Activating Effective Innovation

Presented By: Erin Coleman
August 2023

Today's Learnings

- The Innovation Imperative: why now?
- The Innovators Dilemma
- Activate Effective Innovation: Five Keys

Callahan & Associates

Helping Credit Unions Thrive For Nearly 40 Years

Our founders realized that the best way to support credit unions was by empowering them with actionable data, fostering collaboration, and driving innovation throughout the industry.

We combine data analytics and the industry’s best minds together to identify market opportunities, overcome shared challenges, and discover ways for credit unions to better serve their members.

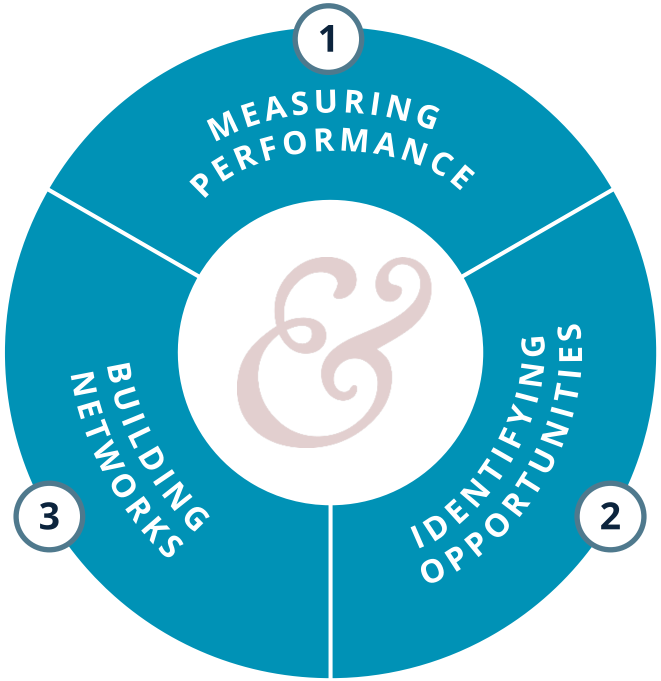
Our Purpose

We empower credit unions to impact their members and communities in meaningful ways.

How We Help Credit Unions

POWERING INSIGHTS

Benchmarking and performance analysis that empowers you to make informed strategic decisions.



SHARING LEARNINGS

Collaborative exchanges and best-practice insights that fuel innovation and ongoing inspiration.

TAKING ACTION

Resources, ideas, and frameworks that enable you to grow in a mission-focused way.

What’s Keeping You Up at Night?

Growth and Liquidity

Relevance

Stakeholder Engagement

What’s Keeping You Up at Night?

Growth and Liquidity

Relevance

Stakeholder Engagement

CALLAHAN & ASSOCIATES

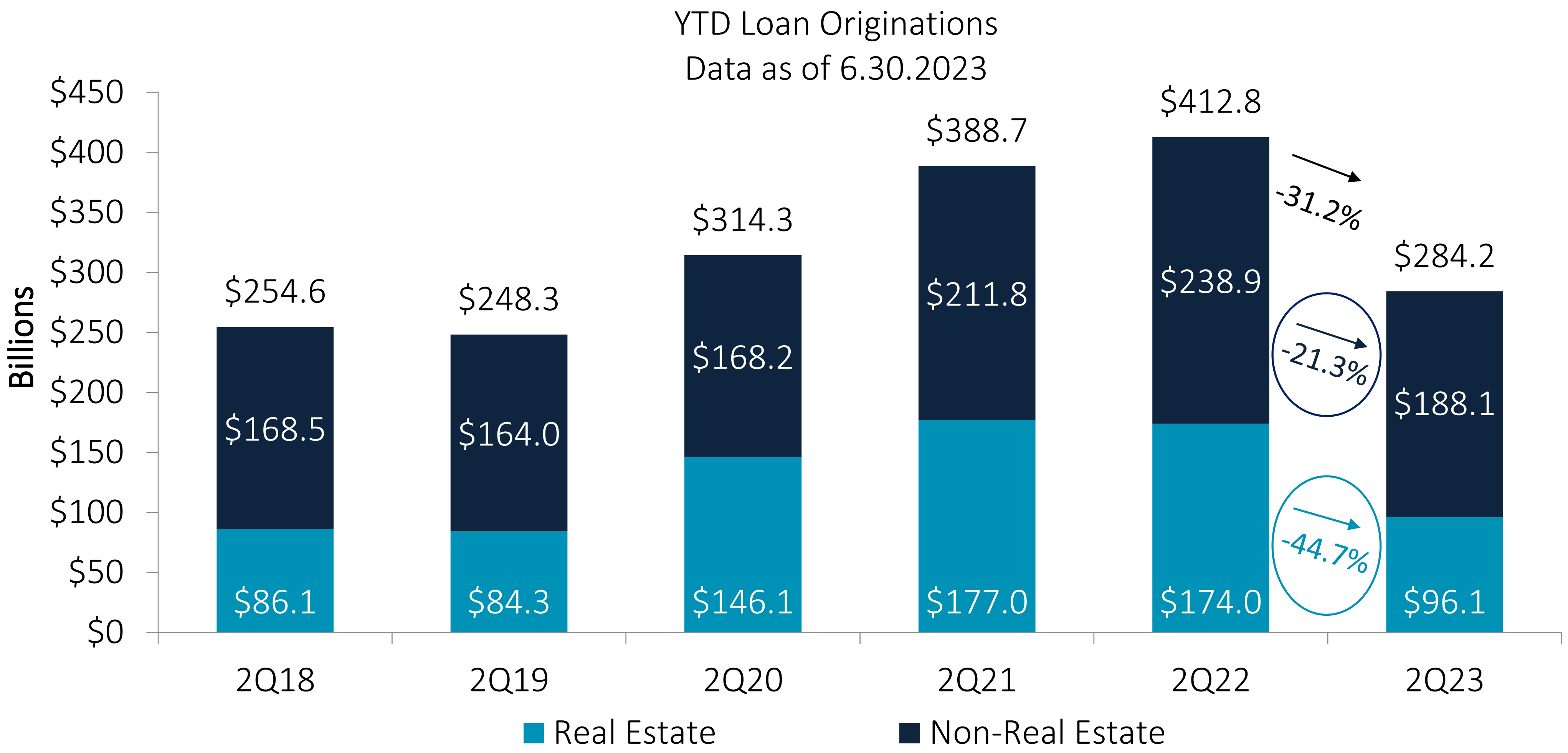
Economic and Market Themes

- A market in limbo
- Banking failure fears abate, but regulatory changes are coming
- Opportunities exist for strong capital and liquidity profiles

