy to increase credit union stability. Recently the Vancouver City Savings and Credit Union (VanCity), which is the province's largest credit union, has entered into a number of "partnerships" with smaller credit unions. These arrangements allow VanCity’s partners to continue to operate locally as they always have, while at the same time having access to the training, infrastructure, financial assets and expertise of VanCity.
The smaller credit unions maintain its existing management and name. VanCity gets its' logo added to the credit union’s exterior signage. Business systems, IT and financial reporting are all merged; otherwise, the credit union is free to operate as it always has, with lending approvals and deposits overseen by local management, albeit with some restrictions. The local “feel” of the credit union remains, and most changes occur behind the scenes with minimal affect to members.

Interior Savings Credit Union is also currently utilizing this strategy with respect to a proposed partnership with Revelstoke Credit Union. The actual structure of this proposal is currently in question as negotiations are still ongoing.

This option is not to necessarily merge with VanCity or Interior Savings Credit Union, but rather to attempt to locate a suitable partner who would be willing to undertake a partnership of this type.
8 REVIEWING THE ALTERNATIVES


8.1 Business-level Strategic Alternatives

The following two alternatives are Business-level alternatives. These options are not comprehensive enough to, by themselves, permanently change the credit union’s operations.

Crossan et al. (2005) describe Business-level strategy as being composed of four factors. These factors are goals, product market focus, core activities, and finally, value proposition (Crossan et al., 2005). Figure 12 highlights the interrelated nature of these factors.
8.1.1 Mortgage Brokers

The use of mortgage brokers by financial institutions to source loans throughout the province is growing rapidly. Competition in this area is intense and based on three factors: price for the borrower, ease of underwriting (to make the experience easy for the broker), and broker incentives.

The client's perception of using a mortgage broker is one of getting the best deal; it is also the convenience factor and the mortgage broker has capitalized on the convenience to clients of one stop shopping (Dunning, 2006). This convenience is more important to people who use mortgage brokers than is relationship banking. Borrowers want the best rate and do not care where it comes from.

In reviewing whether or not entering this highly competitive environment is right for the credit union the first step is determining what its goals are with respect to this option.
8.1.1.1 Goals

The credit union has several goals, which it hopes to achieve, or to avoid. These goals fall into the areas of: profitability, growth in loan portfolio, risk mitigation, employee morale, and community & membership.

8.1.1.1.1 Expected Profitability & Growth of Loan Portfolio

Currently the credit union is seeing profits reduced due to it carrying excess liquidity. Ideally, the credit union would be able to earn above average margins, on this excess liquidity, equivalent to that it is currently experiencing in the Creston area. However, the reality is that lending options, which offer margins as high as in Creston, are limited. The goal, therefore, is to reduce or eliminate losses and to earn as high a return as is possible without assuming unnecessary risks.

The credit union has been able to earn an above average financial margin of approximately 2.6% (in 2005) while paying an average of 3.14% on deposits. This translates to an average lending rate of 5.74%. This will not be possible on brokered loans where cost is the most important consideration and competition is intense. Industry average margins were 2.45% over his time. Generally, brokered loans entailed giving a further 25-50 basis point reduction to attract business (Dunning, 2006). As a new entry to the industry, with no existing relationships, the credit union will be discounting the 50 basis points off industry average returns.

Brokers are compensated on a commission basis and are paid anywhere from 0.8% to 1.2% of the total amount advanced depending on the term of the
mortgage. Furthermore, a lender with experience in dealing with brokers will be required. To get a qualified person the credit union must pay at industry rates. Generally, this will be in the range of a guaranteed salary of $80,000 and an incentive plan based upon volume and delinquencies, for total compensation in the $100,000-$120,000 range.

The expected return if the credit union is able to lend out all $26,000,000 is therefore:

<table>
<thead>
<tr>
<th>Table 1 – Income Calculation, Mortgage Broker Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount available for lending</td>
</tr>
<tr>
<td>Margin (2.45% less .5%)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Less Salaries</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Less Brokers Fees (first year only, estimated at 1%)</td>
</tr>
<tr>
<td>Estimated Return</td>
</tr>
</tbody>
</table>

This return (see Table 1) is low due to one-time brokers’ fees and will increase in subsequent years due to longer-term loans not requiring new brokerage fees paid annually. Furthermore, this return is replacing a net loss (caused by deposit rates paid by the credit union exceeding the rate earned by the credit union on deposits at Credit Union Central of British Columbia). This loss to profits is currently ($135,200), for a net gain of approximately $262,200.

Although well funded from a one-branch credit union’s perspective, in reality the credit union currently has just over $26 million dollars to lend. While
this is a large amount for a credit union of its size, and is a large proportion of its assets, this is not a lot of money available when dealing with brokers. Brokers want to be able to meet the lending requirements and know a deal will fund. If the credit union exhausts its capital and declines deals, it most likely will lose the future business of the broker.

As shown above the Creston & District Credit Union is able to be price competitive with regards to broker industry standards at the current time. The credit union will also be able to compete, albiet with a greatly reduced margins, beyond its current capital base if it so chooses. Its average margin of 1.95% on broker sourced loans and mortgages is sufficient to pay the 1.11% premium on capital. It currently pays 3.14% on deposits and the average price of loans from Credit Union Central is 4.25% (Credit Union Central of BC, 2006). It should be noted, however, with margins trending downward this will not likely be viable in the long term.

8.1.1.1.2 Risk Mitigation

Ideally, the credit union will be able to reduce the current risks it is facing given its long-term portfolio imbalance, while at the same time assuming no new risks. Again, this will not be possible; however, it will be able to somewhat mitigate the risks it will have to assume by hiring experienced staff to oversee this new lending portfolio.

8.1.1.1.3 Employee Morale

A goal of the credit union is to ensure staff morale remains high, as it cannot afford to let customer service suffer.
In the mortgage broker segment of the market the credit union has no brand awareness, product distinctiveness, reputation or distribution suitable for this segment of the market. The credit union currently has no experience marketing to brokers. It will need to compete on price, service and flexibility. To do this the recruitment of a knowledgeable individual is required.

Given the limited size of the portfolio required, it will be necessary to target a few quality mortgage brokers. Ideally, the person recruited should already have in place good relationships with suitable brokers. To acquire an experienced and knowledgeable person with the necessary skill set will be costly relative to the salaries currently paid to staff and management.

This has the potential to cause serious issues for staff morale should existing staff learn that the newest employee is earning substantially more than they are.

8.1.1.1.4 Community & Membership

The credit union wants to ensure that it maintains its excellent reputation with their community and its membership.

This alternative has the potential of creating discontent with the existing membership if they should become aware that their credit union is lending money cheaper outside of the local community than it is to existing members. This situation could create a potential for membership losses and/or reduced margins locally.
8.1.1.2 Product Market Focus

The traditional product market focus of the credit union has always been a market penetration strategy. It uses existing products in its existing market. The mortgage broker alternative is a shift in this strategy.

