



Leading Through Innovation – Managing in a Challenging Environment

“Organic Growth Strategies”

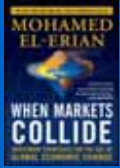
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8/27/2009



Overview

- Global Financial & Regulation
- Industry Structure & Strategic Thinking
- Organic Growth & Blue Ocean Strategy
- Canadian Case Study
- Insights - Organic Strategies & Enablers
- An Integrated Perspective



When Markets Collide

- The market turmoil that started in the summer of 2007 will shake the foundation of our of our global financial system
- There are now economic and financial forces in play whose impacts are of great consequence but that cannot as yet be adequately sustained by the world's current policy and market infrastructure
- The efficiency gains that they bring are associated with higher risks of short term disruptions – ***the present turmoil is neither the beginning nor the end of the transformation phase.***

Regulatory Changes significant impact on Australian financial institutions' operations*

* Source: Andrew Price - Ernst & Young 2009

Regulatory Change

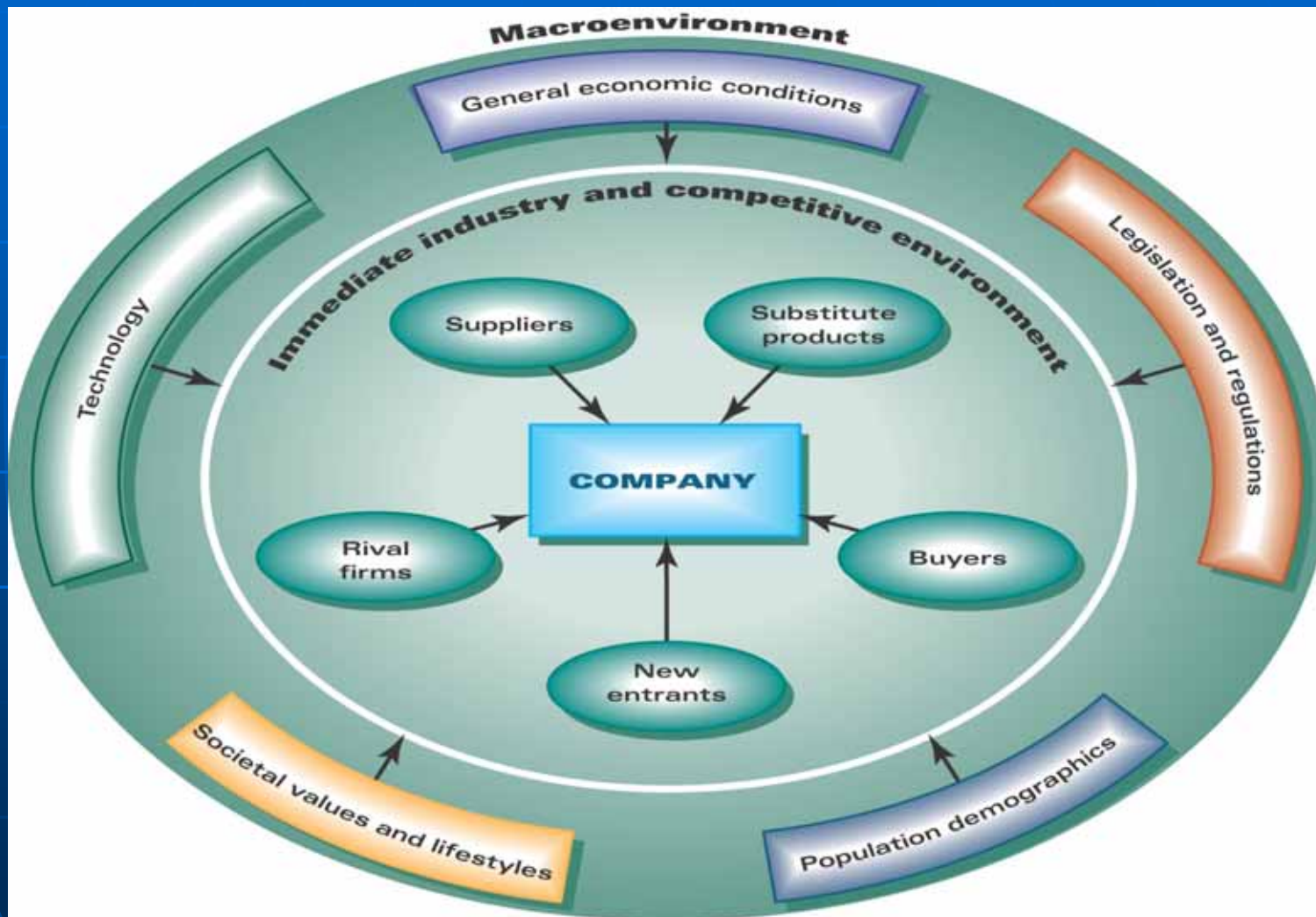
- Significant reductions (including elimination) of short trades
- Increased level of stress testing
- Increased expectation that directors are fully aware of issues
- Limited opportunities to reduce regulatory capital through financial modelling
- Focus on existing prudential projects such as liquidity, now taking into account recent events
- Increased disclosure requirements
- Emergence of global regulators given independence