First Look:
2Q23 Credit Union Results

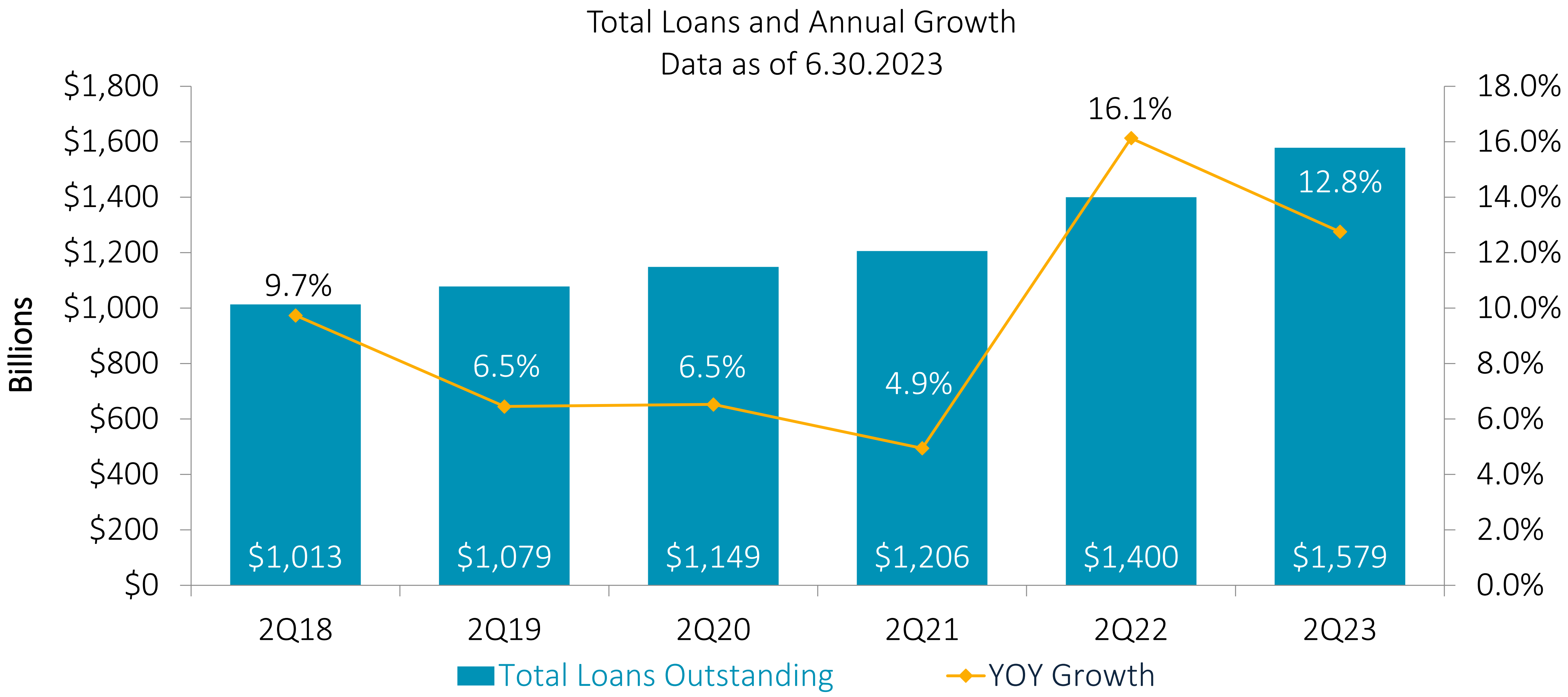
CALLAHAN & ASSOCIATES

Slowing real estate led total originations to decline

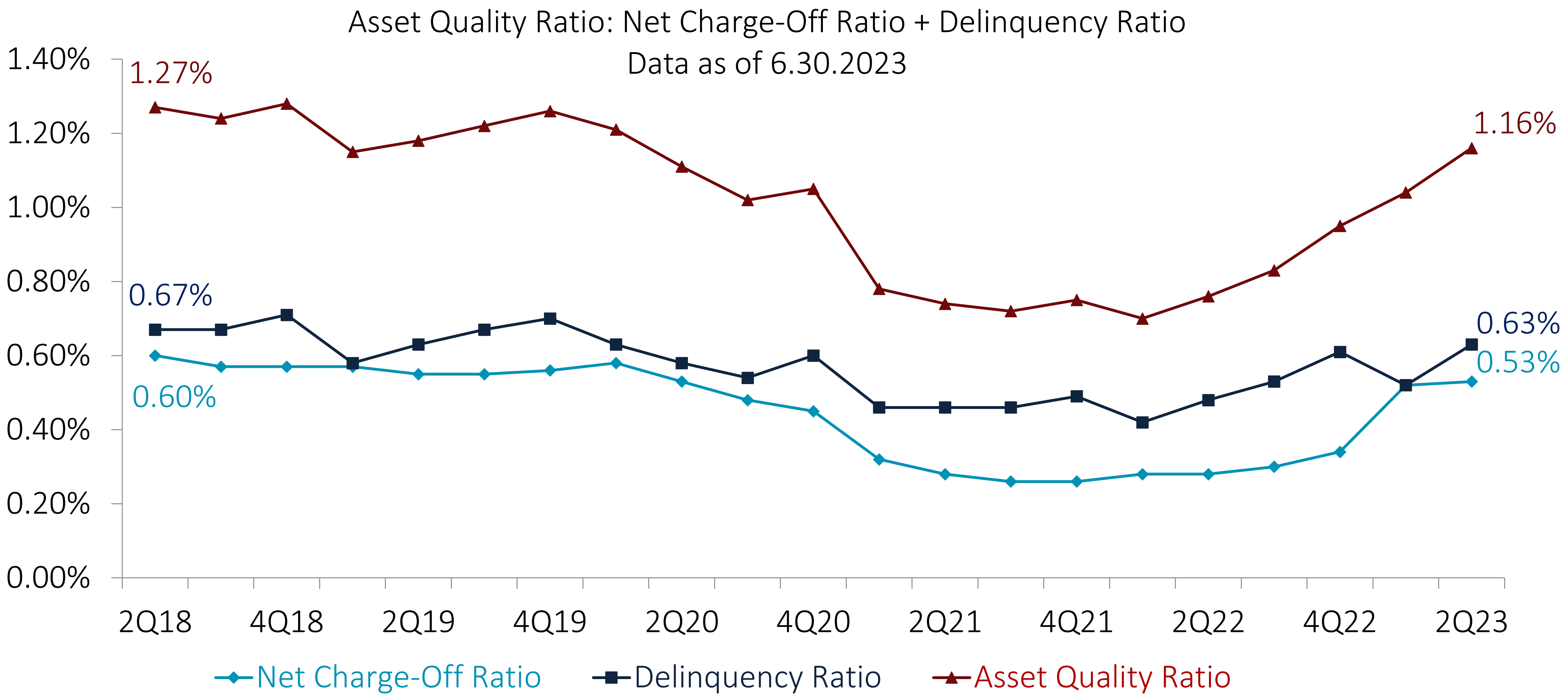


CALLAHAN & ASSOCIATES

Loan balance growth remained strong

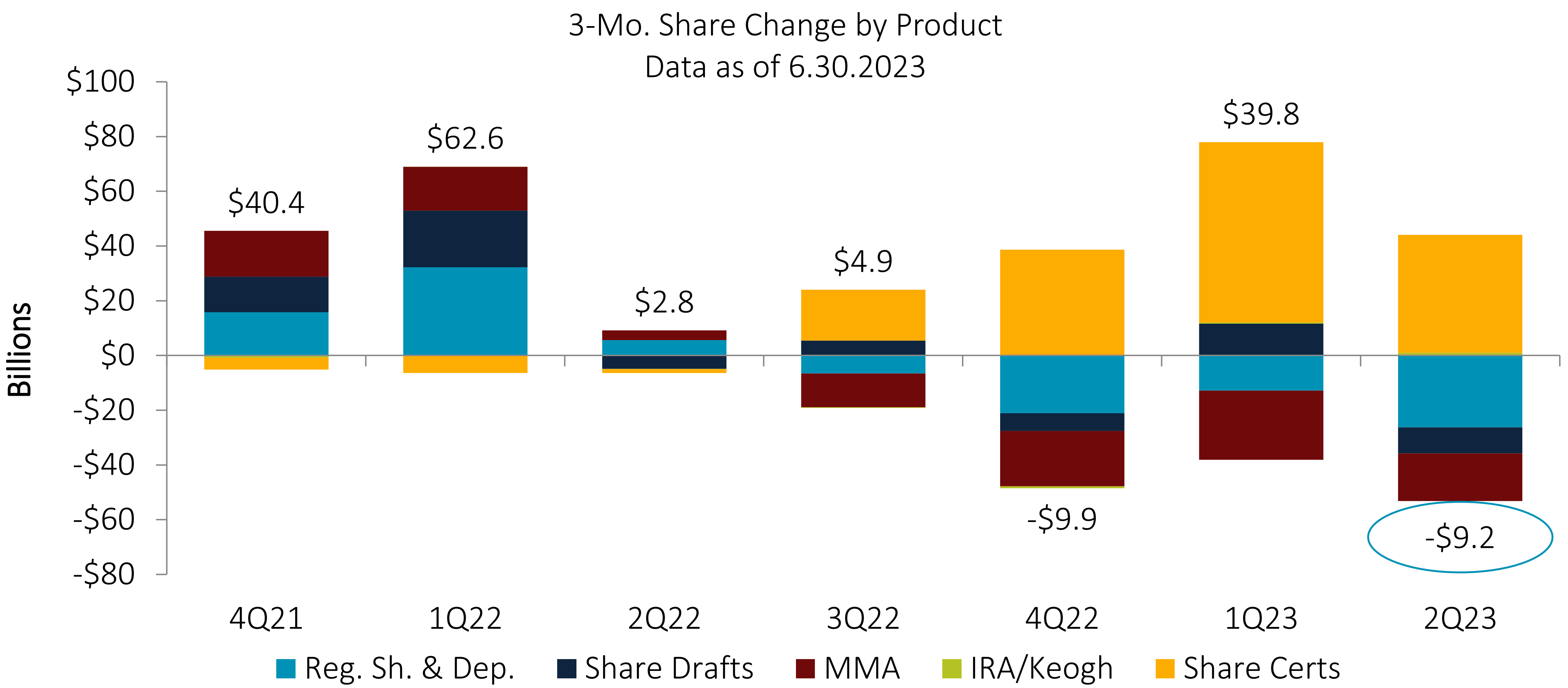


Asset quality ratio worsened by 12 bps in the quarter



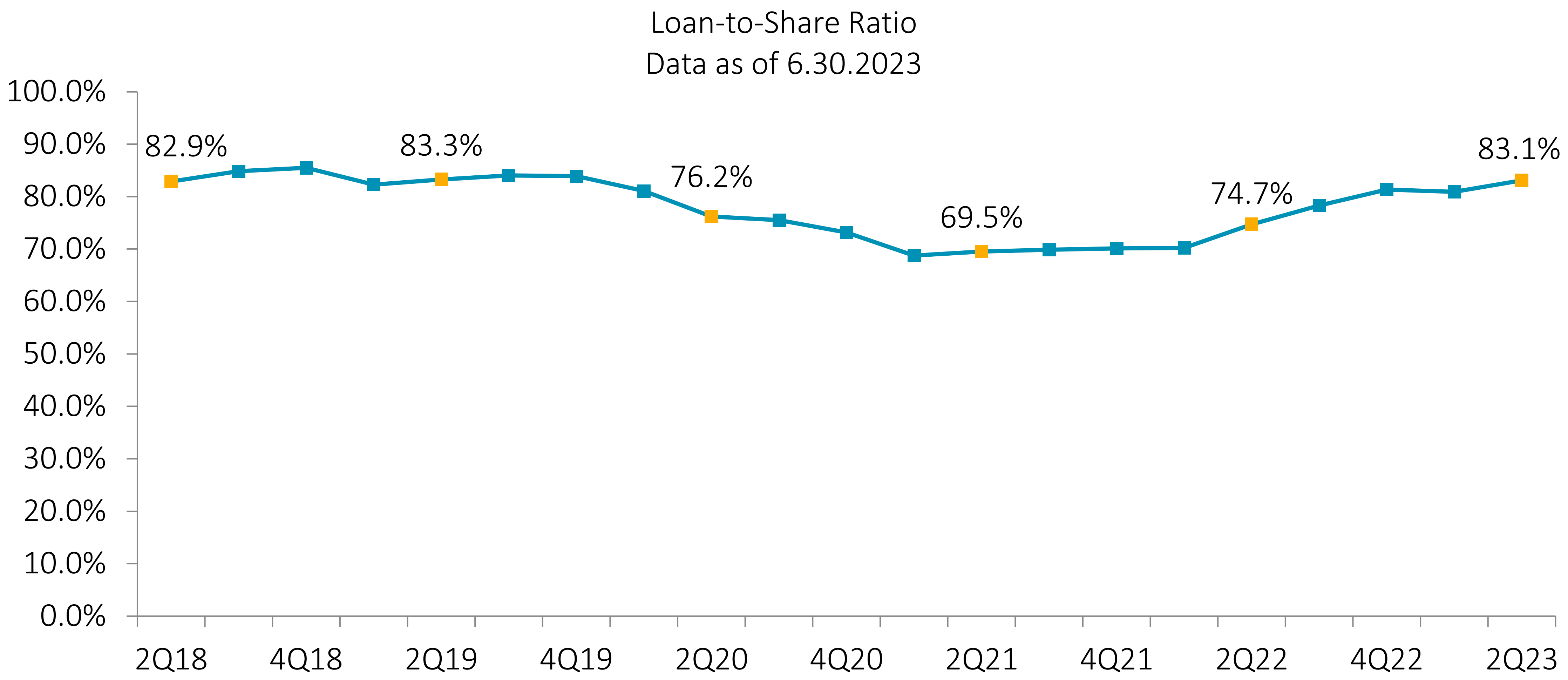
CALLAHAN & ASSOCIATES

Core deposits declined, partially offset by certificates



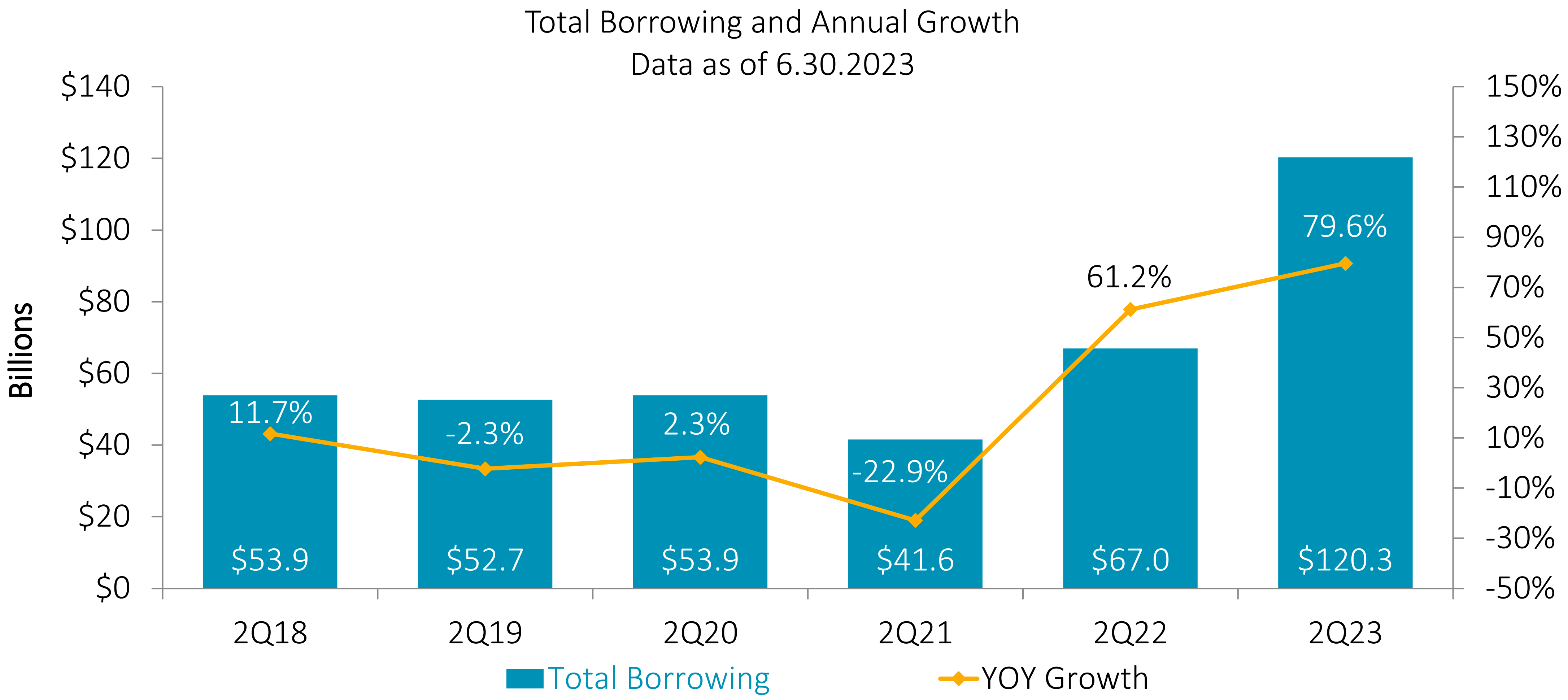
CALLAHAN & ASSOCIATES

Loan balances expanded while share balances were flat; the loan-to-share ratio increased 2.2 percentage points