As described in section 7.2.1.1, this alternative involves taking the current product mix into a new market, in effect, assuming a market development strategy (Kotler and Keller 2006). The likelihood of success of this shift is analysed by using the Opportunity and Threat Matrices (presented in Kotler and Keller and attributed to Igor Ansoff). Given the limitations described above, with respect to income potential, the attractiveness of this option is low. As is clear in Figure 13, success probability in the short term is high.

Figure 13 - Opportunity Matrix, Mortgage Broker Alternative *

![Figure 13 - Opportunity Matrix, Mortgage Broker Alternative](image)

*Reproduced by author from Kotler and Keller, 2006*
This places the opportunity into Cell # 3, an area in which Kotter and Keller (2006) state “the opportunity should be monitored for any improvements in attractiveness”.

Given the potential threats (see Figure 14) to success described above, (staff morale, member discontent, declining margins etc.), the potential impact on the credit union’s business has to be categorized as being high. Given the number of things that can go wrong the probability of occurrence is also high.

Figure 14 - Threat Matrix, Mortgage Broker Alternative *

*Reproduced by author from Kotler and Keller, 2006
Kotler and Keller (2006) state that threats, which fall into this cell, “have the ability to hurt the company”, and therefore, contingency plans need to be in place for dealing with them as they arise.

8.1.1.3 Value proposition

Michael Porter (1985) presented two “generic strategies” or value propositions, which were a low cost strategy and a differentiated strategy. Currently the credit is utilizing a differentiated strategy in the Creston area. They are able to earn a slightly higher margin by providing superior service and through relationship marketing. This alternative does not allow for this type of relationship building and, therefore, the credit union will be required to compete on cost. Being a newcomer to the market it will be required to adopt a low cost strategy. This position results in lower margins.

8.1.1.4 Core Activities

Currently, the credit union’s core activities are geared towards branch level transactions and loan initiation and underwriting. Staff is trained to deal with members on a personal and face to face basis. Currently, core activities for the credit union are not only accepting deposits, processing transactions and lending, but also building relationships.

The implementation of this strategy will require that the credit union adopt a new mindset with respect to this level of personal contact with the client. Brokers will be providing a completed application form, and supporting documentation via a digital software system known as Filogix. This system does
allow for some communication with the broker (and none with the client), but even this is limited. Basic requests can communicated, but little else. In effect, the credit union is contracting out the relationship portion of the core activity. Without the value added relationship building, all that is left is price competition.

8.1.2 Strategic Alliance

This alternative is to enter into a strategic alliance with another financial institution to syndicate loans and mortgages. It will involve finding an alliance partner who is willing to underwrite mortgages in the names of both Creston & District Credit Union and itself or to assign a portion of each mortgage to the credit union. To make this option attractive to a possible strategic alliance partner, the partner must not have access to adequate capital for its existing or anticipated loan portfolio. As such, the partner will be accessing relatively more expensive capital from Credit Union Central of British Columbia.

In exchange for the underwriting and registering charges in the name of both credit unions, the alliance partner needs to earn a margin, which is greater than the margin they could have earned by utilizing borrowed capital. For example, a review of the Annual Report for 2005 for Interior Savings Credit Union provides a picture of a credit union with a balance sheet that may be conducive to this type of agreement. Figure 15 indicates this for Interior Savings' loans, deposits and borrowings.
The credit union has been accessing borrowed capital from Credit Union Central of BC to lend in excess of its existing deposits. The results of this deposit and loan position, and the subsequent borrowing, are a reduced financial margin earned by Interior Savings due to the high cost of capital. This situation, combined with Creston & District's liquid position, can work to the benefit of both parties if they agree to an alliance.

In the choosing of an alliance partner, issues of scale come into play. The relative size of the shortfall in capital versus the relative size of excess capital held by the Creston & District Credit Union may be a factor. For an alliance partner to take the time and effort to draft an agreement and change its
procedures the amount of available capital and subsequent savings will need to be significant.

8.1.2.1 Goals

The credit union has several goals either which it hopes to achieve or to avoid. These goals fall into the areas of: profitability, growth in loan portfolio, risk mitigation, employee morale, and community & membership.

8.1.2.1.1 Expected Profitability & Growth of Loan Portfolio

Currently, the credit union is seeing profits reduced by it carrying excess liquidity. Ideally, the credit union would be able to earn above average margins equivalent to those it is currently experiencing in the Creston area. However, the reality is that lending options, which offer margins as high as in Creston, are limited. The goal, therefore, is to reduce or eliminate losses and to earn as high a return as is possible without assuming unnecessary risks.

Creston & District Credit Union’s performance has been excellent in all areas with the exception of loan generation (see Table 2). The current situation is as follows:

<table>
<thead>
<tr>
<th>Table 2 – Income Calculation, Status Quo</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status Quo (2005)</strong></td>
</tr>
<tr>
<td>Available Excess Capital</td>
</tr>
<tr>
<td>Cost of Capital</td>
</tr>
<tr>
<td>Rate earned</td>
</tr>
<tr>
<td>Average Margin</td>
</tr>
<tr>
<td>Revenue Earned</td>
</tr>
<tr>
<td>Cost</td>
</tr>
<tr>
<td>Profit/(Loss)</td>
</tr>
</tbody>
</table>
In Table 2, the Creston & District Credit Union currently has a $135,200 reduction to its margin due to its excess capital. Interior Savings Credit Union is profitable; however, it is realizing a lower margin than would otherwise be possible. This situation is due to its use of expensive borrowed capital.

As seen in Table 3 it is possible to improve the relative profitability of both credit unions by entering into a strategic alliance.

### Table 3 – Income Calculation, Strategic Alliance

<table>
<thead>
<tr>
<th>Available Excess Capital</th>
<th>CDCU $26,000,000</th>
<th>ISCU $-118,038,000</th>
<th>CMDU $-26,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Capital</td>
<td>3.14%</td>
<td>3.50%</td>
<td>3.06%</td>
</tr>
<tr>
<td>Rate earned</td>
<td>3.06%</td>
<td>5.45%</td>
<td>5.45%</td>
</tr>
<tr>
<td>Average Margin</td>
<td>-0.08%</td>
<td>1.95%</td>
<td>2.39%</td>
</tr>
<tr>
<td>Revenue Earned</td>
<td>$795,600</td>
<td>$6,433,071</td>
<td>$1,417,000</td>
</tr>
<tr>
<td>Cost</td>
<td>$816,400</td>
<td>$4,131,330</td>
<td>$795,600</td>
</tr>
<tr>
<td>Profit/(Loss)</td>
<td>$-20,800</td>
<td>$2,301,741</td>
<td>$621,400</td>
</tr>
</tbody>
</table>

The strategy for this alliance is really quite simple, in the status quo situation described earlier, the Creston & District Credit Union was earning on 2.62% on its deposits with Credit Union Central of BC. At the same time, the Interior Savings Credit Union was borrowing funds at 3.5%.

Credit Union Central is therefore retaining the 0.88% spread. By splitting the difference, and syndicating mortgages with Interior Savings, Creston is able
to reduce or eliminate its loss while simultaneously increasing Interior’s margins, and profit. This option is a win-win situation.

