

## PROFITABILITY

# Bay Federal Credit Union CEO Shares Hard Lessons on Mining Member Data

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**LAS VEGAS** — Just like bass fishing, where it's said 10% of the fishermen catch 90% of the fish, typically only relatively few of a bank's customers or a credit union's members are truly profitable.

Knowing the difference and how to maximize the income from them and minimize the loss from the rest is becoming increasingly impor-

big thing for financial institutions—Gen Y, new communication channels, new product lines, new technologies, but this is bigger," Weissman said. "During all those years of cross selling anything we could to whoever came through the door, we lost track of what this sales culture was doing to our income statement."

Weissman's presentation included graphics showing how a typical bank was making as much as 500% of its earnings on 10% of its base,

we had negative income in 2008 and 2009 because of provisions for loan losses, deposit insurance premiums and the corporate credit union problems," said the CEO.

The response included laying off 18% of the staff, reducing loan offerings and altering other services and closing two branches.

"It was a terrible place to be, and we wondered if we were impacting people in a way that they wouldn't stay with us. But fortunately they did, although we realized we were making changes without knowing the impact on our members, including the most profitable," she said.

Bay Federal then began using the DMA analytics system and found that the top 10%, about 6,200, of its members contributed 314% of the bottom line, while the bottom 10% were taking away 138%.

By studying income statements in effect for each of those members, the credit union was able to adopt such tactics as target marketing opt-in for overdraft services at "power users, which helped push positive

### The Rundown

- ▲ Managing profit risk called next big trend in retail banking as sales-at-all-costs emphasis fades.
- ▲ Marketing expert calls for data analytics to identify least, most profitable members and customers and to create an "income statement" for each.
- ▲ The same approach should be used with products and services, followed by strategies that include replacing services such as free checking with relationship pricing.

NSF income when we had projected losing \$30,000," Birkhofer said, "and we have an adoption rate of 76% from that group."

That said, she pointed out that interchange income now exceeds NSF income and that the credit union is considering a new strategy that includes packaged combinations that might include checking, money market deposits and car loans. Direct deposits also are smiled upon as new pricing packages are created.

Branch profitability also is constantly reviewed and managers there now send personal notes to the most profitable members, thanking them for their business, Birkhofer said. And they've lost some of their

autonomy, since automated systems are now in place that won't allow staff to override fees.

"This has not been easy. It's been something we've never faced before. But the good news is that the last 13 months have turned around the loss and we're now posting profits, even with all our assessments." And while technology tools have helped drive the decisions by providing access to hard realities about products, services and individual members, the credit union has kept its human touch and community focus, she said. ■

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### NEXT STEPS

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LEARN more about DMA Corp. at  
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LEARN more about Bay Federal Credit Union and see packaged services and products in action at  
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Bay Fed executive vice president and chief operating officer Cameron Haste, CEO Carrie Birkhofer, Rich Weissman, president/CEO of DMA Corp., and Reggie Beason, director of client development at DMA, at a session on the "profitability culture."

tant, according to the presenters last week at a session of the BAI Retail Delivery Conference in Las Vegas titled "The Next Megatrend for Retail Banking: Moving from a Sales Culture to a Profitability Culture."

The presenters were Rich Weissman, president/CEO of DMA Corp. in Beaverton, Ore., and Carrie Birkhofer, president/CEO of the \$590 million Bay Federal Credit Union in Capitola, Calif. Birkhofer was the only credit union executive on the entire conference agenda.

Birkhofer's credit union uses Weissman's data analytic services to help parse the numbers and segment her members to get a clear understanding of where profits lie and losses linger, actionable information Bay Federal then uses to create product and service strategies.

Weissman, a former marketing chief for Bank of America, said managing profit risk represents the next paradigm shift, one that's under way now. He said the bank meltdown of the past two years represented the end of an era that began when the go-go growth culture that began after deregulation in the 1980s replaced the "wait for growth to come in the door" attitude that had prevailed since the Great Depression.

"We're always talking about the next

while the bottom segment was actually costing the institution money because they were the ones who often used the most products as a result of the cross selling.

He said he now advises banks and credit unions to, in effect, produce an income statement for each customer and member, rather than simply rely on an overall balance sheet. That can then lead to decisions to emphasize areas where profit can be made and lessen the push into products where it's not, such as jettisoning free checking and pushing profitable funds transfers and interchange income products when possible.

His client Birkhofer said Bay Federal has taken that approach, although it hasn't always been easy. The credit union experienced rapid growth for years, hitting a peak of \$680 million, driven by free checking and auto and home loans that at times had the credit union at 100% in loans-to-deposit ratio and running CD specials to get liquidity.

"I always wondered about how we were making money, giving away ATM service and free checking, for instance, but also know we had great member service and community support," Birkhofer said.

"But then the world shifted, and