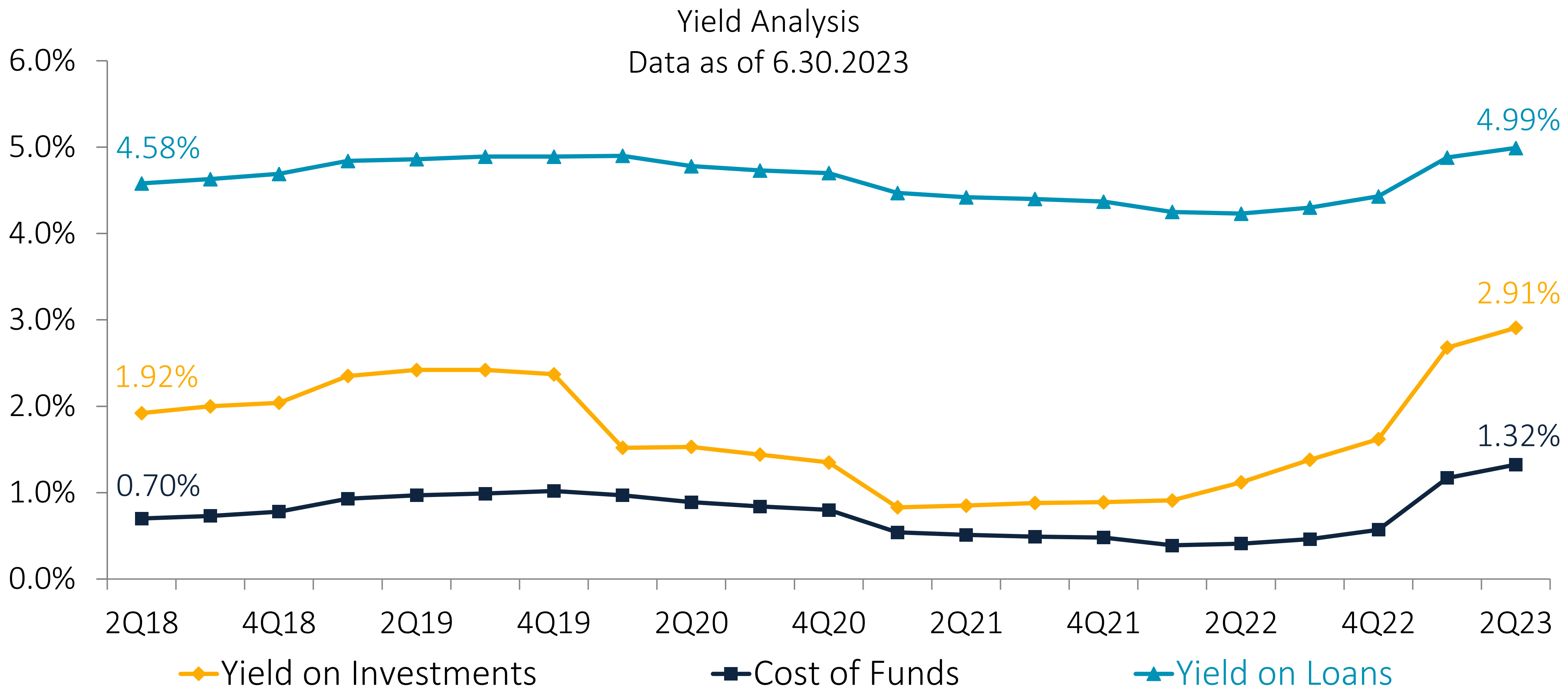
CALLAHAN & ASSOCIATES

Credit unions pursue liquidity by borrowing funds

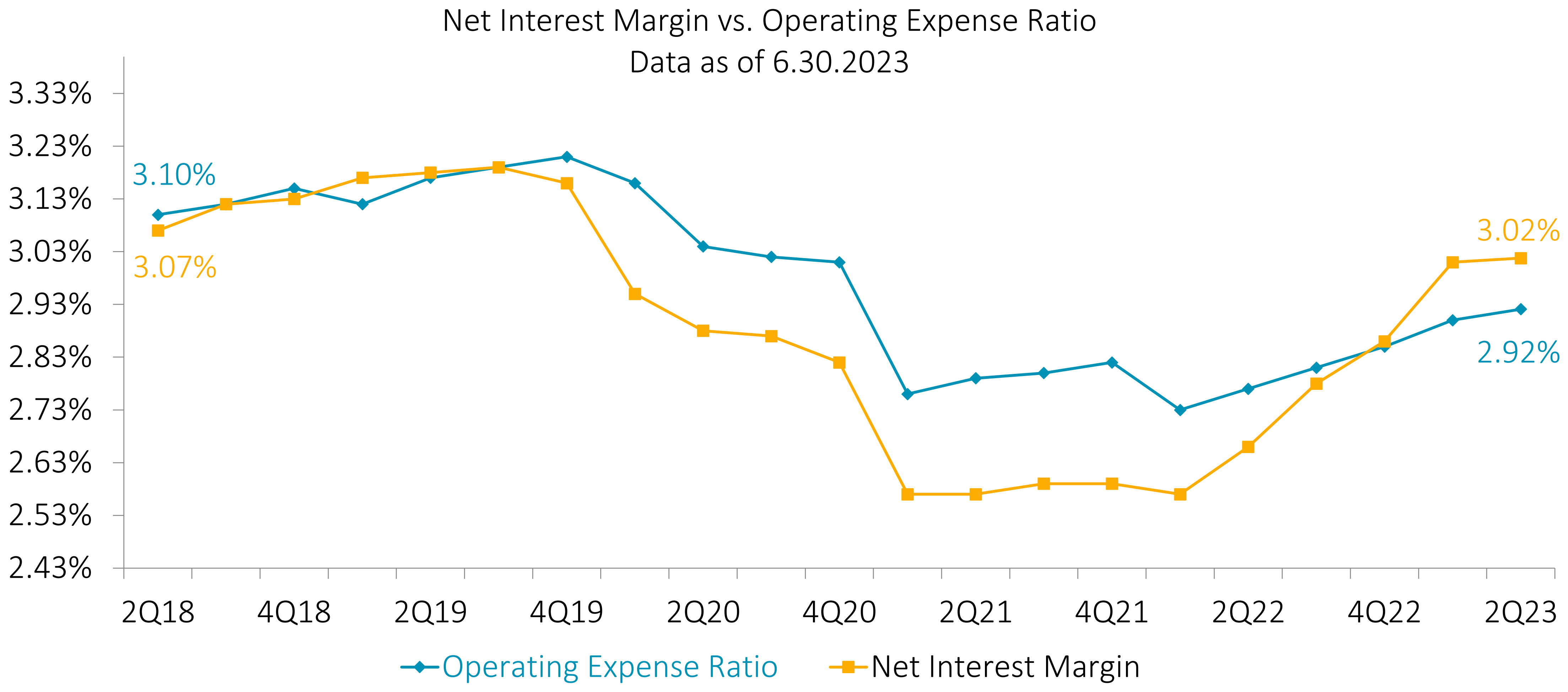


CALLAHAN & ASSOCIATES

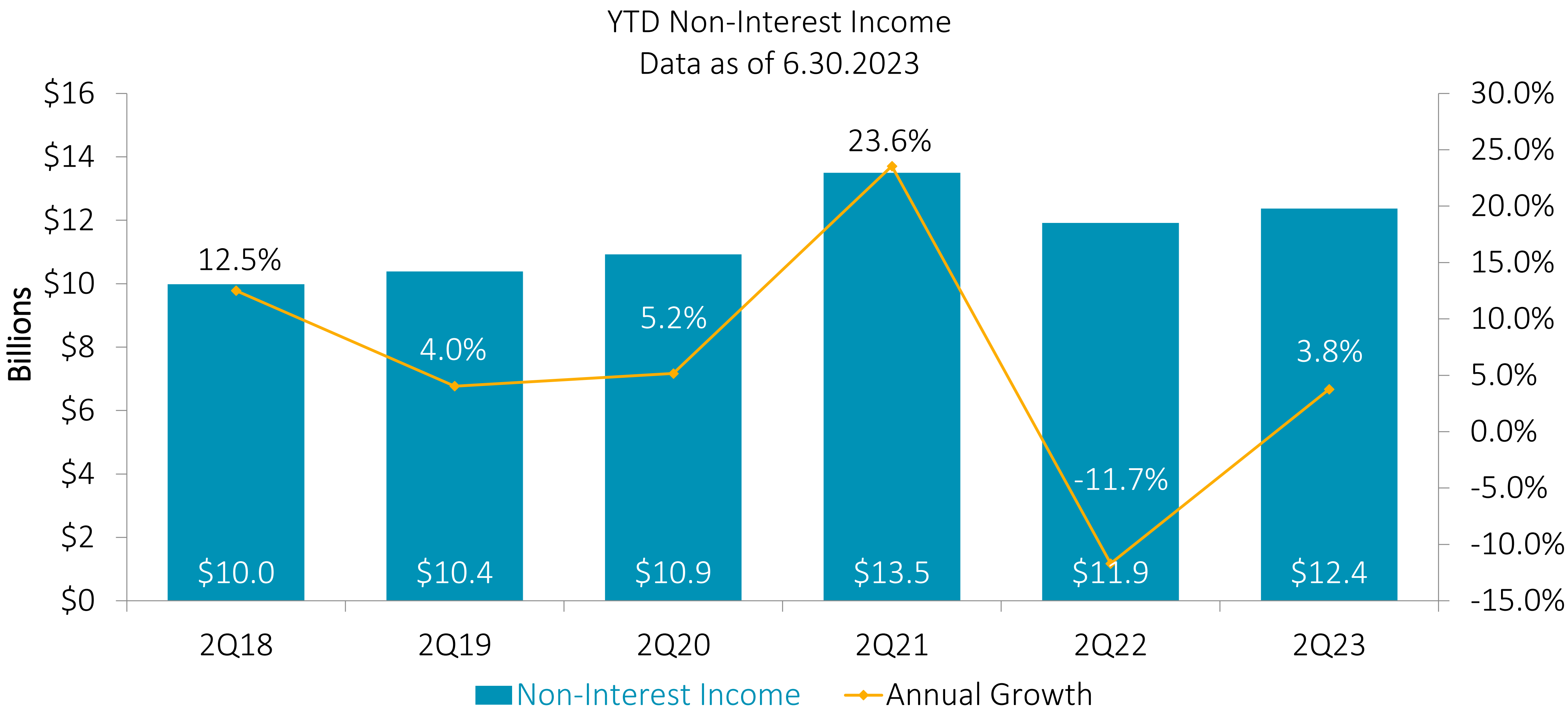
High-cost certificates pushed up cost of funds as it grows in parallel with yields …