The key to this alternative is that syndicated mortgages are not investments with respect to the investment limit as previously described. For this alliance to be possible, it will be necessary for Interior savings to assign security of 50% of the value of mortgages lent out to Creston so that the $26,000,000 is secure by an “actionable” claim. The paperwork in administering this should be minimal. Assignments need drafting by Interior Savings and funds advanced upon receipt of these assignments by Creston & District.

Scale issues may arise. For example, is the relative size of the savings achieved by Interior Savings worth the extra effort from its perspective? If the savings are divided, 50/50, with Interior Savings, it realizes a 4.4% improvement in its financial margin. While not huge, this is material. If this does not meet the needs of Interior Savings, there are other credit unions of varying sizes in the province in the same position, albeit not in as close geographical proximity.

8.1.2.1.2 Risk Mitigation

Ideally, the credit union will be able to reduce the current risks it is facing given its long-term portfolio imbalance, while at the same time assuming no new risks. This ideal situation is obviously not possible; however, the credit union can mitigate the risks it will be assuming by periodically auditing the syndicated mortgage files and by developing and maintaining a good working relationship with its alliance partner.
8.1.2.1.3 Employee Morale
A goal of the credit union is to ensure staff morale remains high, as it cannot afford to let customer service suffer. No new staff will be required to implement this strategy and all required skills are currently available to the credit union. The implementation of this strategic alternative should have little to no impact on employee morale.

8.1.2.1.4 Community & Membership
The credit union wants to ensure that it maintains its excellent reputation with the community and its membership. Again, the implementation of this alternative should have little to no impact on the community and or members. It will always be more profitable to take advantage of all attractive lending options locally first. As a result, members needs still come first to the credit union.

8.1.2.2 Product Market Focus
As was stated in section 7.1.1, the credit union has traditionally focussed its attention on intensive growth with a market penetration strategy. The current and anticipated economic and demographic shifts, which began several years ago, have made this strategy ineffective.

This strategic alliance is a shifting of this focus to an integrative growth strategy as described in section 7.1.2. In this case, a temporary alliance is created to which will benefit each alliance partner.
8.1.2.3 Value proposition

As previously stated, The Creston & District Credit Union is currently following a "diversification strategy" as opposed to a low cost strategy (Porter, 1985). This strategic alliance will not affect the way it does business locally, and as a result, it will be free to continue operating in the manner in which it currently is. In addition, the impact on the strategy of its alliance partner will also be minimal and it should be able to continue operating as it always has.

8.1.2.4 Core Activities

This alternative is also being analysed (see Figure 16) by using the Opportunity and Threat Matrices as presented in Kotler and Keller (2006). Given the limitations described above, with respect to income potential, the attractiveness of this option is low. Success probability in the short term is high.

Figure 16 - Opportunity Matrix, Strategic Alliance *
This places the opportunity into Cell # 3, an area in which Kotler and Keller (2006) advise: “the opportunity should be monitored for any improvements in attractiveness” (see Figure 14).

Given that there are no potential threats to success with the exception of the alliance partner withdrawing from the alliance, and this would result in the credit union being no worse off than it currently is, the potential impact on the credit union’s business is low. Given that there are very few things, which can go wrong the probability of occurrence is also low.

*Reproduced by author from Kotler and Keller, 2006*
Kotler and Keller (2006) state that threats, which fall into this cell, are very minor and "can be ignored".

### 8.2 Corporate-level Strategic Alternatives

The following are Corporate-level alternatives because of the significant impact they have the overall profitability and future operations of the credit union. In other words, these options will permanently change the way the credit union operates.

The fit between organizational resources and capabilities, management preferences and the key success factors required by the external environment follows. The framework utilized for this section, will be the "Diamond-E Framework" as described by Crossan et al (2005).

#### 8.2.1 New Branch

Given the relative size of the Creston & District Credit Union (currently 40th out of the 50 credit unions in the province by asset size), locating an existing financial institution or branch with an attractive loan portfolio in a growing community for purchase at a price it can afford is very unlikely.

This leaves the credit union with the option of locating a new market and opening a new branch on its own. As previously stated, the factors, which make a community attractive from the Creston & District Credit Union's perspective, are growth, economic diversity, adequate size, limited competition and a younger, or more age diverse population. For the sake of reduced costs and ease of management, it would also be ideal if this new branch could be located within a
reasonable distance of the Creston. For the sake of this paper 300 kilometres is "reasonable".

In attempting to locate such a town, summary statistics for all communities within the Central Kootenay, East Kootenay and Kootenay-Boundary Regional Districts on BC STATS (the Province of British Columbia’s statistical website), were examined.

Of the 40 or so communities examined only 2 communities were identified as having above average growth and a population without a disproportionately high number of seniors. These communities are Invermere (BC Stats – Community Facts, Invermere 2007) and Radium Hot Springs. Radium Hot Springs was discounted due to its limited size being considered inadequate to support a credit union branch (920 people) (BC Stats – Community Facts, Radium Hot Springs 2007).

Invermere currently has approximately 3500 residents locally, with more in the surrounding area. Although still closely tied to the logging industry (7.5% of population works in forestry), Invermere has a larger proportion of its population employed in tourism. Income levels are comparable to Creston and a smaller proportion of households own their own homes (almost a third of the households are renters), meaning mortgage growth may be feasible.

Competition, however, will be an issue. Much like in Creston, the larger banks are not aggressively targeting the local market place. However, BMO and CIBC do maintain local branches. It would need to be determined if either BMO or CIBC are willing to sell their local portfolios, as occurred when BMO
abandoned its operations in 1999/2000 in Creston. Barring that, a new branch will need to be established.

The real competition in the community will likely come from the Kootenay Savings Credit Union, which currently has 12 full service branches in several communities and approximately 10 times the Creston & District Credit Union’s asset base. (Credit Union Central of BC) The Kootenay Savings Credit Union acquired its Invermere branch in 1999 during its merger with the Edgewater & District Credit Union’s two branches (the other was in the town of Edgewater) (Kootenay Savings Credit Union, 2006).

By opening a branch in this community, the credit union may insight retaliation for breaking the unwritten “rule” that credit unions do not move into communities, which have been previously claimed by other credit unions. Having said this, no other attractive branching opportunities appear to exist with respect to growth and demographics, in the area reviewed.

8.2.1.1 Resources

In this section, comparisons between the required resources, capabilities and preferences, and those available to the credit union are drawn. Gaps identified, and the feasibility of filling these gaps discussed.

8.2.1.1.1 Marketing & Corporate Reputation

Currently, the Creston & District Credit Union has no reputation in this market place. Its current service area is 240 kilometres to the south and it has no distinctive trade or customer relationships, which separate it from its
competition (in a positive way). Building community awareness and trust will take time and money. The credit union may be able to add some credibility with local advertising, which highlights its history, and past community involvement in Creston, making it clear that it intends to continue this tradition locally.