Impact on Australian financial institutions

- Increased capital requirements may place Australian Financial Institutions at a competitive disadvantage in global markets which will in turn lead to constraints on the growth of balance sheets
- Increased stress testing will impact liquidity with potential revised liquidity standards
- Decreased global competitiveness could lead to downward pressures on shareholder returns (e.g. lower dividends, fewer share repurchases, etc.)
- APRA will take a hard line approach on existing standards and policies with adoption of a more conservative approach to capital management
- Greater focus on Accounting Disclosure requirements with possible accounting standard changes to be implemented
- Issues emerging regarding how punitive APRA's capital requirements are for securitisation businesses of banks on top of impairment provisions taken under AIFRS.

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Managing in a Challenging Environment



Blue Ocean: Reconstruct market boundaries

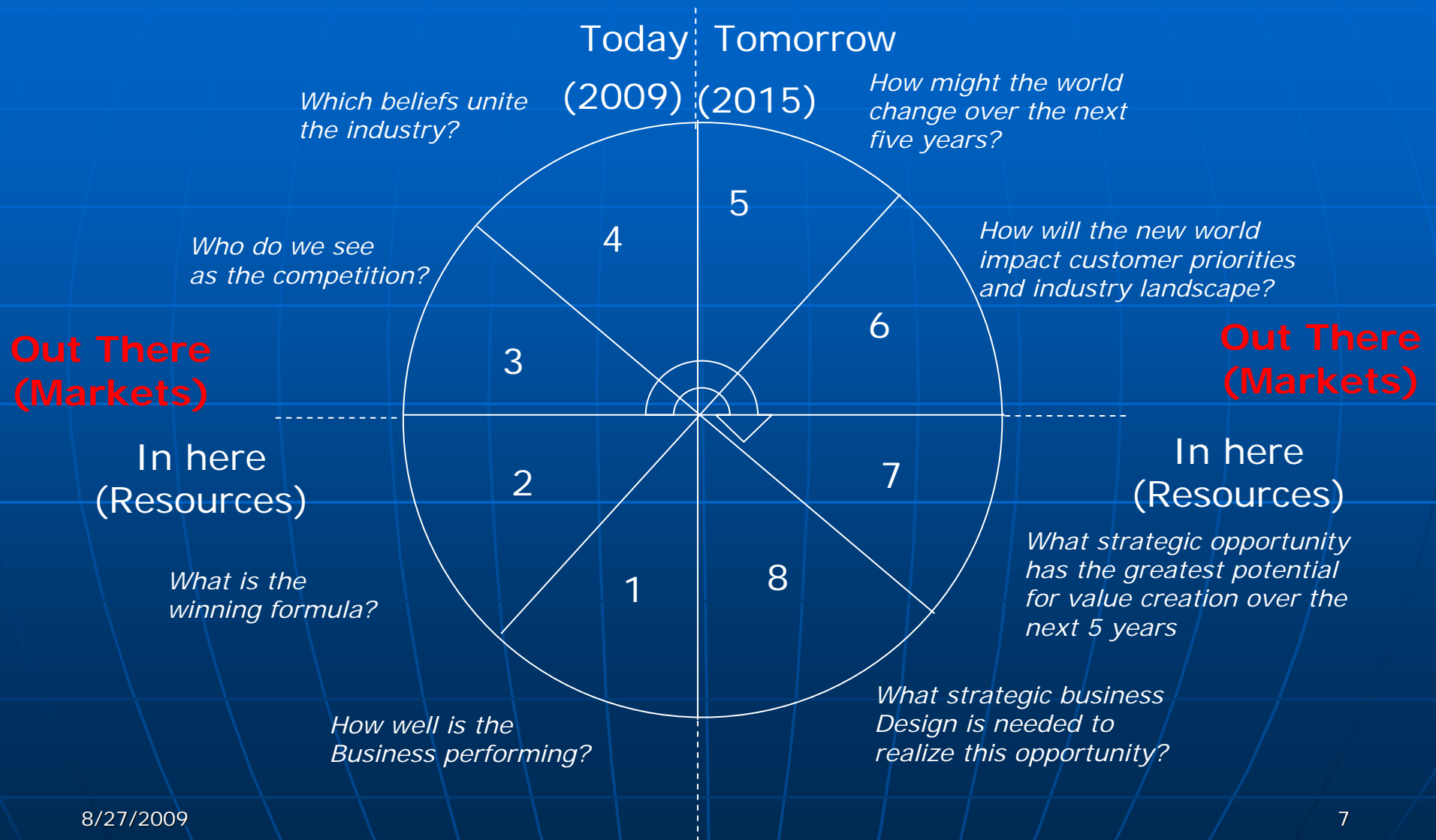
Boundaries of Competition

Head-to-Head Competition

Creating New Market Space

Industry	Focuses on rivals within its industry	Looks across alternative industries
Strategic Group	Focuses on competitive position within strategic group	Looks across strategic groups within its industry
Buyer Group	Focuses on better serving the buyer group	Redefines the buyer group of the industry
Scope of Product and Service Offerings	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings that go beyond the bounds of its industry
Functional-emotional Orientation of an Industry	Focuses on improving price-performance with the functional-emotional orientation of this industry	Rethinks the functional-emotional orientation of its industry
8/27/2009 Time/Trends	Focuses on adapting to external trends as they occur	Participation in shaping external trends over time