… which led to a nearly flat net interest margin

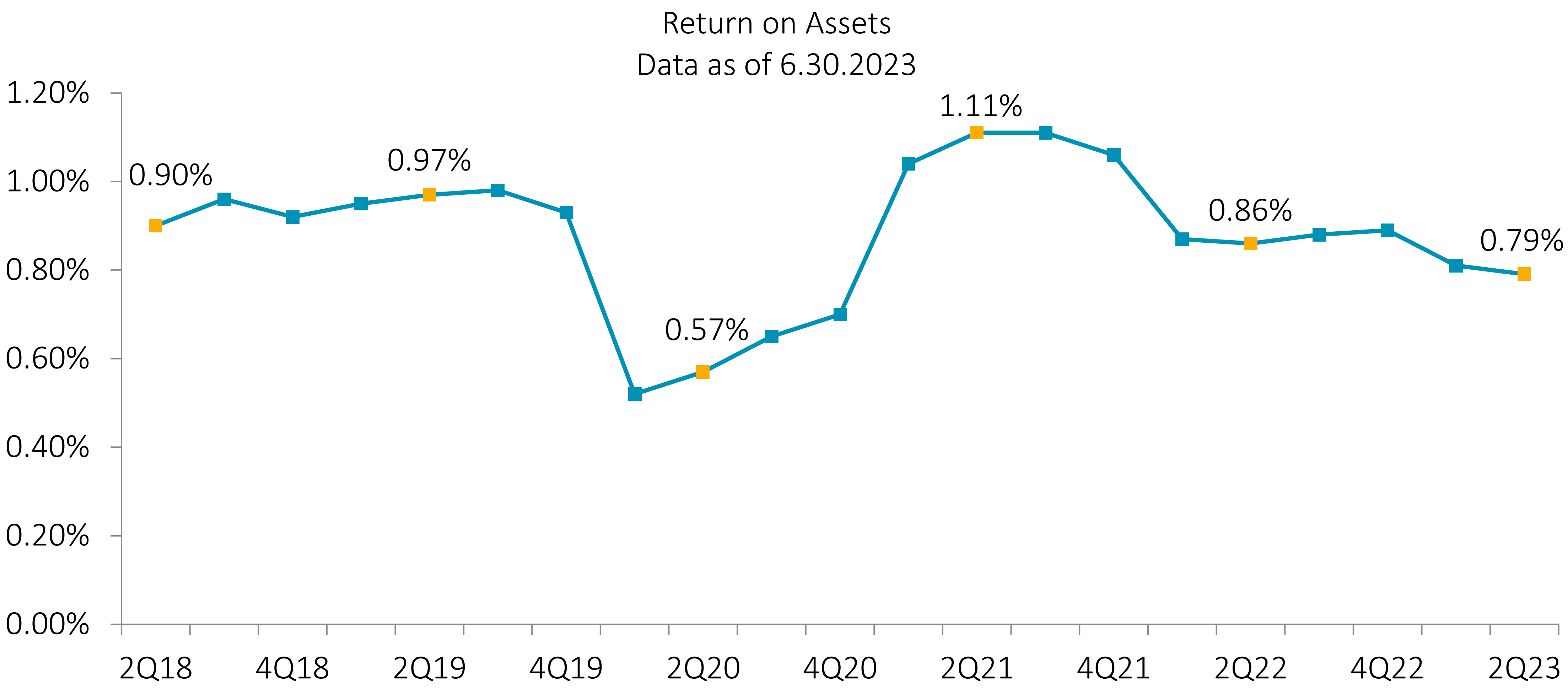


Non-interest income grew 3.8%

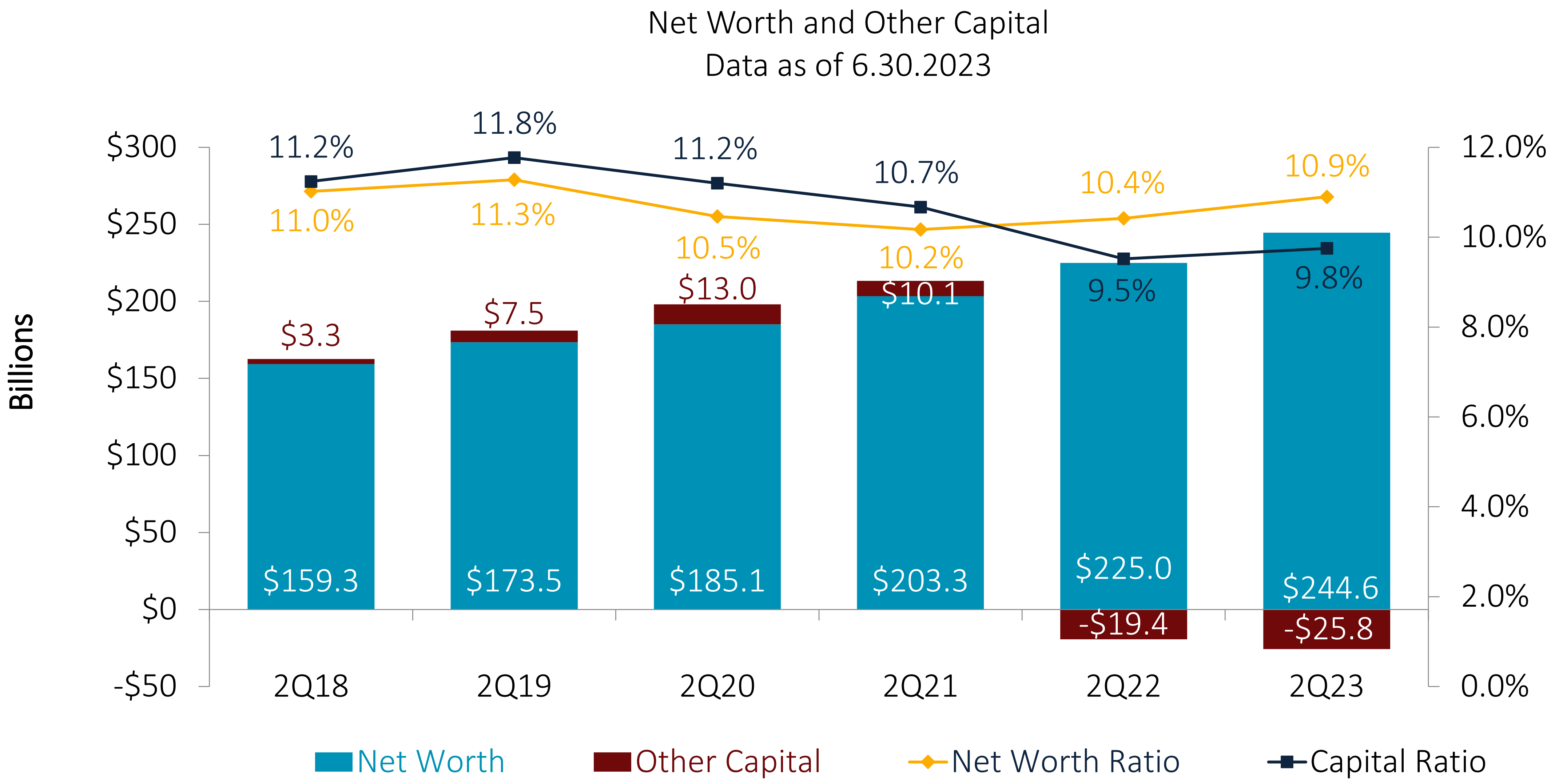


CALLAHAN & ASSOCIATES

ROA drifted lower from slightly higher expenses



Unrealized losses continue to impact capital



What's Keeping Credit Unions CEOs Up At Night

Growth and Liquidity

Relevance

Stakeholder Engagement

Differentiation in a Crowded Marketplace

USAA®

LendingClub

PayPal

WELLS FARGO

amazon

chime

SoFi

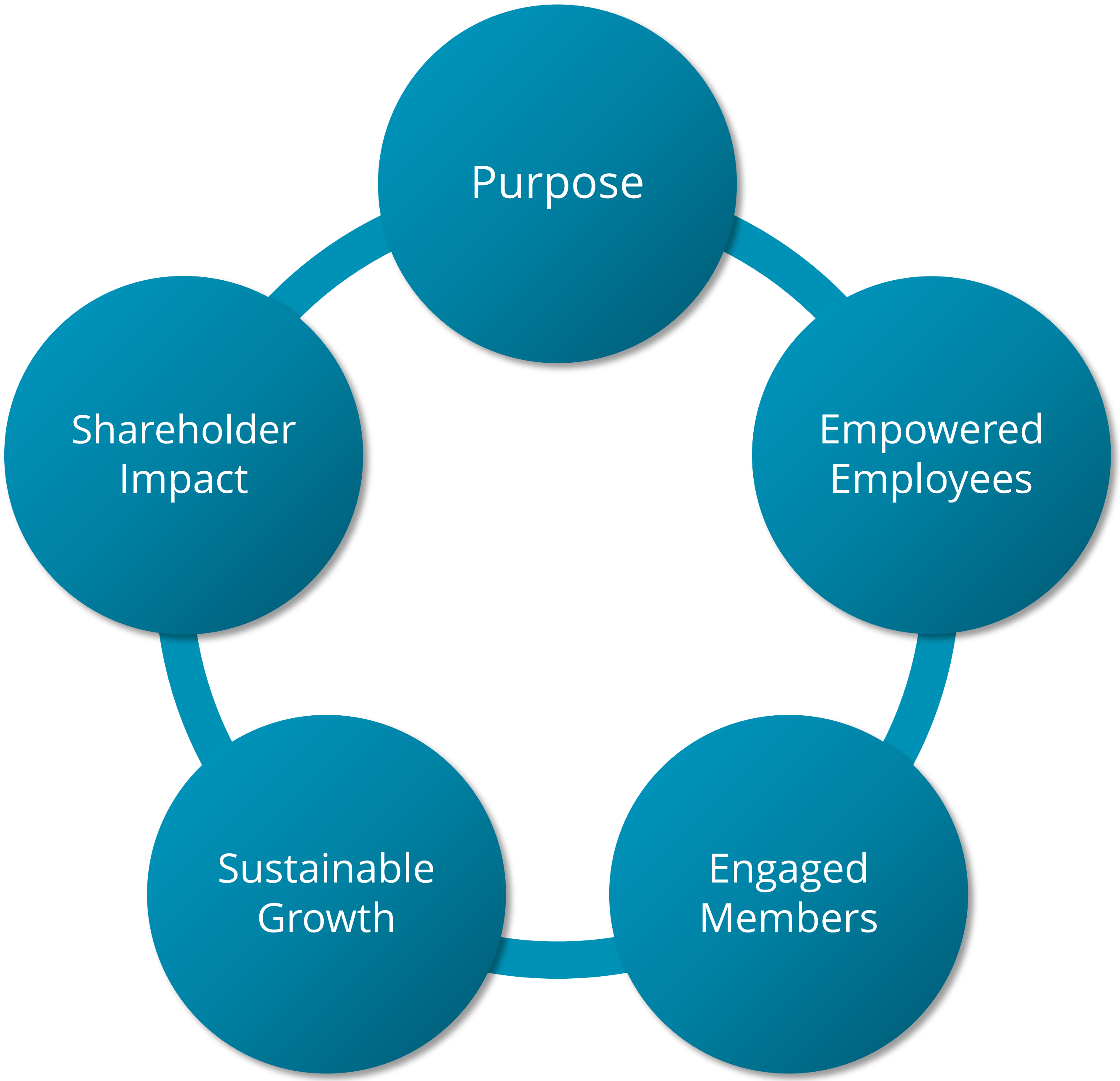
Bluebird

SIMPLE

CHASE

venmo

The Power of Purpose