Given that products are commodity like, and innovation copied by the competition, distinguishing itself based on innovative products not possible.

8.2.1.1.2 Operations
The Creston & District Credit Union does have access to low cost capital with its growing deposit base. However, Kootenay Savings Credit Union has no borrowings, which indicates that they are also well-funded and not currently accessing expensive capital from Credit Union Central of British Columbia (Kootenay Savings Credit Union, 2006). Establishing a new branch from scratch will add to Creston’s overhead and costs. These costs may be mitigated somewhat if a suitable location can be leased.

8.2.1.1.3 Development
The Creston credit union has no expertise in the areas of branch development. The hiring of a project or branch manager with this experience is required to compensate for this shortcoming.

8.2.1.1.4 Financial
Given the limited size of the potential market and the number of current market participants, the Creston & District Credit Union will need to achieve a significant market share with respect its loan portfolio if it is to deem this branch
as a success. It may be possible to achieve this with flexible and responsive underwriting combined with rate discounts; however, this will reduce margins.

The credit union will need to hire a local underwriter with local knowledge to ensure that the portfolio does not take on too much risk. This underwriter will require adequate lending authority to ensure he or she can make the necessary loans in a timely manner. Commercial lending will need to be aggressive pursued and key, high potential borrowers targeted. Obviously, to hire the right individual will be very important, therefore, a premium will have to be paid.

8.2.1.1.5 Human Resources

The credit union will need to hire new staff, lenders and management for the new branch. A new and experienced Branch Manager will be required. Given the relatively low cost of living, the desirability of the interior area, and the availability of existing managers given recent mergers in the industry this is feasible. Initially, a core team from Creston will be required temporarily at the new branch to oversee its operations and the training of new staff. This will further increase start up costs.

Population statistics indicate that a young workforce is available in the area; however, the likelihood of finding trained staff is low. Given relatively low unemployment rates, salaries will need to be competitive. Given lower than provincial average salaries in this area, these are unlikely to be in excess of those paid in Creston.
8.2.1.2 Capabilities

This section contains a comparison of existing capabilities to those required for this alternative.

8.2.1.2.1 Required Capabilities

The Creston & District Credit Union must be able to maintain its competitiveness with respect to price. The people in Invermere will be just as demanding with respect to price as they are in Creston. This situation should not be an issue for the credit union given its access to capital and stable and growing deposit history.

Barring the unlikely purchase of an existing financial institution’s branch and portfolio, a new branch is going to have to be built from the ground up, not only physically but also with respect to staff and culture. In Creston, the credit union has a knowledgeable and friendly staff. It has fostered an environment in which the staff and community are closely connected. It, therefore, has the capability and knows how to effectively hire and train staff. This knowledge will be a capability, which they need to exploit to implement this alternative.

Currently the distribution strategy of the credit union is adequate for the size of the organization, obviously with a new branch, expansion and duplication of these facilities is required. The credit union has, in the past, installed ATMs, implemented web banking and converted its banking systems. Therefore, they have the capability to install the required systems to support a new branch.

Their current product mix will be suitable for the new branch, however, flexibility on lending and rates may suffer due to distance from CEO and the
Board’s Lending Committee. Current systems for credit approval may not be appropriate. Furthermore, the credit union has no reputation or history of community involvement in Invermere.

Other required capabilities are marketing, local knowledge and project management skills.

8.2.1.2.2 Gaps in Capabilities
To set up this new branch, an experienced manager with project management skills will be required. The credit union currently has no such person. The credit union also needs to market itself to the new community; they are currently an unknown entity in this market. Marketing in a town where the credit union is unknown is not currently a skill they possess.

Local market knowledge is also a required capability with respect to lending, for both the retail and commercial portfolios. The Board will have no local knowledge; therefore, it is crucial that the lenders do. Current systems for credit approval may not be appropriate or timely.

8.2.1.2.3 Required Changes & Likelihood of Success
A suitably experienced manager is necessary. The area is desirable from a cost of living perspective. Currently, several qualified people in the credit union system Canada wide are available due to mergers and acquisitions. This manager needs branch development and team building skills. He requires flexibility to authorize lending and rates given the separation the CEO and the Board’s Lending Committee.
A local lender(s), ideally with commercial experience, is required. To acquire this local expertise, the credit union will need to hire them away from the competition. Since the competition has very deep pockets, this may not prove feasible.

8.2.1.3 Management Preferences

Management has made it very clear in the past that the Board is against opening new branches. The Board, does however, take its responsibilities very seriously and as such, wants what is best for the credit union.

Both the CEO and the Board are averse to taking risks. The CEO is probably going to retire within 5 years given his age. He has managed the credit union for a very long time and is unlikely at this point in his career to be willing to undertake a project of this size.

As a result, given the risk of this venture it is unlikely that management would throw its support behind it. Without the CEO's support, it is unlikely that the Board would approve a project of this magnitude and risk.

8.2.1.4 Alignment of Organizational Capabilities, Resources and Preferences with Required Success Factors

Given the lack of competitive advantage, the lack of experience in branching, the size of the financial risk, the human resource requirements, the need for local knowledge, the anticipated competition and management ague, it is very unlikely that this venture will get started. There are just too many key success factors, which, are not adequately in place. Knowledgeable and friendly
staffs are not available and need to be hired. The credit union has no local reputation, no history of community involvement, and is not able to compete solely on price against larger financial institutions.

8.2.2 Merger

According to Berger et al (1999), little or no cost efficiency improvements (from mergers and acquisitions) exist with the exception of to the most inefficient firms. Ralston et al (2001) determined that mergers have the tendency to improve efficiency the most in inefficient firms and those efficient firms have the least to gain. Results for British Columbia seem to indicate that the size of a financial institution has very little impact on efficiency of the firm. The credit union has been making efficiency improvements without prior mergers. So why consider a merger now?

In the case of the Creston & District Credit Union, a merger could increase the long-term viability of the credit union if the merger results in an increase in lending opportunities, access to a younger membership base, or if a merger partner adds stability to the credit union.

8.2.2.1 Resources

This section is a comparison of the required resources, capabilities and preferences for successfully merging. Gaps identified and feasibility of filling these gaps discussed.
8.2.2.1.1 Marketing & Corporate Reputation

In its local market, the credit union has a high market share. It has been in business for 56 years and its reputation is excellent. Its distribution network is established and adequate for its membership. Most importantly, it has excellent local trade and customer relationships, which have made it the local industry leader.

8.2.2.1.2 Operations

The credit union's operations are very desirable. It has access to low cost capital and excess liquidity. Relationships with local membership who supply this capital are excellent and this mature member (supplier) base is growing. The credit union has recently undergone a renovation and the facility maintenance costs are low. This translates into the credit union being efficient and flexible. Knowledge of the local market is high and this is invaluable when it comes to local lending practices and reputation.

8.2.2.1.3 Development

The credit union has no experience in creating innovative new products. It has been reactive and has copied its competition as required to maintain its membership. However, its risk adverse nature and high liquidity have led to excellent reviews with provincial regulators.