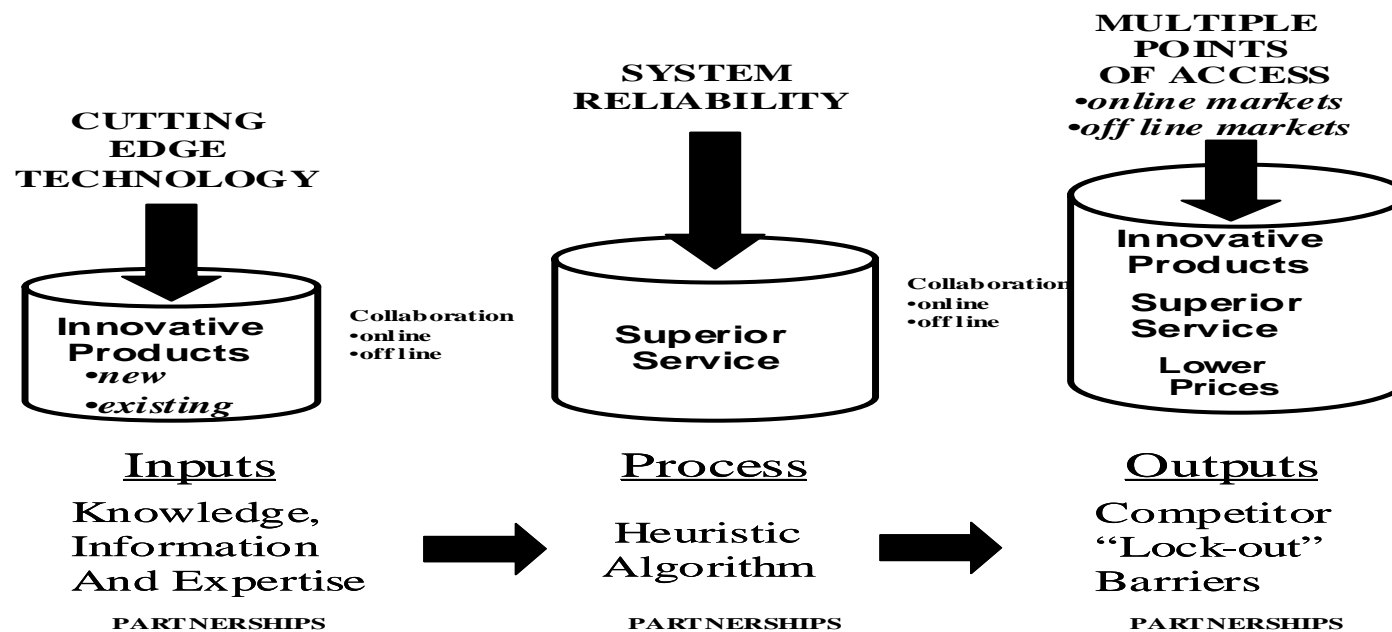
Strategy Wheel



Despite the challenging environment, there exist several growth opportunities for ADI's that can be realised by refocusing on fundamentals and asking strategic questions

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation or low cost.	Align the whole system of a company's activities in pursuit of differentiation and low cost.