What's Keeping Credit Unions CEOs Up At Night

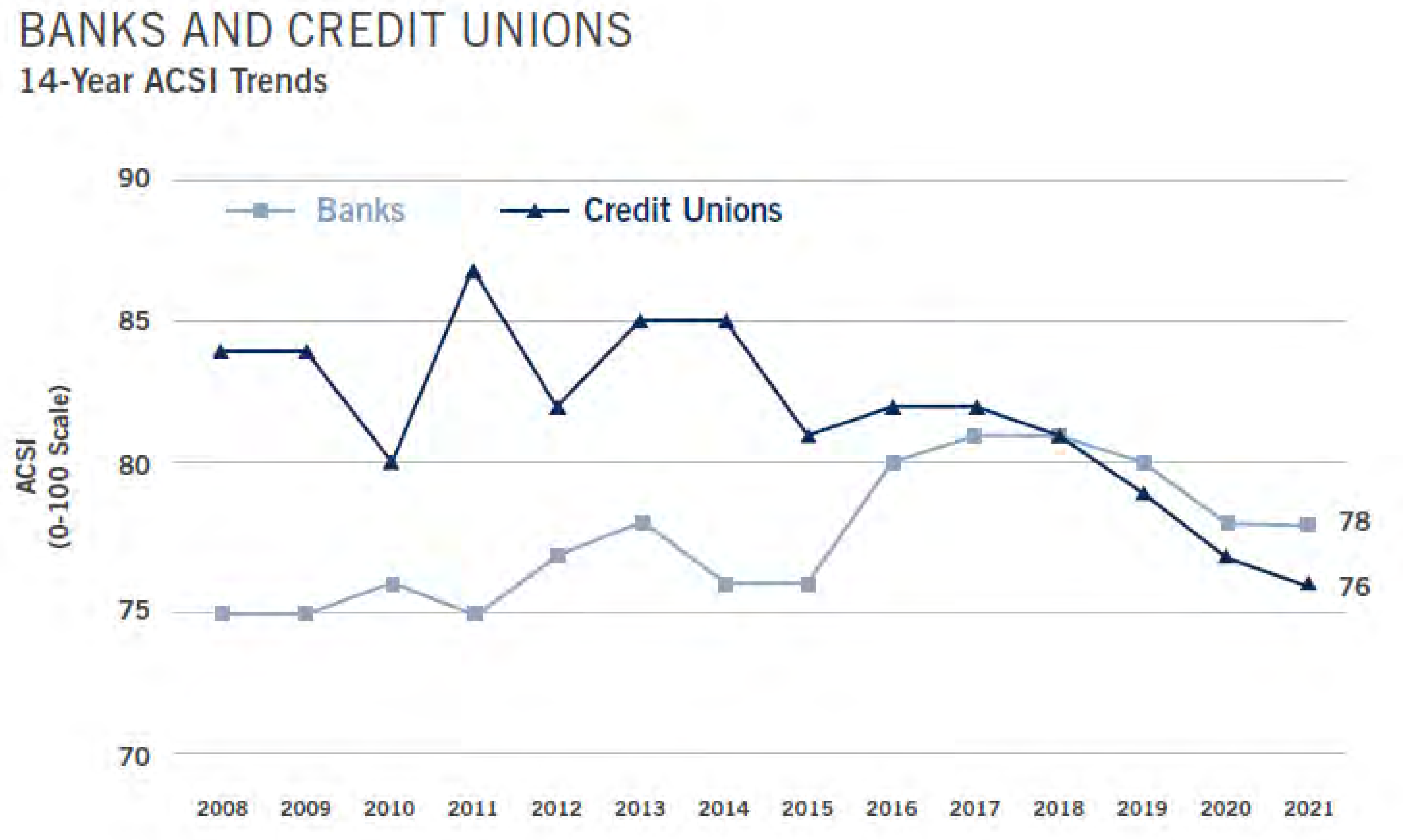
Growth and Liquidity

Relevance

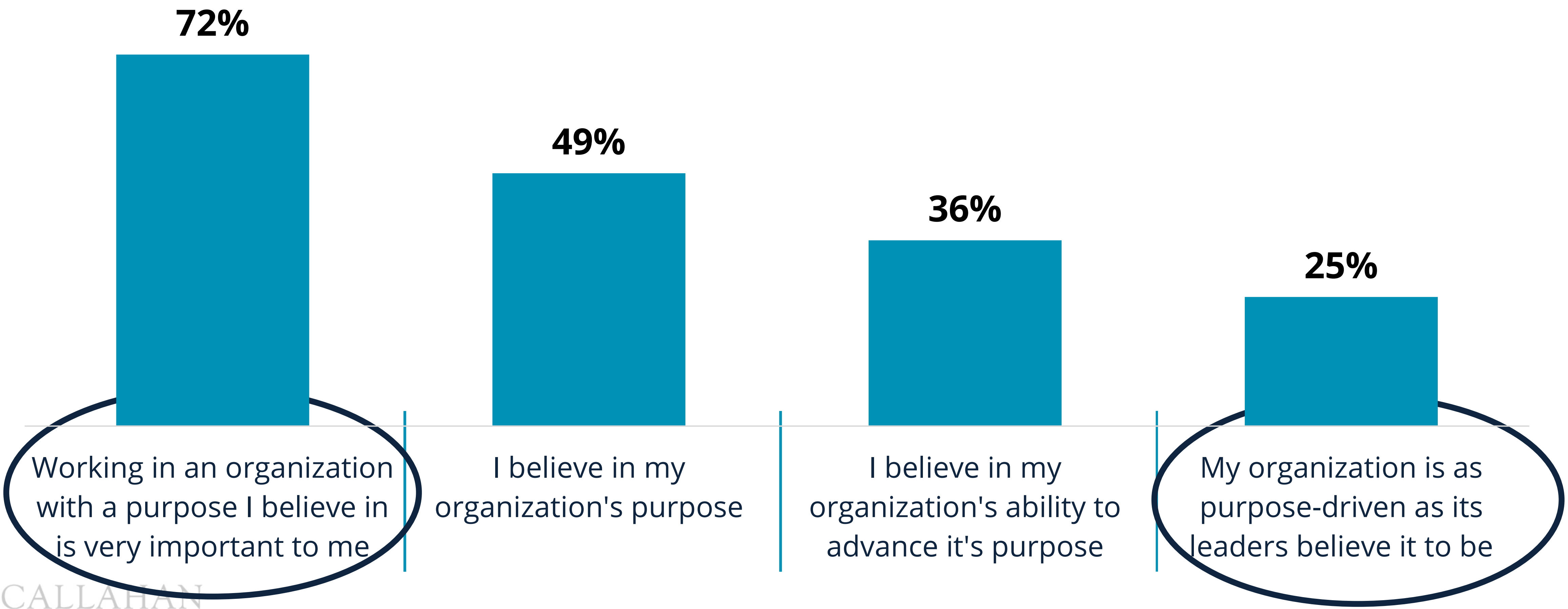
Stakeholder Engagement

CALLAHAN & ASSOCIATES

Member Satisfaction is trending down



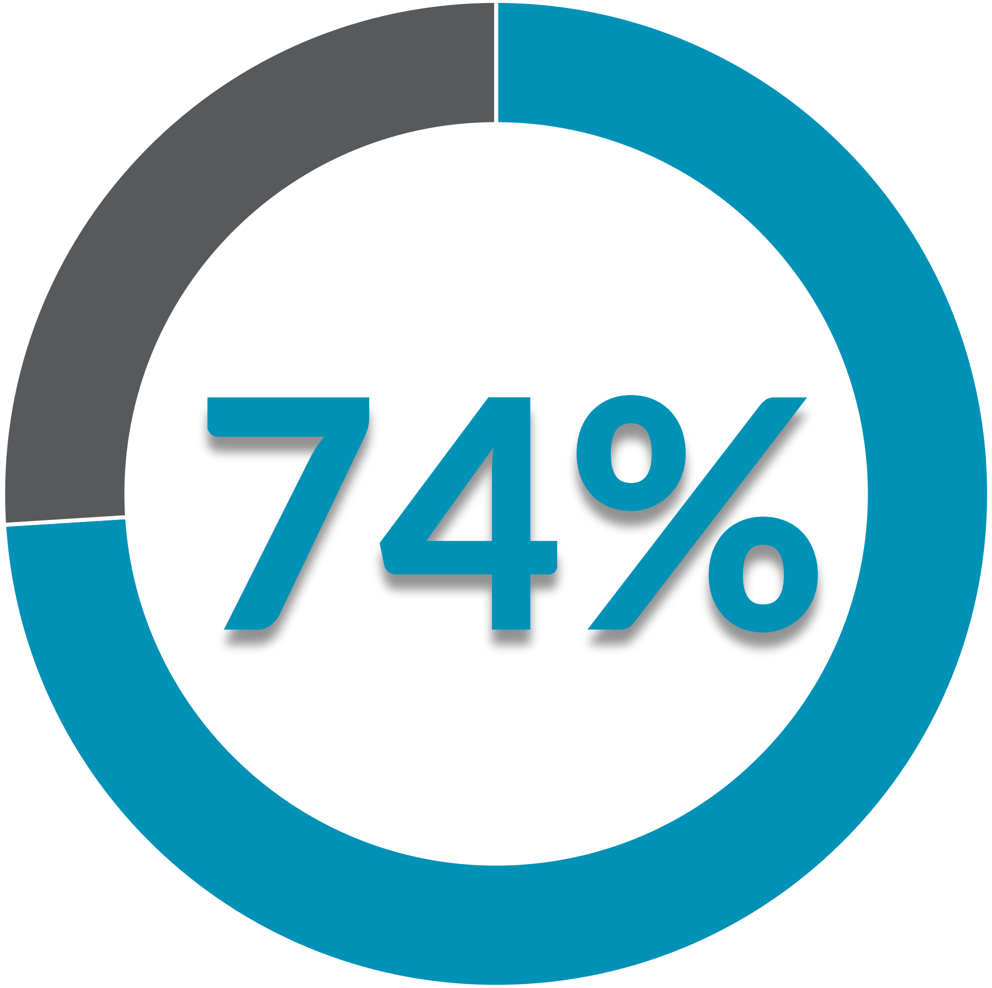
Employees Feel a Purpose Gap



CALLAHAN & ASSOCIATES

Source: MIT Sloan Management Review | Cognizant Report - Leadership’s Digital Transformation, Feb 2021

Members Want to Feel Cared About



of credit union members are **fully engaged** when they strongly agree that their credit union cares about their financial wellbeing.