8.2.2.1.4 Financial

Despite its small size, the credit union's high liquidity and excess capital put it in a position to resist most business cycles and temporary shocks. Its capacity to raise capital is not in doubt; local demographics assure it a steady
supply of low cost capital provided there is no major market shifts or new and aggressive competitors in the local market.

8.2.2.1.5 Human Resources

The credit union has a knowledgeable and experienced management team. Of concern is the lack of business continuity planning which has occurred with respect to employee development. Obtaining qualified and reliable staff is an issue in the area serviced by the credit union.

8.2.2.2 Capabilities

Capabilities sought by a potential merger partner are that the other partner is successfully competing in its local market, so that it will not be a drain on resources. The Creston & District Credit Union has the required key success factors to compete in the Creston area as evidenced by its; price competitiveness, knowledgeable and friendly staff, effective distribution strategy, desirable product mix, flexibility, reputation and history of community involvement.

The other factors that make a merger partner desirable are that it has; a complementary portfolio of either deposits or loans, or that it has a high liquidity.

8.2.2.3 Management Preferences

As demonstrated from the credit union's current mission statement, both the CEO and several board members see the independence of the credit union as being very important to its continued success:
“Creston & District Credit Union is and will continue to be a sound, profitable, independent, progressive, service-oriented financial institution....”

(Creston & District Credit Union, 2005)

Berger et al (1999) stated that, “management entrenchment may cause management to resist a beneficial merger”.

Pratt goes a step further when she quotes, Dadie Perlov, a Management Consultant with Consensus Management Group, who has worked on several credit union mergers, as stating:

“I would love to see the merger that fails because the (board members) decide it’s not in the interests of their members. That’s always the reason given, but we generally find that if you dig a little, it’s protection of the status quo or fear of the unknown that (kills the deal)” (Perlov as quoted in Pratt 2005).

8.2.2.4 Alignment of Organizational Capabilities, Resources and Preferences with Required Success Factors

The resources and capabilities of the credit union as described above make it a very attractive merger partner for any credit union with a complimentary loan portfolio (a demand for loans exceeding deposits). Currently the credit union is in a strong position but current demographic and economic trends make this position precarious. The credit union will become stronger and more stable if a merger of this type undertaken. This increased stability will benefit members. Waiting until a merger is not an option will reduce the credit union’s ability to
negotiate terms, which will be beneficial to members (for example, funding for community projects). However, both management and board are completely opposed to a merger at this time.

### 8.2.3 Partnership

As stated previously, partnerships between credit unions are a recent trend. To date, only VanCity has entered into this type of agreement with smaller institutions, most notably with the Squamish Credit Union. This deal enabled the Squamish Credit Union to maintain some local representation in the form of an Advisory Board, to make recommendations to VanCity concerning areas of interest to membership, such as, community involvement and giving. At the same time, the credit union is able to access VanCity's financial strength and expertise.

Squamish's equity converted to a special class of VanCity shares. The membership is still elects its advisory board from its membership. Squamish’s Board are convinced they have input into decisions, which directly affect their Credit Union such as community giving. Local knowledge is still in place as local management retained their positions. Perhaps the most visible and important benefit from this structure, in the eyes of its membership and management, is that the credit union was able to retain its name (with a small change from Squamish Credit Union to Squamish Savings) and thus retain its local identity.

In negotiating a partnership, such as the one described above, several important factors make a partner desirable and adds to its value. These factors
enable the credit union to negotiate from a position of power as they add value for the potential partner.

8.2.3.1 Resources

Discussed below are the resources, which increase bargaining power.

8.2.3.1.1 Marketing & Corporate Reputation

Scale plays an important role in determining the amount of control, which a credit union will have with respect to negotiations and is a factor in the ultimate success it will have in arriving at a desirable agreement. If the relative sizes of the credit unions are close, power will be relatively even. If one credit union is entering into negotiations with a much larger credit union, it is likely that they will be giving up a fair amount of control.

Other factors also play an important role in determining the attractiveness of a partner. These factors are local market share, an effective distribution network, and an attractive corporate reputation. The credit union currently performs strongly in these factors.

8.2.3.1.2 Operations

The operations of the Creston credit union are attractive for a potential partner with a low liquidity due to its high liquidity and access to cheap capital. Other factors attributing to its attractiveness from an operational standpoint could be its location (if its potential partner is in the same geographical area) and its efficiency.
8.2.3.1.3 Development

The Creston & District Credit Union's excellent reputation with provincial regulators could also help to make the implementation of a partnership easier.

8.2.3.1.4 Financial

From a financial perspective, as presented in section 8.1.2, the benefits from a strategic alliance will benefit both “alliance partners”. Similarly, a more permanent “partner”, as highlighted in this scenario, will be able to benefit from Creston’s excess liquidity. Simultaneously, the membership of the Creston credit union will benefit from increased stability from a more balanced loan/deposit portfolio.

8.2.3.1.5 Human Resources

Creston’s experienced management are an advantage to a potential partner, in that it can benefit from their local knowledge. In addition, the credit unions current staff provides the benefit of continuity for the members, and therefore, makes the deal that much more attractive.

8.2.3.2 Capabilities

The credit unions current capabilities serve it well with respect to the requirements needed to negotiate a successful partnership. The key success factors required by the Creston area will not change. The only additional skills, which need to demonstrated, are the ability to integrate two cultures.

Dinah Daniels (2007), author of "Merging Staff", states in that the key to "success relies on strong communication and examining job fit for all employees". In this partnership, roles will for the most part remain unchanged. However,
there will be procedural and cultural changes, and the key to getting past these will be communication.

The partnership as described will result in some loss of the credit union’s flexibility. Loan approval process is bound to change and this will result in some loss of responsiveness. As this is a key success factor in this market, the successful negotiating of appropriate loan approval limits at the branch level needs to be priority.

8.2.3.3 Management Preferences

This alternative provides the advantages of a merger, while at the same time providing management with the autonomy not generally achievable in a merger. The CEO and Board have the ability to sell this to membership if they so chose as being the best of both worlds. This position could save a loss of face. The Board can continue to serve the members as an advisory council, and therefore, maintain any perceived status, which may have been lost in a merger.

Having said this, the current “success” of the credit union is likely to be an obstacle, in that the board may not see the implementation of this as a priority. In addition, the current CEO is still a few years away from retirement, and may see this option as a loss of status. Management buy-in is therefore unlikely at this time.
8.2.3.4 Alignment of Organizational Capabilities, Resources and Preferences with Required Success Factors

The resources and capabilities of the credit union as described above make it a very attractive partner for any credit union with a complimentary loan portfolio (a demand for loans exceeding deposits).

The credit union is in a strong position but current demographic and economic trends make this position precarious. The credit union will become stronger and more stable, and therefore members will benefit from a well thought out partnership. The fact that current management and the board will likely oppose a partnership at this time makes implementation of this alternative unlikely at this time.
9 CONCLUSIONS

The Creston & District Credit Union has been independent and profitable for 56 years; however, demographic and economic shifts within this community are negatively affecting the credit union.

