

# Credit Union Times

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GUEST OPINION

## Retention Attention: Building Member Longevity

**A**dam Smith introduced the world to the Industrial Revolution. Centuries later, this revolution has now entered its fourth phase. Termed the Exponential Age, it is defined by the velocity or speed of change found in this new era. Disruption is everywhere. Firms of all types are being put in and out of business every day.

### The New Competitor

In order to survive the Exponential Age, every credit union must recognize that the definition of its competitive set has changed in an unexpected manner. In this era, no credit union competes against a class of competitors, a peer group or even the fintech sector. Rather, in the Exponential Age, each credit union competes against a single, identical competitor. And this common competitor is time. Therefore, survival in the Exponential Age is all about

slowing down the clock, and each credit union is confronted with this shared challenge and opportunity.

### The Expectations Challenge

The Exponential Age is the intersection of digital technology and changing consumer behavior. Changing consumer expectations are rapidly influencing banking. For more than 25 years, The Long Group has been surveying consumers and businesses regarding their financial behavior. Today, these discussions reveal that consumers expect interacting with their credit union to be faster, easier, more convenient and less expensive than ever before. In other words, today's consumer wants it all. They expect more for less. These changing expectations are challenging the viability of every credit union. What's more, unmet needs introduce



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new competitors into the member relationship and promote churn.

### The Attrition Tax

How does a credit union slow down the clock? By focusing on improving retention. Attrition is the tax that every credit union levies on itself compromising growth. The average credit union closes 12% of its account base each year. As a result, the average credit union is expected to replace its entire

member base every eight years, necessitating an aggressive sales focus to replace volume lost to attrition. And, by halving attrition, the longevity of a member relationship is doubled, slowing down the clock in the Exponential Age and accelerating growth.

### The Retention Mystery Solved

Improving retention is not a mystery. It is simply a function of the size of a member relationship. A dichotomy in every member file exists, representing those that purchase on a transactional basis and those that maintain a relationship with the credit union. Each group behaves differently. Eighty percent of member churn is produced among transactional members – those that maintain one or two accounts with the credit union.

In contrast, those that maintain a relationship define the balance sheet and earnings of a typical credit union. In other words, the transient nature of a member is halted by simply building a relationship with each one.

### The Gateway to Survival

For decades, expanding a member relationship has advanced at glacial speed, with the average credit union requiring more than 10 years to acquire the third account relationship. Today, three in five members maintain a causal connection to the average credit union, increasing the risk of churn in the Exponential Age. Developing these at-risk member relationships by compressing the sales cycle is the gateway to survival in the Exponential Age.

Today, incremental gains in market share are less a function of the acquisition of new members and more focused on building stability into the relationships that have been acquired. Knowing the precise conversation to have – one that is personalized, relevant, meaningful and consultative – improves the member experience, drives revenue and extends the tenure of a member relationship.

### Work Smart, Not Hard

With unprecedented risks and opportunities confronting every institution, now is the time to act. Closed accounts and lost relationships are compromising growth. Competing requires credit unions of all sizes to transform data into information, translate information into knowledge, convert knowledge into strategy and pivot strategy into action. Work smart, not hard, to change the growth trajectory. Success in the Exponential Age depends on relationship management to create a retention advantage and build member stability. ■



Source: The Long Group