CALLAHAN & ASSOCIATES

Source: Gallup

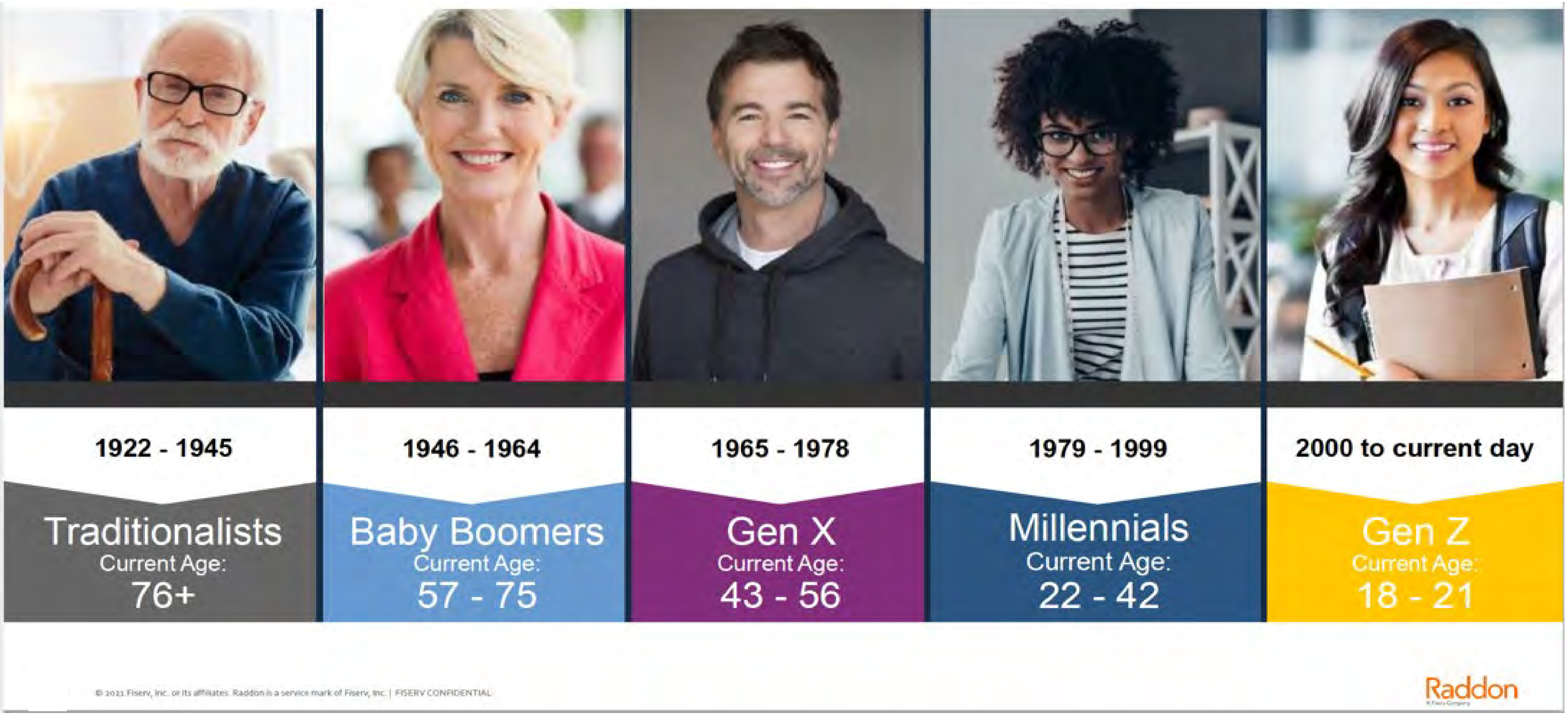
...People will forget what you said,
people will forget what you did,
but people will never forget
how you made them feel.

- Maya Angelou

A case in point: Starbucks vs. McCafe

✓	Price	
✓	Taste	
	Sales	✓

This Is How Credit Unions See Members

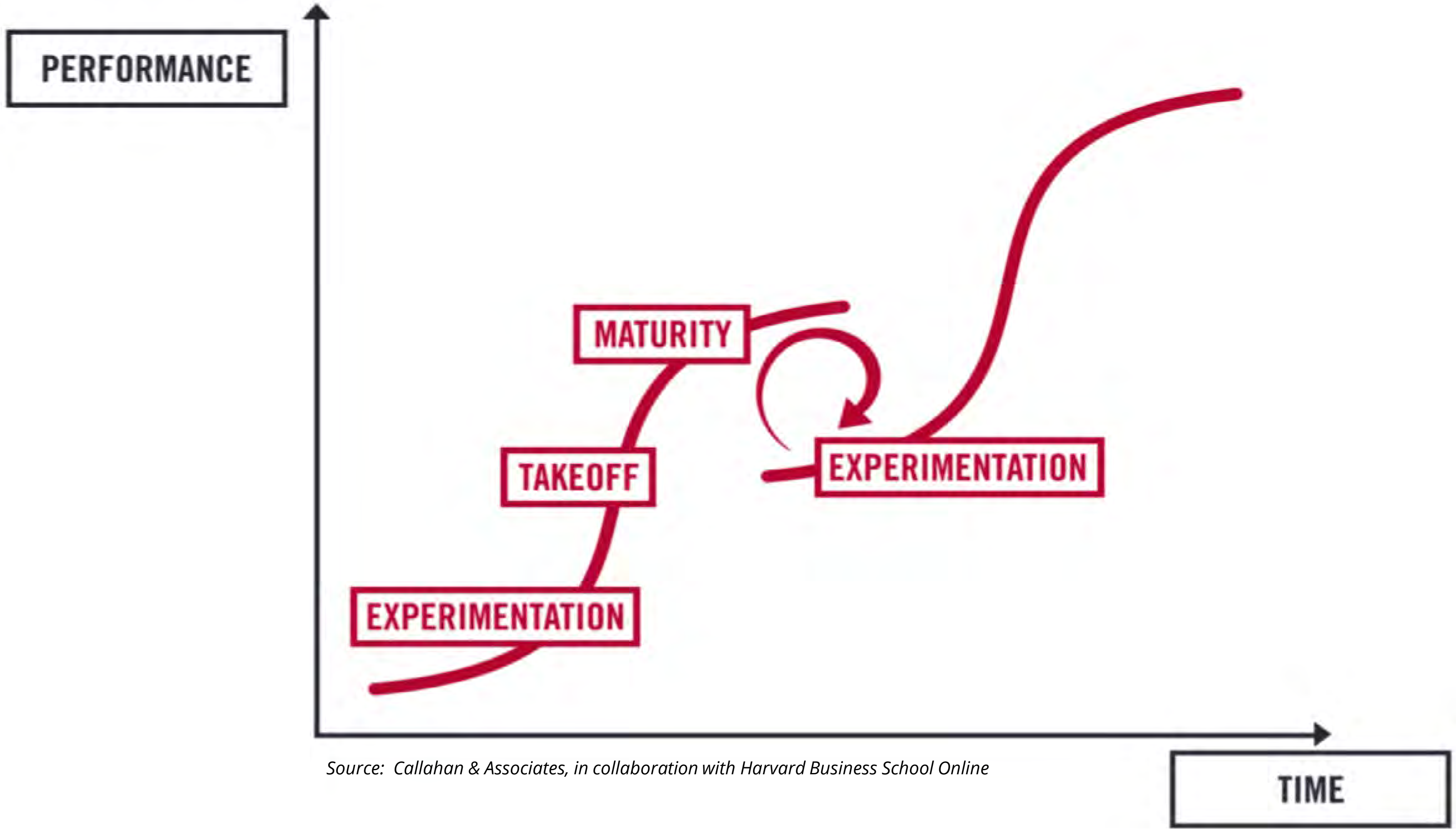


It Is *NOT* How Members See Us

Businesses want to think in terms of categories. Consumers want us to think in terms of their needs.

– Clayton Christensen

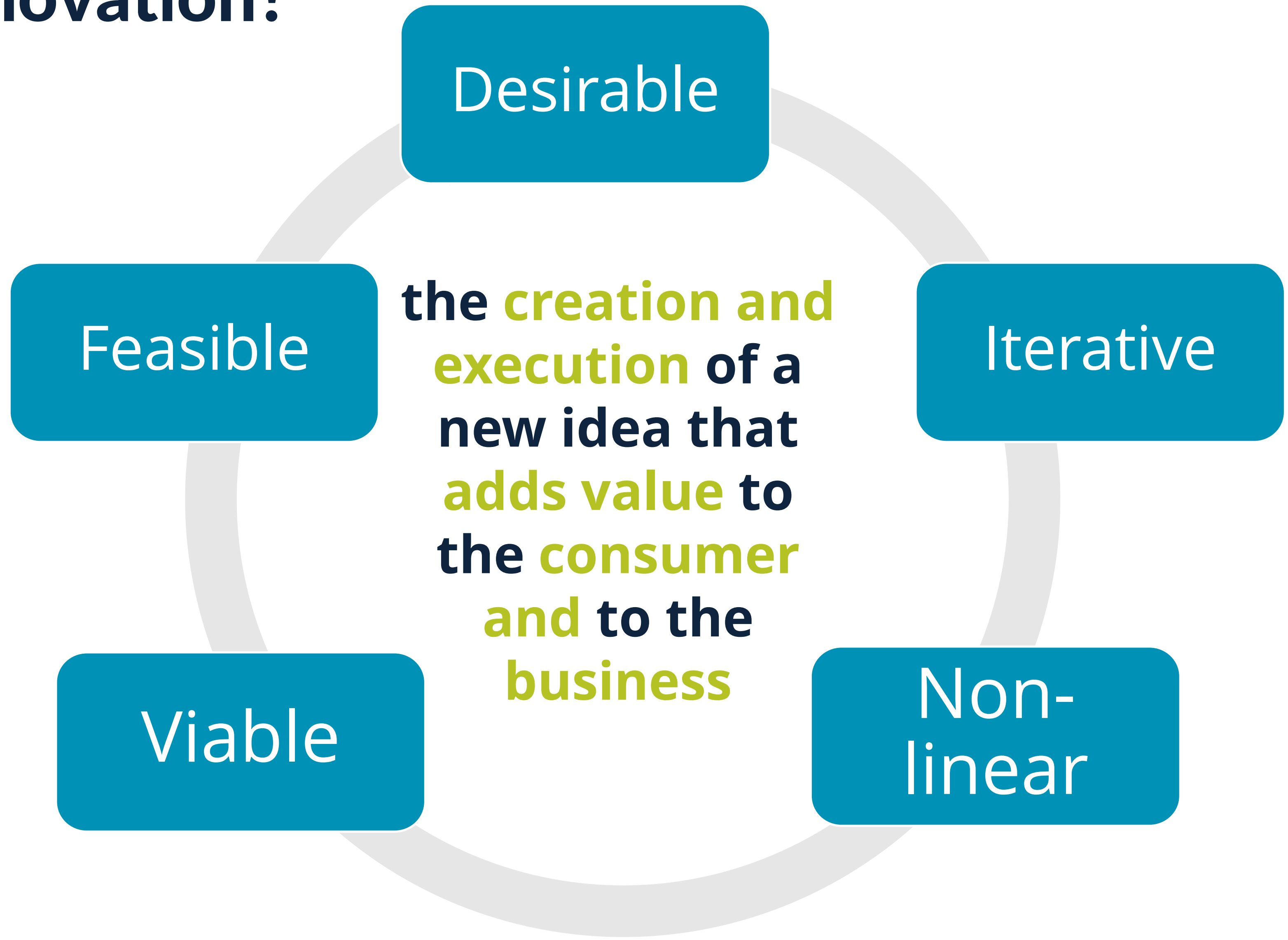
Is it Time to Jump the "S Curve"?



Source: Callahan & Associates, in collaboration with Harvard Business School Online

The Innovation Imperative

What is Innovation?



Innovation Matters

84% of CEOs say innovation is critical to growth

Mastering innovation can yield stronger financial performance results

80% say innovation is a top priority

Source: McKinsey

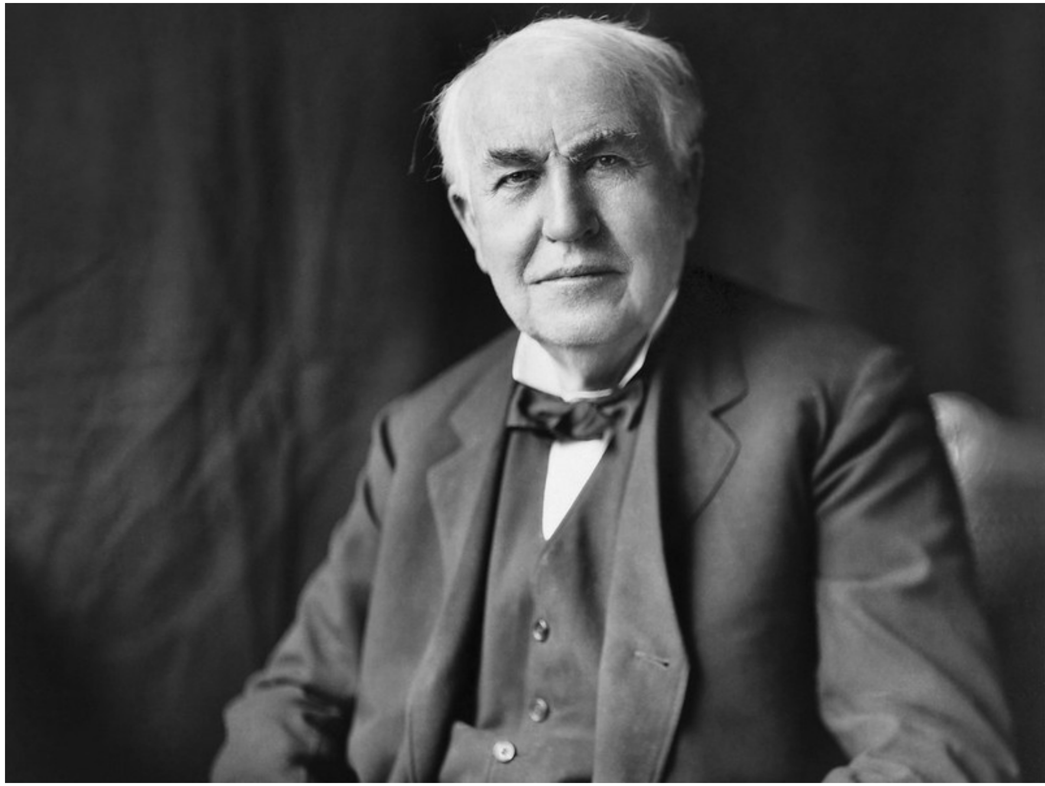
What Gets In Our Way?