The primary problem, which needs solving, is that the demographic shift to the area, when combined with economic changes has created a situation where there is an insufficient demand for loans to offset the credit union’s current and growing level of deposits. This trend is affecting the current and future earning potential of the credit union. This trend is increasing and shows no sign of abating. If left unchecked, the long-term viability of the credit union is in doubt.

In this paper, presents several strategic alternatives. These alternatives consisted of both Business-level strategic decisions and Corporate-level strategic decisions. Given the excess liquidity available to the credit union (approximately $26 million), choices need to be made, as to which alternative (or alternatives) will be selected. It may be possible to combine a Business-level alternative with a Corporate-level alternative, but the Corporate-level alternatives are mutually exclusive from each other given the required commitments.

9.1 Business-level Alternatives

The Business-level alternatives presented were accessing broker-sourced mortgages and entering into a strategic alliance with another credit union to
syndicate mortgages. Both of these alternatives ranked low with respect to being financially attractive and high concerning the probability of success. Broker-sourced mortgages provide more revenue for the time being than does the strategic alliance, but the viability of continuing to compete on a cost basis is in question.

Broker-sourced mortgages scored high in the seriousness of the potential risks (to community reputation, loss of membership, decreasing local margins, and staff morale issues), and high in the likelihood of occurrence, given the shear number of potentially serious risks. The strategic alliance scored low on the seriousness of potential risks and low on the likelihood of occurrence.

Given the foregoing, the increased revenue which is obtained from the broker sourced segment does not adequately compensate for the possibly of damage to the credit union’s ongoing business and the relationships with members and the community.

The increased revenue from the strategic alliance is not substantial but it is better than the sizable reduction to revenues that the credit union is currently realizing. In addition, the risks associated with this strategy are minimal.

9.2 Corporate-level Alternatives

In reviewing the Corporate-level alternatives, several questions need answering.
Does the credit union have the key success factors to remain competitive in the venture?

An examination of each of the alternatives, including the status quo, and the credit union's ability to compete based upon the required key success factors has been determined. The results of this previous analysis are found in Table 4.

Table 4 – Key Success Factors

<table>
<thead>
<tr>
<th>Key Success Factors</th>
<th>Status Quo</th>
<th>New Branch</th>
<th>Merger</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Competitiveness</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Knowledgeable &amp; Friendly Staff</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Effective Distribution Strategy</td>
<td>Yes</td>
<td>Maybe</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Desirable Product Mix</td>
<td>Yes</td>
<td>Maybe</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Maybe</td>
</tr>
<tr>
<td>Good Reputation</td>
<td>Yes</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>History of Community Involvement</td>
<td>Yes</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
</tbody>
</table>

As can be seen in the table, the credit union has all of the required key success factors to remain competitive if the status quo is determined to be the best alternative available to it. Branching does not currently seem to be a viable alternative for the credit union, unless it is able to acquire or develop its missing key success factors.
For the credit union to be successful in a merger, it must ensure it is able to maintain its flexibility, reputation and ensure its history of community involvement continues and it will be important to membership to see the merger as a positive move. A partnership also offers what appears to be a viable option for the credit union provided it is able to maintain its local flexibility and responsiveness.

**Will the strategy alleviate liquidity issues now and for the foreseeable future, or will it provide the required stability for the credit unions members?**

Table 5 identifies the ability of each alternative to alleviate liquidity issues.

**Table 5 – Do Alternatives Address Issues?**

<table>
<thead>
<tr>
<th>Status Quo</th>
<th>New Branch</th>
<th>Merger</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alleviate Current Issues</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>Provide Future Security</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The status quo currently has limited, if any, potential with respect to lending and stability. In addition, as has been highlighted throughout this paper, the issue of excess liquidity if the credit union continues on the path it is on is likely to continue to increase.
A new branch may or may not provide adequate lending opportunities or stability depending on competition, growth and the local economy, therefore, its effect on liquidity remains in question.

Both mergers and partnerships are likely to alleviate the liquidity issues and provide the credit union with increased stability.

Does the credit union have the resources and capabilities to be successful?

Table 6 highlights the credit union’s resources and capabilities compared to the required resources and capabilities for the alternatives suggested.

Table 6 – Resources & Capabilities

<table>
<thead>
<tr>
<th></th>
<th>Status Quo</th>
<th>New Branch</th>
<th>Merger</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources</td>
<td>Yes</td>
<td>Maybe</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Capabilities</td>
<td>Yes</td>
<td>Maybe</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

As seen above, the credit union has the resources and capabilities to maintain the status quo, merge, or enter partnership.
Is management likely to support the implementation of the strategy?

Management is likely to maintain the status quo and if convinced of the need for change, and has established a trusting relationship, a partnership may be considered. Management will not consider a merger at this time.

What will be the impact of the strategy on the credit unions current profits and stability?

Each of the alternatives is considered and the effect on the credit union’s profitability and stability are scored from negative (-) to extremely positive (+++) in Table 7.

<table>
<thead>
<tr>
<th>Outlook for Profitability &amp; Stability</th>
<th>Status Quo</th>
<th>New Branch</th>
<th>Merger</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>-/+</td>
<td>+++</td>
<td>+++</td>
</tr>
</tbody>
</table>

These results are subjective. However, it is clear the maintaining the status quo is currently reducing profitability, and is likely to continue to do so. The effects of branching on profitability and stability are dependent upon the success of the new branch; given the analysis done in section 8.2.1 of this paper, success is unlikely.
Both partnerships and mergers will increase long-term profitability and stability for the credit union given its current situation.

9.3 Recommendation

Given the foregoing, the credit union should look for opportunities to enter into a strategic alliance with a credit union with a loan/deposit portfolio that is complementary to its own. The Creston & District Credit Union has all of the key success factors to make this arrangement work. Ideally, they will be able to locate a credit union of similar size relying upon borrowings to fund its lending. Finding a suitable partner is possible by reviewing annual reports from the other credit unions in British Columbia on their websites.

The credit union should also be open to considering a partnership with either the alliance partner or other credit unions that may be open to such an arrangement. Such a partnership will benefit both the credit union and membership through increased stability. To protect the flexibility of the credit union in responding to its community and its members, this partnership should occur while the credit union remains strong and able to negotiate a favourable deal.