The creation of competitor "lock-out" barriers

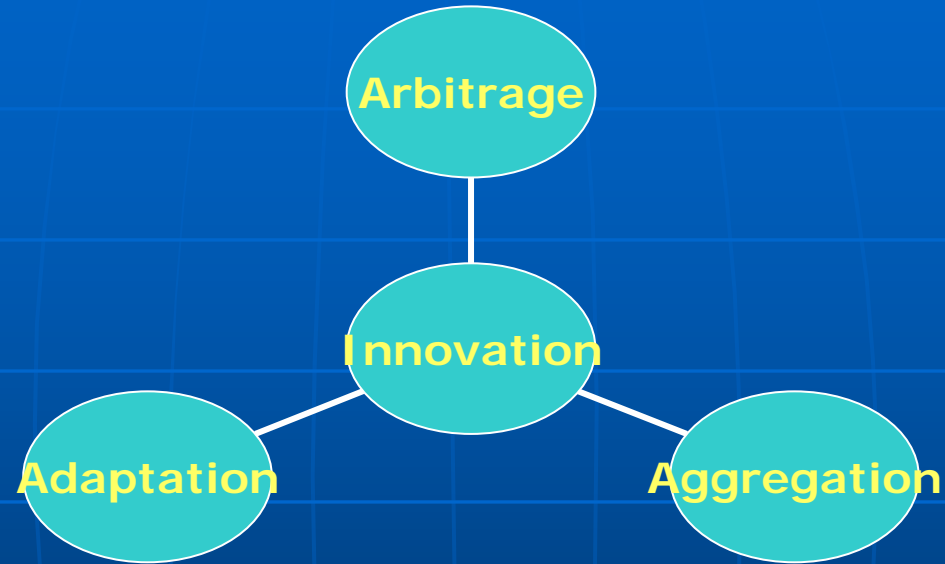


Opportunities

Products

People

Geography



Key Questions

- How good is my organisation at quantifying the risk associated with each deal or new product?
- How good is my organisation at pricing that risk?
- What is the quality of the data driving such analyses?
- Are internal incentives aligned such that reward is commensurate to risk?

- Is our compensation structure adequate to attract the quality of resource we wish to hire?
- How will we adjust our compensation models to account for market conditions (e.g. options significantly below strike prices)
- How do we ensure a consistent risk appetite within the organisation?

- Do we have a plan to expand into other geographies? How do we engage regulatory authorities in those markets?
- Do we have a plan to proactively engage regulatory authorities in Australia?

Financial Service Industry Focus Turns to Customers

- For most financial service firms, a large percentage of growth will ideally come from organic strategies,
- Organic growth strategies depend on the ability to develop customer insights and effectively translate those insights into effective operating models
- ***Ensuring a good customer experience at every customer touch point is the most critical component of organic growth***





Canadian Credit Union Systems

Enjoyed Strong Growth over last Decade

- In 1998 there were 809 Affiliated Canadian Credit Unions with the total assts of almost \$50 billion.
- Today, 10 years later , the number of Credit unions has fallen to 444, while assets have grown over \$110 billion
- Result is a rapid increase in the size of the average credit union

Increase in the share of total credit union assets.

- Largest Credit Union has \$14 billion in assets. 59 branches and more than 390,000 members
- The largest 100 credit unions represent almost 81% of the assets of the system (out side Quebec), compared to 68% in 1998.
- The largest 10 credit unions control close to 39% of assets compared to 29% ten years ago.

Canadian Credit Union System

The Policy and Advocacy Report – Credit Union Central Canada . *2008 results as of third quarter

Canadian Credit Union System 1998 vs 2008	1998	2008	Annual Average Growth
Assets (\$mm)	\$49,925	\$110,635	8.5%
Deposits (\$mm)	\$45,155	\$97,636	8.3%
Loans (\$mm)	\$39,508	\$92,671	9.2%
Number of CU's	809	444	-6.0%
Locations	1,828	1,722	-0.6%
Memberships	4,247,718	5,057,400	1.8%
Largest 100 CU/CPs			
Assts of Top 100 (\$mm)	\$37,100	\$96,395	10.7%
Assets of Total CU/CP system (excludes QC) (\$mm)	54,900	119,235	8.6%
Top 100 Assets as a % of Total System	67.57%	80.84%	
Top 10 Assets as a % of Total System	28.75%	38.61%	
Credit Union Market Share			% Change
Assets	6.9%	6.6%	-0.3%
Deposits	7.5%	8.7%	1.2%
Residential Mortgages	8.1%	10.1%	2.0%
Personal Loans	6.1%	4.4%	-1.7%
Statutory Liquidity			% Change
Dollar Amount Required (\$mm)	\$4,341	\$8,041	
Dollar Amount Available to meet Requirements	\$6,412	\$11,129	
Actual to Required Ratio	1.5	1.4	0.1

Looking Ahead!

- Uncertain Market Conditions
- Credit Capacity
- Liquidity
- Financial Industry are looking at developing strategies which will help them to navigate the unpredictable impact of these issues.

Key Objectives

The Key objectives driving these strategic themes for growth:

Financial institutions must:

- Maintain liquidity;
- Strengthen capital; and
- Restructure the existing corporate system to support new regulations and controls.

Responding to Growth Challenges

Credit unions are pursuing myriad approaches to growth. Some of the most interesting approaches:

- Cost Cutting, cost controls- Causing them to consolidate, restructure and reduce cost structure with equal urgency.
- Acquisitions- National consolidation. Reaching beyond their existing geographic footprint. (scooping up underperforming CU (due to liquidity issues) turning them around and creating scale and larger footprint in the process.

Responding to Growth Challenges

- New Models: To circumvent inherent organizational barriers to growth.
 - Credit unions across provincial areas are coming together and teaming up as one entity. Still keeping their local identity and board (Decision makers).
- Returning to excellence in client service:
 - The client is at the core of achieving the growth target.