Barriers to Innovation

- Organizational Ostrich Syndrome
- Fear of Failure
- Where We Spend Our Time
-

Barriers to Innovation

- Organizational Ostrich Syndrome
- Fear of Failure
- Where We Spend Our Time



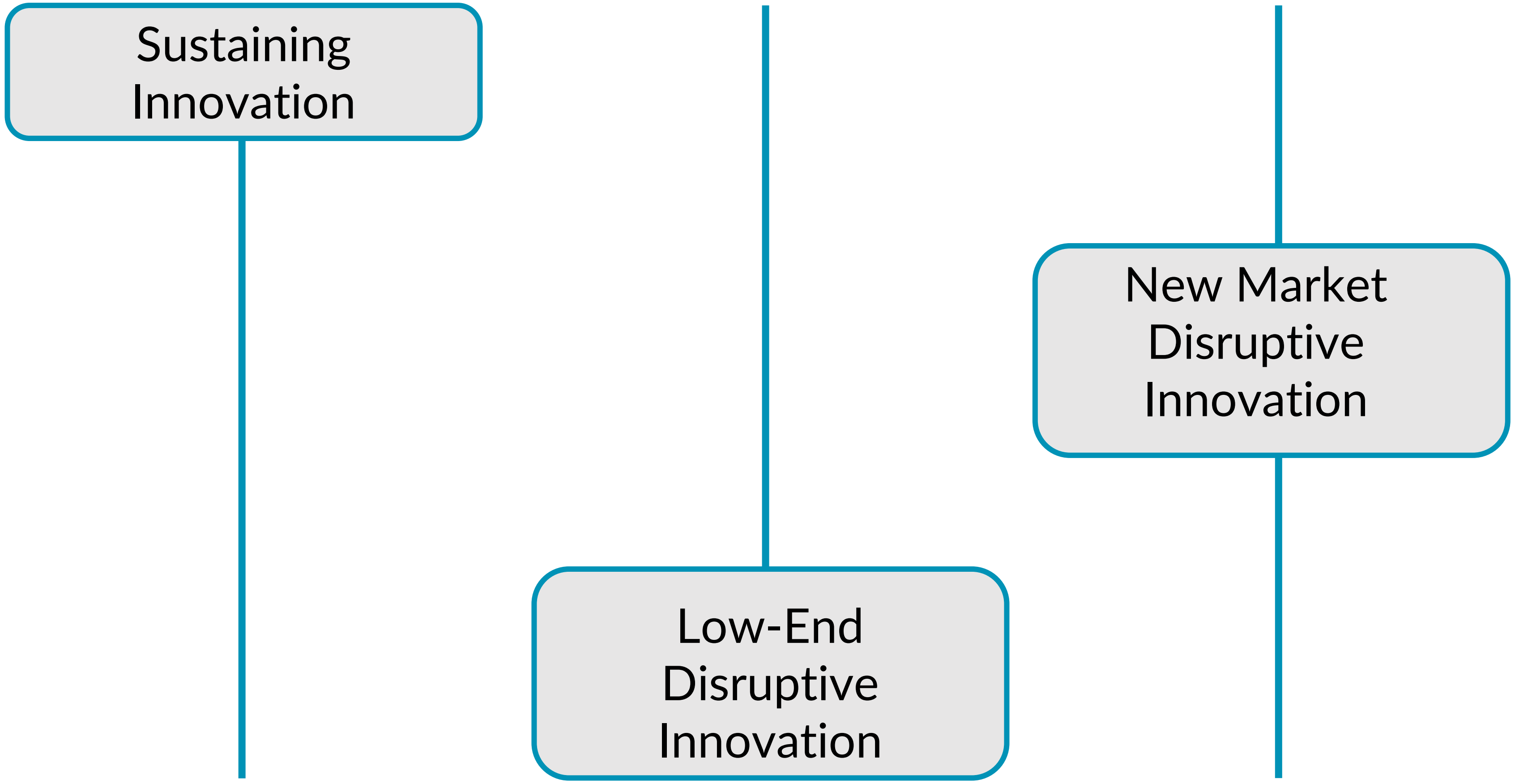
Barriers to Innovation

- Inertia
- Fear of Failure
- Where We Spend Our Time

Three Kinds of Innovation

Innovation	Focus	Who Typically Wins?
Sustaining	Retention of best customers	Incumbents
Low-End Disruptive	“Good enough” for specific need	New Entrants
New Market Disruptive	Non-consumers	New Entrants

Innovators Dilemma: What’s the Right Balance for You?



Addressing the Dilemma: Jobs to Be Done Theory

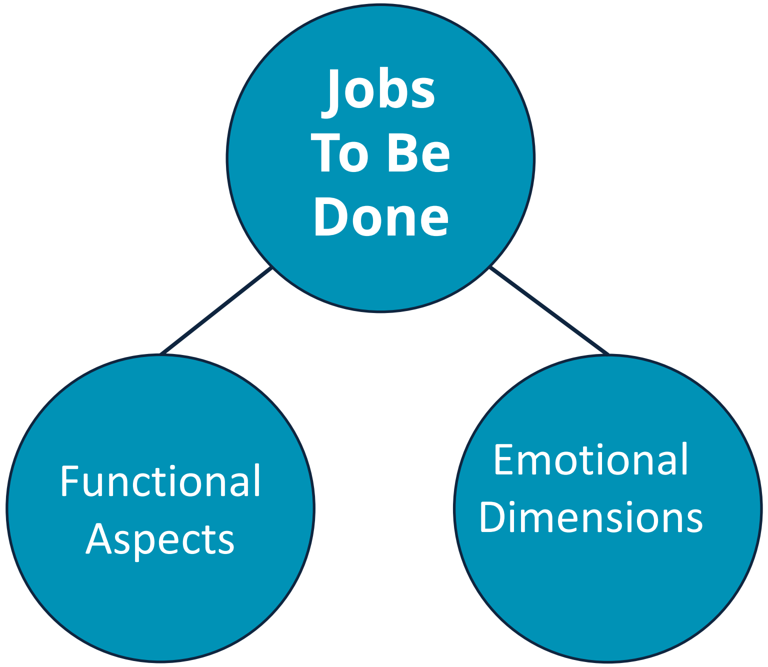
- JBTD is a framework for understanding and addressing member needs
- Shifts focus from products to the problems members want to solve
- Highlights the functional *and* emotional aspects of customer needs

Jobs to be Done: Three Core Concepts

- "Jobs" are the goal I want to accomplish
  - "Help me to do…"
  - "Help me avoid…"
  - "I need to…"
- Pain points are the challenges that stand in the way
- Gains are the desired outcomes

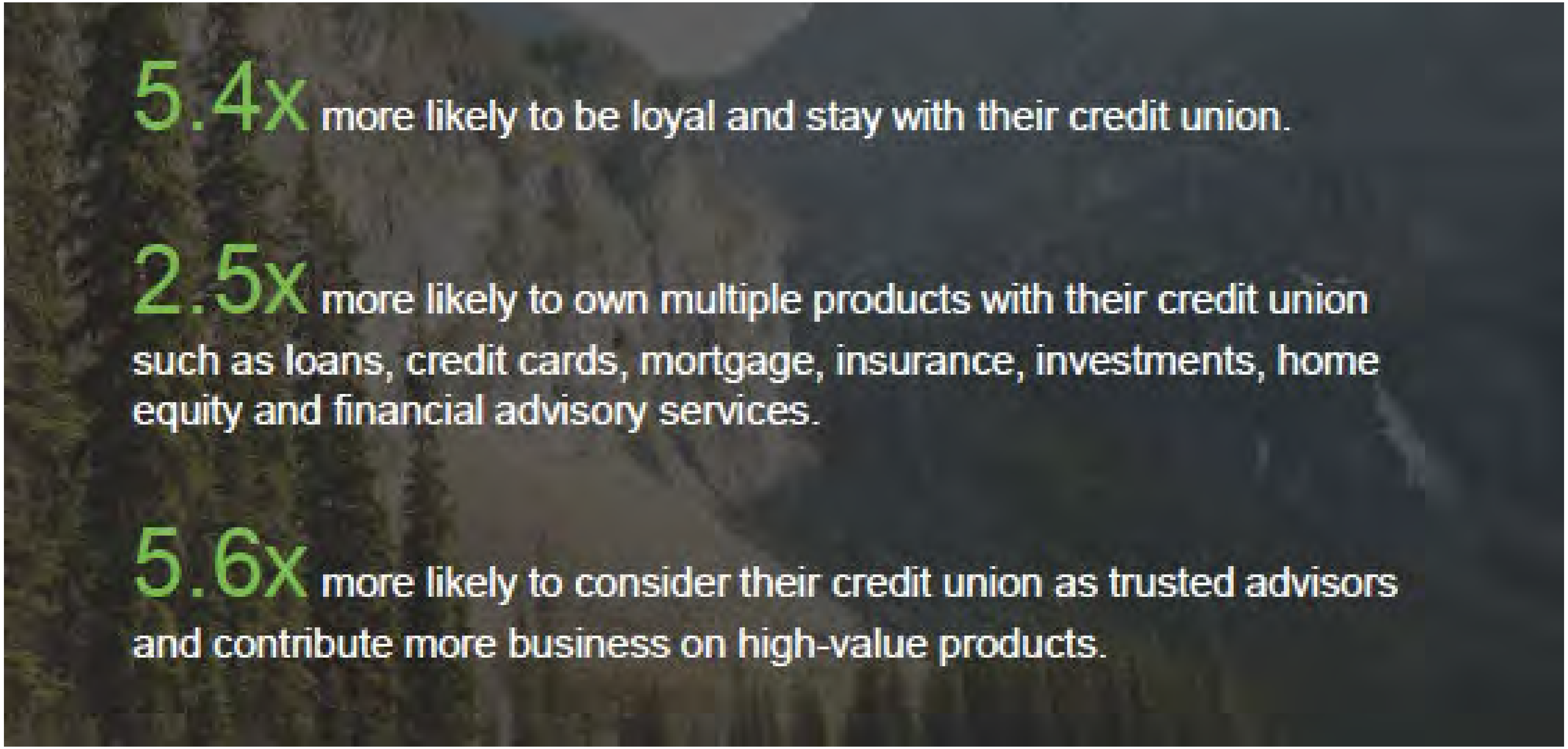
An Illustration: Milkshakes

Jobs to Be Done and Emotional Connection



- Members need reassurance, validation, and support
- When members feel cared about, they form emotional connections
- Emotionally connected members are:
  - More likely to trust you
  - Less demanding
  - More active and profitable over time