Entering into a strategic alliance will provide a method for the credit union to determine if the alliance partner has a similar culture, and if so, is open to a more permanent partnership to the benefit of both parties.
REFERENCE LIST

Works Cited


**Works Consulted**


## APPENDIX A: EFFICIENCY DATA FROM CAR EXTRACT

**Productivity**  
**Date:** Apr-07  
**Group:** All Credit Unions  
**Sorted By:** Operating Efficiency Ratio

<table>
<thead>
<tr>
<th>Rank</th>
<th>Credit Union</th>
<th>Operating Efficiency Ratio</th>
<th>Total Assets per Staff</th>
<th>Total Sal. &amp; Ben. per Staff</th>
<th>Member Services Inc. per Member</th>
<th>Member Services Exp. per Member</th>
<th>Data Processing Exp. per Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Greater Victoria</td>
<td>102.06</td>
<td>3,304,359</td>
<td>54,369</td>
<td>81.4</td>
<td>37.58</td>
<td>120</td>
</tr>
<tr>
<td>2</td>
<td>Prospera</td>
<td>92.88</td>
<td>4,311,184</td>
<td>61,989</td>
<td>174.47</td>
<td>61.68</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Quadra</td>
<td>92.24</td>
<td>2,026,721</td>
<td>49,320</td>
<td>102.29</td>
<td>36.42</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Union Bay</td>
<td>90.75</td>
<td>3,030,928</td>
<td>59,127</td>
<td>105.37</td>
<td>8.84</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Enderby</td>
<td>90.4</td>
<td>2,962,550</td>
<td>54,118</td>
<td>109.16</td>
<td>22.35</td>
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<tr>
<td>6</td>
<td>CCEC</td>
<td>90.22</td>
<td>2,228,953</td>
<td>55,404</td>
<td>78.07</td>
<td>8.43</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Spruce</td>
<td>90.14</td>
<td>2,647,146</td>
<td>45,998</td>
<td>94.06</td>
<td>40.04</td>
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<td>8</td>
<td>North Shore Community</td>
<td>87.26</td>
<td>5,091,161</td>
<td>77,042</td>
<td>258.95</td>
<td>66.39</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Savings</td>
<td>86.13</td>
<td>3,454,678</td>
<td>68,980</td>
<td>193.27</td>
<td>38.6</td>
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<tr>
<td>10</td>
<td>Gulf and Fraser</td>
<td>85.07</td>
<td>4,962,168</td>
<td>65,321</td>
<td>192.48</td>
<td>57.9</td>
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<td>11</td>
<td>Mount Lehman</td>
<td>84.83</td>
<td>3,580,803</td>
<td>49,345</td>
<td>143.76</td>
<td>47.28</td>
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<td>12</td>
<td>Island Savings</td>
<td>84.77</td>
<td>4,429,815</td>
<td>66,680</td>
<td>190.16</td>
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<td>Greater Vancouver</td>
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<td>46,319</td>
<td>145.49</td>
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<tr>
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<td>East Kootenay</td>
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<td>3,235,210</td>
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<td>152.29</td>
<td>53.86</td>
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<td>Envision</td>
<td>82.09</td>
<td>6,486,495</td>
<td>79,950</td>
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<td>Integris</td>
<td>80.79</td>
<td>3,241,057</td>
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<td>157.16</td>
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<td>61,842</td>
<td>100.38</td>
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<td>VantageOne</td>
<td>77.14</td>
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<td>55,634</td>
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<td>75.93</td>
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<td>55,638</td>
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<td>24</td>
<td>Savings</td>
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<td>3,774,726</td>
<td>59,328</td>
<td>231.02</td>
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<td>Westminster</td>
<td>73.87</td>
<td>4,704,174</td>
<td>68,004</td>
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<td>81.63</td>
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<td>Coast Capital</td>
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<td>139.67</td>
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<td>50,637</td>
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<td>43.95</td>
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<td>3,169,483</td>
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<td>38.13</td>
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<td>Van. City Savings</td>
<td>72.01</td>
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<td>68,697</td>
<td>159.32</td>
<td>74.07</td>
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<td>Lake View</td>
<td>69.56</td>
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<td>57,224</td>
<td>56.27</td>
<td>44.09</td>
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<td>3,124,806</td>
<td>55,665</td>
<td>115.2</td>
<td>30.19</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>---</td>
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<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Summerland</td>
<td>68.58</td>
<td>4,649,098</td>
<td>56,234</td>
<td>100.78</td>
<td>39.93</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Sunshine Coast</td>
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<td>4,037,263</td>
<td>50,860</td>
<td>171.4</td>
<td>40.02</td>
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<tr>
<td>34</td>
<td>Salmon Arm</td>
<td>68.47</td>
<td>3,744,416</td>
<td>55,057</td>
<td>125.89</td>
<td>26.91</td>
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<tr>
<td>35</td>
<td>Nelson</td>
<td>68.25</td>
<td>3,034,980</td>
<td>51,187</td>
<td>114.12</td>
<td>29.91</td>
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</tr>
<tr>
<td>36</td>
<td>Interior Savings</td>
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<td>4,192,361</td>
<td>65,769</td>
<td>180.2</td>
<td>27.82</td>
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<td>202.04</td>
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<tr>
<td></td>
<td>Empl.</td>
<td>65.58</td>
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<td>52,962</td>
<td>6.28</td>
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</tr>
<tr>
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<td>56,960</td>
<td>135.9</td>
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<td></td>
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<tr>
<td>40</td>
<td>North Peace</td>
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<td>195.71</td>
<td>44.59</td>
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</tr>
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<td>4,456,784</td>
<td>49,141</td>
<td>101.69</td>
<td>41.02</td>
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<tr>
<td>42</td>
<td>Osoyoos</td>
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<td>4,876,954</td>
<td>52,307</td>
<td>137.91</td>
<td>31.72</td>
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<tr>
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<td>Engineers</td>
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<td>13,099,590</td>
<td>59,397</td>
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<td>46.33</td>
<td></td>
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<td>Sharons</td>
<td>54.67</td>
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<td>51,649</td>
<td>139.57</td>
<td>41.52</td>
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<tr>
<td>45</td>
<td>V.P.</td>
<td>54.29</td>
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<td>70,114</td>
<td>22</td>
<td>11.42</td>
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</tr>
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<td>46</td>
<td>Van. Firefighters</td>
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<tr>
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<td>Columbia Valley</td>
<td>50.64</td>
<td>8,955,905</td>
<td>71,033</td>
<td>168.35</td>
<td>47.12</td>
<td></td>
</tr>
</tbody>
</table>

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Under terms of Credit Union Data Sharing Agreement, permission has been obtained from each represented credit union for the use of their respective operational efficiency ratio.
## APPENDIX B: FINANCIAL MARGIN & ASSETS FROM CAR EXTRACT