Key Focus Areas

- Increased focus on Credit Unions Core priorities:
 - Keeping business processes running smoothly,
 - Building customer bases
 - Driving successful internal collaboration
 - Growing members, deposits, loans and relationship

Common Strategic themes-

- Improving customer service
- Defending the relationships with existing customers,
- Expanding the range of product offerings
- Investing in technology to assist with growth
- Simplifying banking procedures
- Expanding and optimizing the distribution network
- Improving overall efficiency

New to Strategic themes

- New to these strategic themes:
 - Consolidation for size, efficiency
 - Concept of sustainability
 - Risk control
 - Improving delivery channels and distribution capabilities
 - Driving customers into segments and creating products or value propositions for each one.

Canadian Financial Institutions:

Intense industry Consolidation

- These efforts are designed to assist in competing in global market, something which is currently impeded by their size.
- In the current marketplace, it can be challenging for smaller, community-based financial services organizations to compete against large nationals and multi-nationals.
- Credit Unions are consolidating and partnering-so that they can be competitive, yet still maintain strong community roots and a solid relationship with their members.
- Do more with less

Concept of sustainability

- A focus on long-term strategy, not just short-term gains
- Strong corporate governance
- Sound risk-management practices

Canadian Financial Institutions:

Risk control

- Sound governance– accounting functions and competencies aligned better with modern risk management.
- management reporting, risk policy, financial accounting and auditing

Improving delivery channels and distribution capabilities

- Using Data Analytics to Aid Mortgage Portfolio Management
- Fostering Customer Loyalty at the Bank with Desired Customer Experience
- Building Financial Brands in Emerging Markets

Canadian Financial Institutions:

Driving customers into segments and creating products or value propositions for each one.

- Centering the design, development, delivery and distribution of products and services around the customer.
- Design flexible solutions customized to the needs of specific customer segments and individualized to the tastes of particular customers through dynamic knowledge
- Develop products focused on the client and offer niche products and services.

Productivity Strategy

Growth Strategy

Financial Perspective

Improve Cost Structure

Long Term Shareholder Value

Enhance Customer Value

Increase Asset Utilization

Expand Revenue Opportunities

Customer Perspective

Customer Value Proposition

- Price
- Quality
- Availability
- Selection
- Functionality
- service
- Partnership
- Brand

Internal Perspective

Operations Management Processes

- Supply
- Production
- Distribution
- Risk Management

Customer Management Processes

- Selection
- Acquisition
- Retention
- Growth

Innovation Processes

- Opportunity ID
- R&D Portfolio
- Design/Development
- Launch

Regulatory and Social Processes

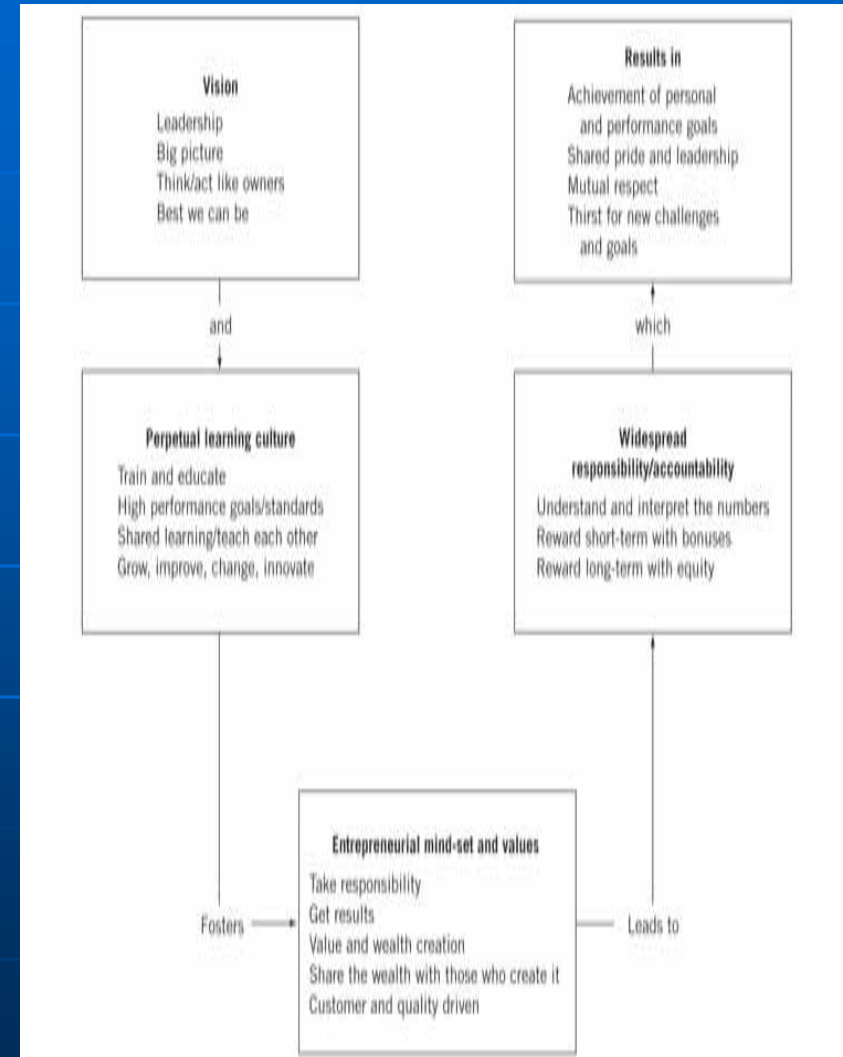
- Environment
- Safety and Health
- Employment
- Community

Learning & Growth Perspective



Strategic Alliances

- The traditional, firm-centric view of value creation is being challenged by consumers and the mingling of technologies and industries,
- Focus on building new strategic capital where a firm and consumers co-create unique value.