The Power of Emotional Connection



CALLAHAN & ASSOCIATES GALLUP

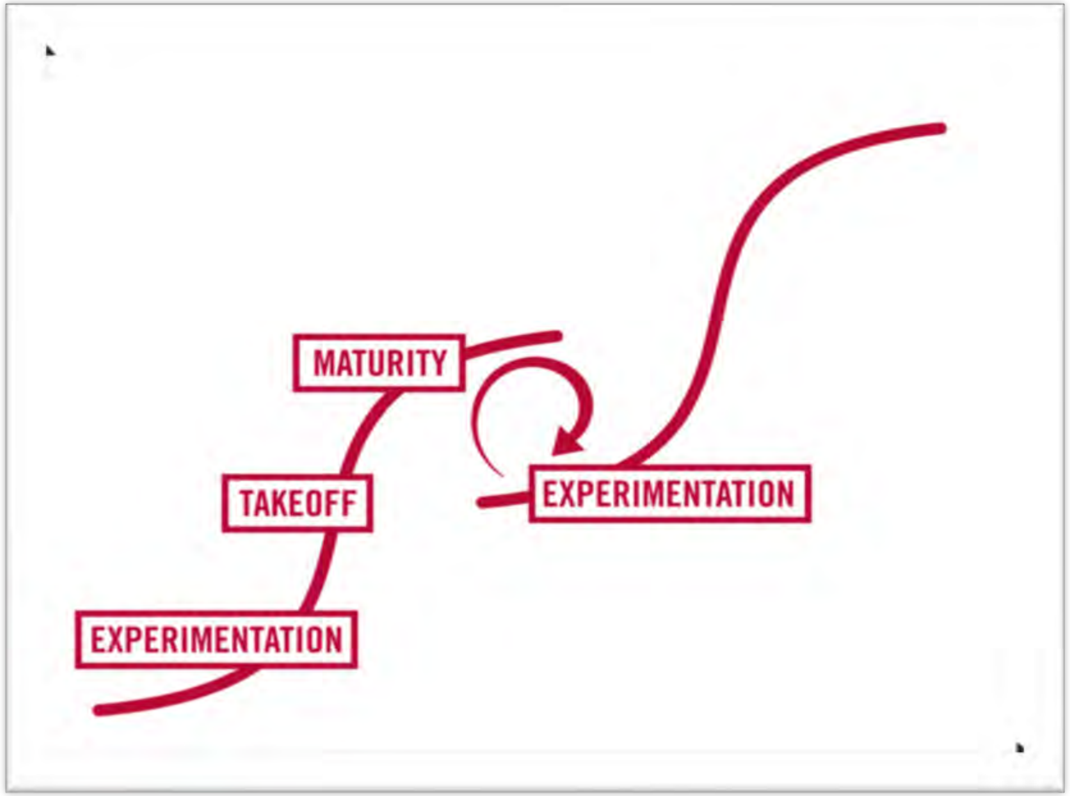
Benefits of Using Jobs to Be Done

1. Member-centric
2. Relevance and Differentiation
3. Marketing Efficacy

Activating Effective Innovation: Five Keys

Five Keys to Activating Effective Innovation

1. Begin with the end in mind
2. Identify Stakeholder Needs
3. Define your point of view
4. Ideate and refine
5. Execute



1. Begin with the End in Mind

Assemble a Team

- Who is the leader?
- Appoint, Volunteer or Apply?
- Diversity is Critical

Define who you are solving for

- Who are your target market segments?

Look for intersectionality

- Where are our strengths? Opportunities?
- What is the impact vs. effort?

2. Identify Member Needs: Empathy Map

Who?
(age, living situation, family, work/income, financial situation)

Say?
(Quotes, Things Said)

Think?
(Thoughts and Attitudes)

Hear?
(Influencers)

Do?
(Jobs to Be Done)

Feel?
(Feelings, Emotions)

Pains
(obstacles, challenges)

Gains
(goals, wishes)

Source: Lewrick, Link, Leifer, Design Thinking Playbook

Empathy Map Illustrated

Who? Jordan. 19 years old, $25,000 annual income. Single, lives with parents. Uses hand-me-down car.

Say?
I want to afford that.
Let's go to the bar

Thinking?
I'm never going to be on my own.
How can I be on my own?

Hear?
Wow – my graduation trip was epic.

Do?
Considering technical college, eating out, going to the gym

Feel?
Disappointed that there is never enough $
Overwhelmed, insecure

Pains
Money is tight or in the negative every month.
I don't know where to start.

Gains
I want to be able to buy a car and have my own place.
I want to be able to pay for school so I can have a good job and make $.

Source: Lewrick, Link, Leifer, Design Thinking Playbook

3. Define Your Point of View: “How Might We…?”

How Might We* _______________ *(for)* ____________ *to* ____________________*?
(take action) (the “who”) (address the need)

Language Matters

- **How** – opens up the possibilities
- **Might** – creates a safe space
- **We** – reinforces the value of a team

Take Action: ***How Might We …***

- Know
- Understand
- Apply
- Evaluate
- Create

Source: Lewrick, Link, Leifer, Design Thinking Playbook

CALLAHAN & ASSOCIATES

"How Might We…?" Illustrated

How Might We ______________ (for) ___________ to ___________________?

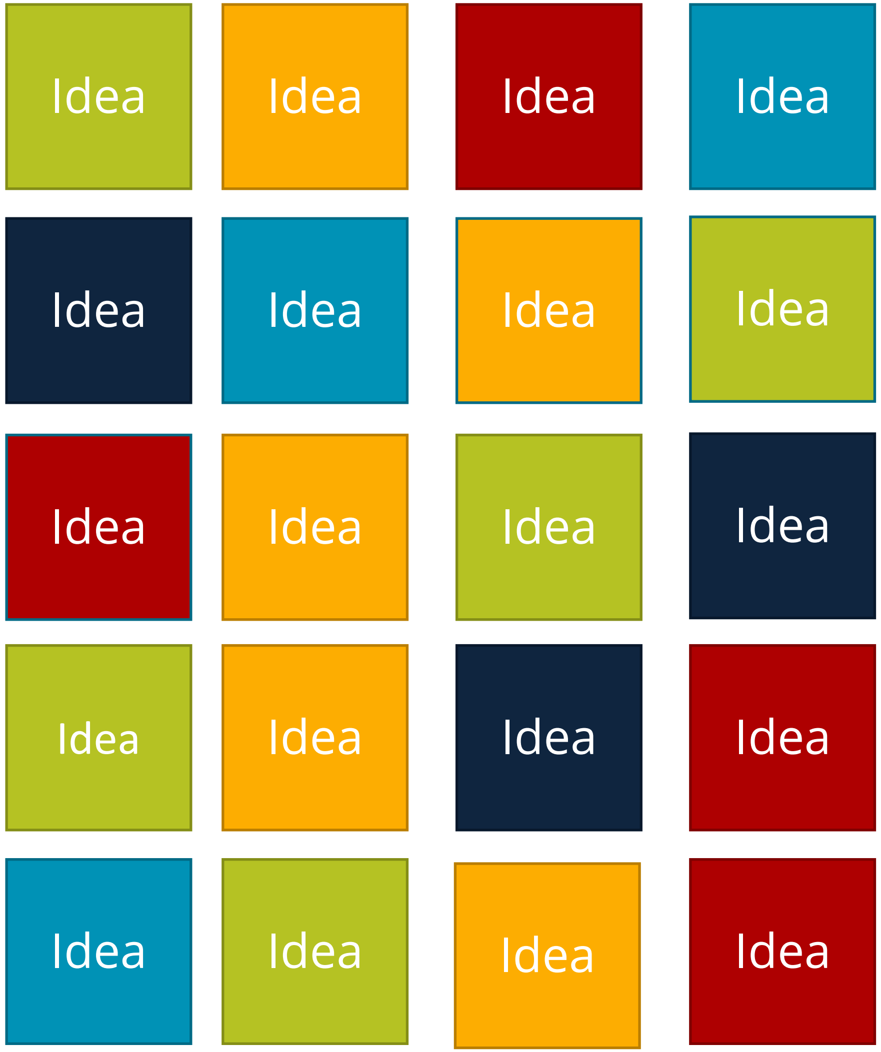
(take action) (the "who") (address the need)

- How Might We empower Jordan to buy his first car?
- How Might We help Jordan afford technical college?
- How might we create a path to home ownership for Jordan?

Source: Lewrick, Link, Leifer, Design Thinking Playbook

4. Ideate and Refine

- Create the space
- Laughter is a requirement
- Quantity over Quality
- Every idea is a good idea
- "~~Yes, but~~" → "Yes, and"



4. Ideate and Refine

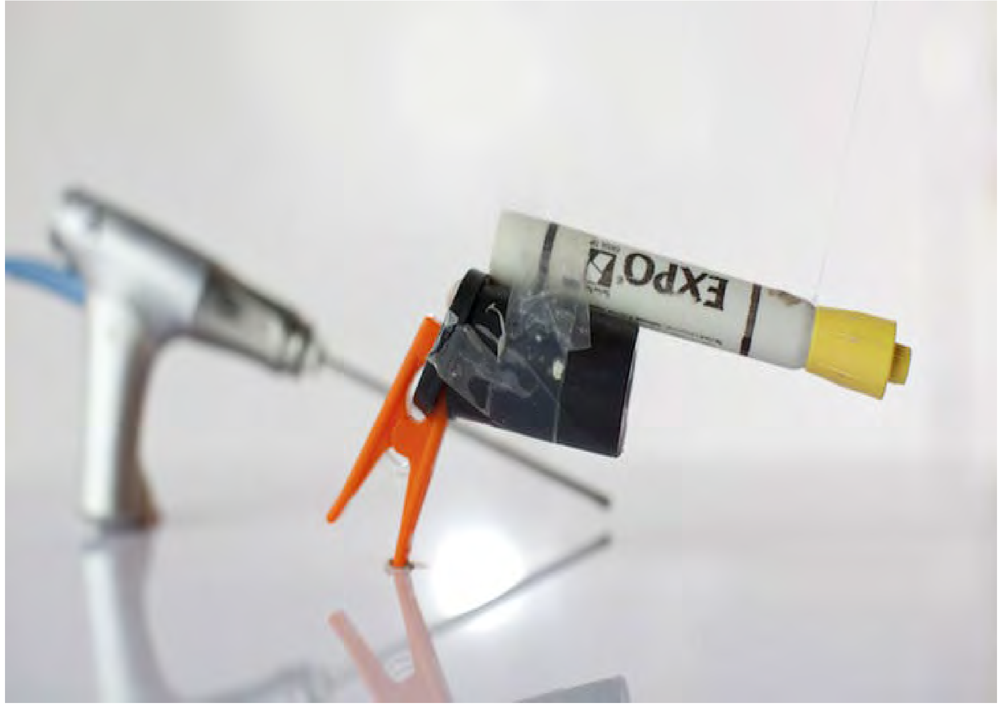
- Create the space
- Laughter is a requirement
- Quantity over Quality
- Every idea is a good idea
- “~~Yes, but~~” → “Yes, and”

Idea	Idea	Idea	Idea
Idea	Idea	Idea	Idea
Idea	Idea	Idea	Idea
Idea	Idea	Idea	Idea
Idea	Idea	Idea	Idea

5. Execute

- Create a minimum viable product
- Test and Learn
- Iterate

Create a Minimum Viable Product



Test, Learn, Iterate

Test

Gather feedback

Learn

Analyze results

Iterate

(re)Start – Continue - Stop

"Failure is success if you learn from it"

\- Malcolm Forbes

Today’s Learnings

- The Innovation Imperative: why now?
- The Innovators Dilemma
- Activate Effective Innovation: Five Keys

CALLAHAN & ASSOCIATES


You Don’t Have to Boil the Ocean . . .
Just Create a Ripple

Thank You!

Let's Continue the Conversation

Erin Coleman
ecoleman@callahan.com

1001 Connecticut Ave NW
Ste. 1001
Washington, DC 20036

ecoleman@callahan.com

727.742.3196