### Productivity

**Date:** Mar-07  
**Group:** All Credit Unions  
**Sorted By:** Credit Union

<table>
<thead>
<tr>
<th>Rank</th>
<th>Credit Union</th>
<th>Operating Efficiency Ratio</th>
<th>Assets Held</th>
<th>FM (% of ATA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aldergrove</td>
<td>62.76</td>
<td>384,673</td>
<td>2.66%</td>
</tr>
<tr>
<td>2</td>
<td>Arrow</td>
<td>107.56</td>
<td>1,343</td>
<td>3.99%</td>
</tr>
<tr>
<td>3</td>
<td>Bulkley Valley</td>
<td>72.52</td>
<td>200,575</td>
<td>3.40%</td>
</tr>
<tr>
<td>4</td>
<td>CCEC</td>
<td>89.85</td>
<td>24,545</td>
<td>3.54%</td>
</tr>
<tr>
<td>5</td>
<td>Coast Capital Coastal</td>
<td>74.09</td>
<td>8,702,780</td>
<td>2.15%</td>
</tr>
<tr>
<td>6</td>
<td>Community</td>
<td>93.94</td>
<td>1,403,161</td>
<td>2.89%</td>
</tr>
<tr>
<td>7</td>
<td>Columbia Valley Community</td>
<td>52</td>
<td>133,840</td>
<td>2.45%</td>
</tr>
<tr>
<td>8</td>
<td>Savings Compensation</td>
<td>86.46</td>
<td>263,088</td>
<td>3.01%</td>
</tr>
<tr>
<td>9</td>
<td>Empl.</td>
<td>67.31</td>
<td>19,656</td>
<td>2.29%</td>
</tr>
<tr>
<td>10</td>
<td>Creston</td>
<td>66.81</td>
<td>82,758</td>
<td>2.98%</td>
</tr>
<tr>
<td>11</td>
<td>Cumberland</td>
<td>83.63</td>
<td>18,682</td>
<td>3.37%</td>
</tr>
<tr>
<td>12</td>
<td>East Kootenay</td>
<td>83.01</td>
<td>151,482</td>
<td>3.16%</td>
</tr>
<tr>
<td>13</td>
<td>Enderby</td>
<td>88.78</td>
<td>44,414</td>
<td>3.12%</td>
</tr>
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<td>Envision</td>
<td>80.33</td>
<td>2,749,366</td>
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<tr>
<td>15</td>
<td>Grand Forks</td>
<td>80.33</td>
<td>190,810</td>
<td>2.65%</td>
</tr>
<tr>
<td>16</td>
<td>Greater Vancouver</td>
<td>83.51</td>
<td>156,986</td>
<td>2.58%</td>
</tr>
<tr>
<td>17</td>
<td>Greater Victoria</td>
<td>104.7</td>
<td>65,239</td>
<td>2.70%</td>
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<td>Gulf and Fraser</td>
<td>85.24</td>
<td>884,073</td>
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</tr>
<tr>
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<td>Heritage</td>
<td>79.29</td>
<td>102,288</td>
<td>3.34%</td>
</tr>
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<td>Integris</td>
<td>81.28</td>
<td>376,641</td>
<td>3.15%</td>
</tr>
<tr>
<td>21</td>
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<td>67.47</td>
<td>1,558,713</td>
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<tr>
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<td>Island Savings</td>
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<td>1,052,157</td>
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<td>Khalsa</td>
<td>75.22</td>
<td>146,258</td>
<td>2.97%</td>
</tr>
<tr>
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<td>71.61</td>
<td>628,109</td>
<td>3.89%</td>
</tr>
<tr>
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<td>Ladysmith</td>
<td>62.29</td>
<td>93,500</td>
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</tr>
<tr>
<td>26</td>
<td>Lake View</td>
<td>68.19</td>
<td>187,954</td>
<td>4.03%</td>
</tr>
<tr>
<td>27</td>
<td>Mount Lehman</td>
<td>85.62</td>
<td>38,694</td>
<td>2.47%</td>
</tr>
<tr>
<td></td>
<td>Name</td>
<td>Efficiency</td>
<td>Assets</td>
<td>Rate</td>
</tr>
<tr>
<td>---</td>
<td>--------------------</td>
<td>------------</td>
<td>------------</td>
<td>-------</td>
</tr>
<tr>
<td>28</td>
<td>Nelson</td>
<td>65.29</td>
<td>139,209</td>
<td>3.80%</td>
</tr>
<tr>
<td>29</td>
<td>North Peace</td>
<td>62.87</td>
<td>186,069</td>
<td>4.60%</td>
</tr>
<tr>
<td>30</td>
<td>North Shore</td>
<td>87.18</td>
<td>1,336,209</td>
<td>2.47%</td>
</tr>
<tr>
<td>31</td>
<td>Northern Savings</td>
<td>76.85</td>
<td>432,518</td>
<td>2.94%</td>
</tr>
<tr>
<td>32</td>
<td>Operating Engineers</td>
<td>56.82</td>
<td>52,318</td>
<td>1.50%</td>
</tr>
<tr>
<td>33</td>
<td>Osoyoos</td>
<td>59.89</td>
<td>95,730</td>
<td>2.90%</td>
</tr>
<tr>
<td>34</td>
<td>Powell River</td>
<td>81.48</td>
<td>124,062</td>
<td>2.71%</td>
</tr>
<tr>
<td>35</td>
<td>Prospera</td>
<td>93.61</td>
<td>1,653,034</td>
<td>2.36%</td>
</tr>
<tr>
<td>36</td>
<td>Quadra</td>
<td>93.94</td>
<td>29,456</td>
<td>3.59%</td>
</tr>
<tr>
<td>37</td>
<td>Revelstoke</td>
<td>65.56</td>
<td>113,261</td>
<td>2.46%</td>
</tr>
<tr>
<td>38</td>
<td>Salmon Arm</td>
<td>68.62</td>
<td>369,442</td>
<td>3.36%</td>
</tr>
<tr>
<td>39</td>
<td>Sharons</td>
<td>53.9</td>
<td>188,945</td>
<td>2.70%</td>
</tr>
<tr>
<td>40</td>
<td>Spruce</td>
<td>89.1</td>
<td>89,129</td>
<td>3.07%</td>
</tr>
<tr>
<td>41</td>
<td>Summerland</td>
<td>68.94</td>
<td>150,552</td>
<td>2.77%</td>
</tr>
<tr>
<td>42</td>
<td>Sunshine Coast</td>
<td>68.61</td>
<td>288,268</td>
<td>2.90%</td>
</tr>
<tr>
<td>43</td>
<td>Union Bay</td>
<td>90.09</td>
<td>42,940</td>
<td>3.04%</td>
</tr>
<tr>
<td>44</td>
<td>V.P.</td>
<td>62.05</td>
<td>89,526</td>
<td>1.93%</td>
</tr>
<tr>
<td>45</td>
<td>Valley First</td>
<td>84.67</td>
<td>1,131,909</td>
<td>2.64%</td>
</tr>
<tr>
<td>46</td>
<td>Van Tel/Safe</td>
<td>215.52</td>
<td>289,116</td>
<td>2.69%</td>
</tr>
<tr>
<td>47</td>
<td>Van. City Savings</td>
<td>73.99</td>
<td>10,911,407</td>
<td>2.18%</td>
</tr>
<tr>
<td>48</td>
<td>Van. Firefighters</td>
<td>55.64</td>
<td>10,685</td>
<td>4.50%</td>
</tr>
<tr>
<td>49</td>
<td>VantageOne</td>
<td>76.8</td>
<td>207,576</td>
<td>2.94%</td>
</tr>
<tr>
<td>50</td>
<td>Westminster</td>
<td>76</td>
<td>1,528,891</td>
<td>2.68%</td>
</tr>
<tr>
<td>51</td>
<td>Williams Lake</td>
<td>73.02</td>
<td>163,210</td>
<td>3.37%</td>
</tr>
</tbody>
</table>

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