Strategies

■ Enablers

Customer acquisitions

- Understanding customer value
- Managing customer profitability

Cross-selling or up-selling

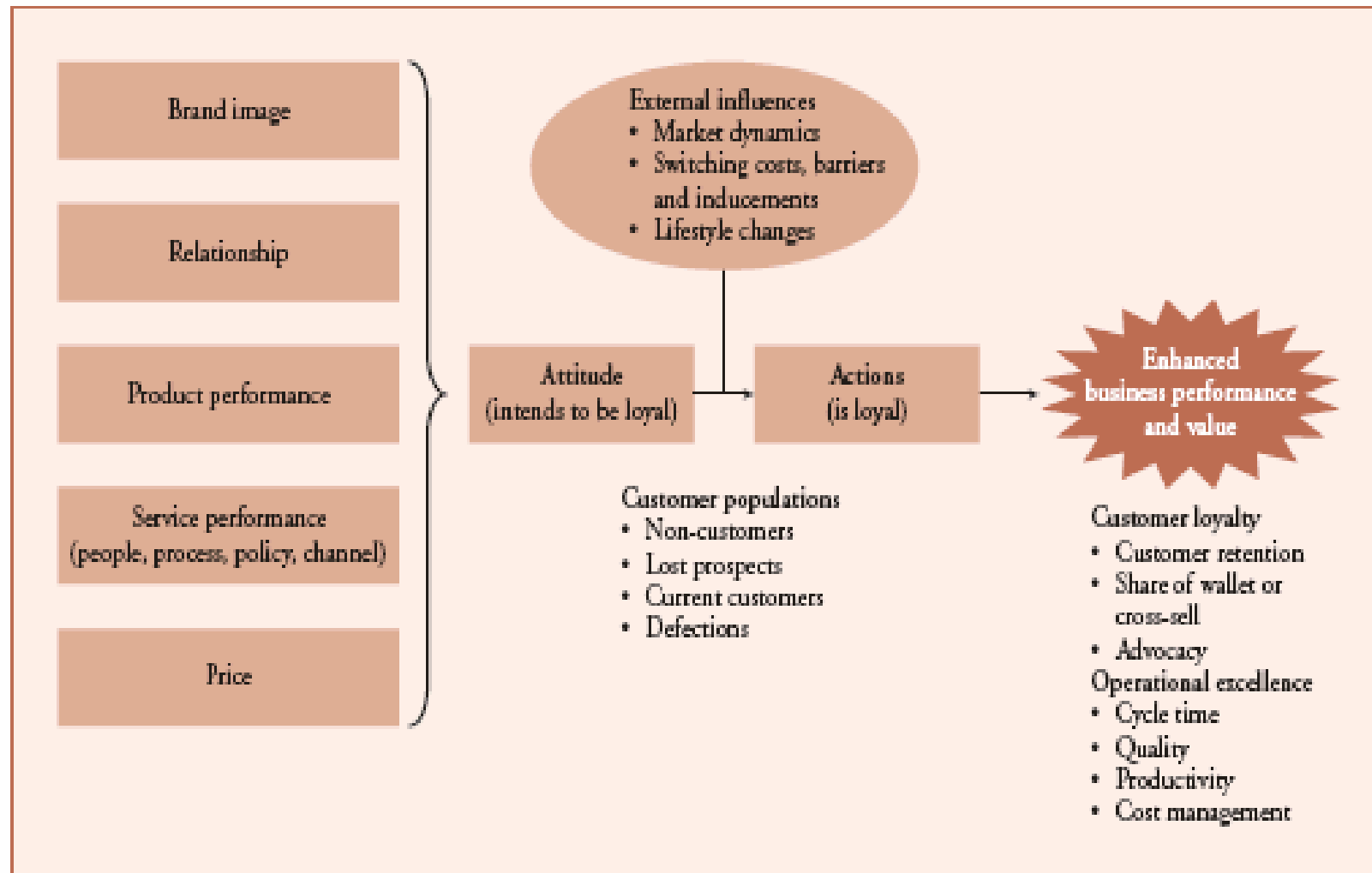
- Understanding customer differences
- Predicting or preventing churn

Customer retention

- Leveraging customer knowledge
- Developing loyalty programs



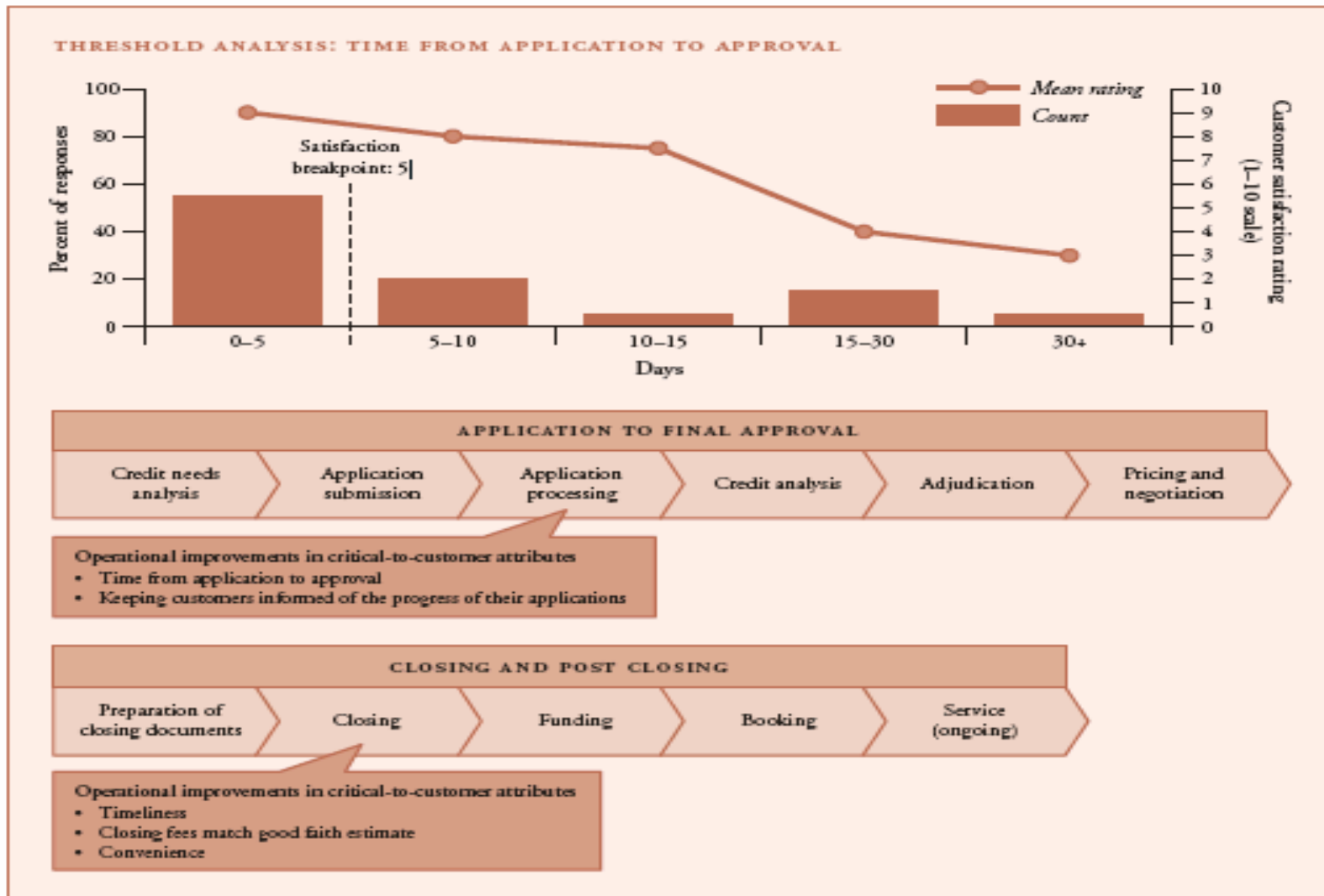
The Interdependencies in Customer Loyalty



Source: A. T. Kearney



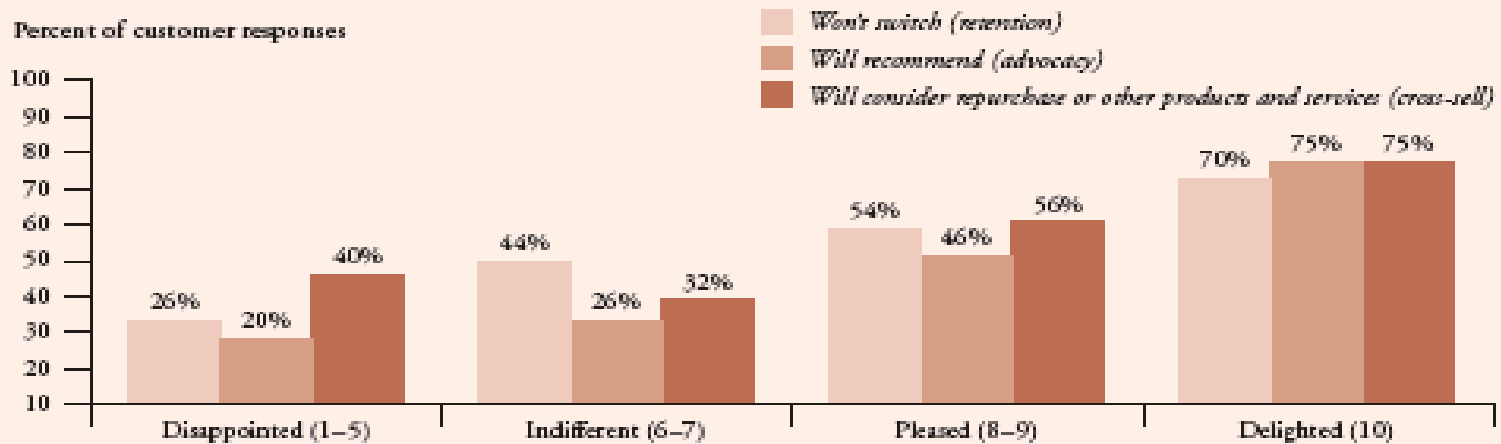
Linking Customer Loyalty to Operational Excellence



Source: A. T. Kearney



Percent of customer responses



QUANTIFYING VALUE CREATION

Critical-to-customer attribute	Incremental improvement in retention ¹	Incremental customers retained per year ²	Incremental balance retained per year (in US\$ millions) ³
Length of time from application to approval	1.9%	1900	\$95-285
How well relationship manager kept customer informed of loan progress	3.6%	3600	\$180-540
Ease of contacting relationship manager	2.4%	2400	\$120-360
Accuracy of good faith estimate (for mortgages)	1.5%	1500	\$75-225
Accuracy of closing documentation	2.3%	2300	\$115-345

Notes: ¹ Represents incremental stated loyalty when operational performance is improved to consistently meet breakpoint

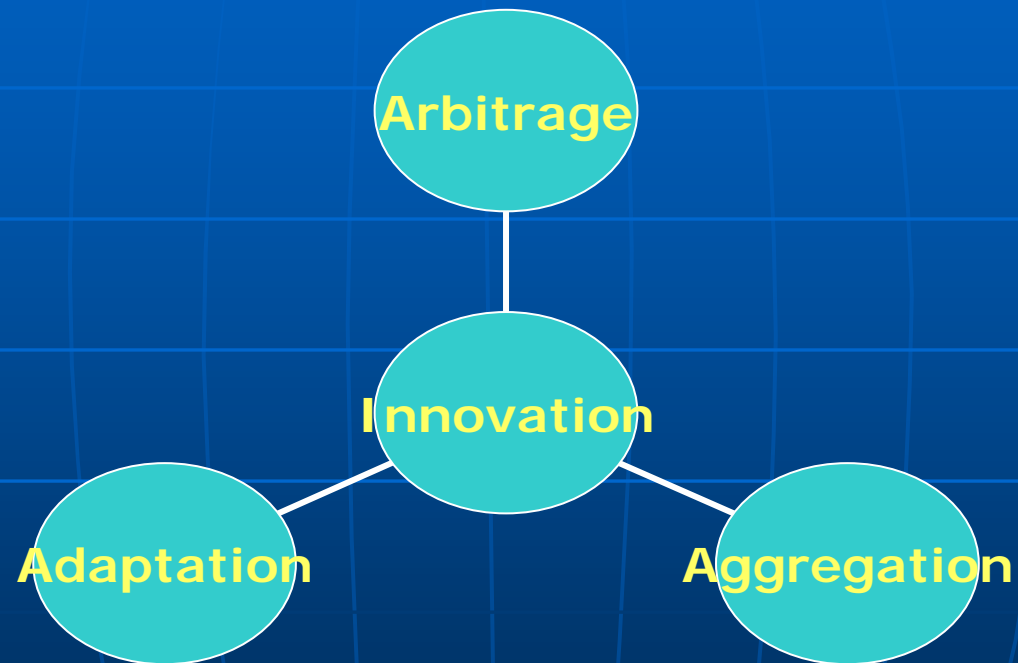
² Based on estimate of 100,000 loan originations per year and an average loan balance of US\$50,000 to 150,000 for loans funded

³ Potential customers are not added for all attributes to avoid double counting.



Integrated Perspective on ADI's Organic Growth Strategies

Concept of sustainability



- Driving customers into segments and
- Creating products or value propositions for each one.

Consolidation for size, efficiency
Improving delivery channels and
distribution capabilities

Thrive in Future!

- To survive and thrive in the future, Mutual ADI's will need to use emerging behavioral research techniques and increasingly complex segmentation and business strategies.
 - *Various segmentation strategies;*
 - *How to serve emerging demographic markets; and*
 - *Tools to increase "Blue Ocean" products, services and business models that meet the needs of consumers*
- The strategic approach to achieving growth these days may be relatively easy to figure out. However, the execution of a growth strategy is the critical success factor.