



Measuring the profitability of a credit union's Partner Companies

By D. Edwards



- **Strategic Decision-Making:** Understanding the profitability of different SEGs helps credit unions make informed strategic decisions. It allows them to allocate resources, focus marketing efforts, and tailor products and services to maximize returns from profitable SEGs.
- **Resource Allocation:** By analyzing SEG profitability, credit unions can allocate their resources effectively. They can invest more in high-profitability SEGs, providing better service and building stronger relationships, while reconsidering their approach for less profitable segments.
- **Risk Management:** Evaluating SEG profitability helps identify segments that might pose a higher risk to the credit union's financial stability. High-risk SEGs could impact loan delinquencies, defaults, or credit losses, necessitating proactive risk management measures.
- **Product Development and Customization:** Profitability analysis helps credit unions understand the specific needs and preferences of different SEGs. This knowledge enables them to develop tailored products and services that address the unique requirements of each group, enhancing member satisfaction and loyalty.
- **Marketing and Member Engagement:** Knowing which SEGs are most profitable allows credit unions to target their marketing efforts more effectively. This can lead to higher member engagement, increased cross-selling opportunities, and better member retention rates.
- **Revenue Growth:** Focusing on profitable SEGs can contribute to revenue growth. Credit unions can identify opportunities to expand their services within these segments and attract new members from similar industries or demographics.
- **Cost Management:** Analyzing SEG profitability can reveal inefficiencies in processes or operations. By identifying cost drivers within specific SEGs, credit unions can implement cost-cutting measures without negatively impacting member satisfaction.
- **Competitive Advantage:** A credit union that effectively manages SEG profitability gains a competitive edge. By optimizing its offerings and service quality to meet the unique needs of profitable SEGs, the credit union can differentiate itself from competitors and attract more members.
- **Member Retention:** Understanding the profitability of different SEGs allows credit unions to focus on retaining valuable members. By providing exceptional service and value to these segments, credit unions can enhance member loyalty and reduce attrition rates.



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- **Long-Term Sustainability:** Sustainable profitability ensures the credit union's long-term viability. By consistently monitoring and managing SEG profitability, credit unions can make strategic adjustments to remain financially strong and resilient.

It's important to note that profitability measurement should consider both short-term and long-term perspectives. Some SEGs might be less profitable initially but could have strong growth potential over time. Regularly assessing and reassessing profitability metrics helps credit unions adapt to changing market dynamics.

Profitability is a word that is not synonymous with credit unions, The moto “Not for profit, not for charity, but for service”, was the stalwart promoted by credit unions in the beginning. The Covid19 pandemic has taken its toll on all of us. Many businesses have been adversely affected and have had to temporally shut down or go out of business. Members may have difficulty making loan payments, forcing them to realize that foreclosures and repossessions are a real possibility.

How many of your partner company employees (SEG’s) are in this position?

Even though the NCUA and state regulatory agencies allow forbearance on member loans, the effect it has on your credit union is dramatic. What impact is this having on revenues and delinquencies?

Following are three important questions to address:

- ◇ Do you know the status of your partner companies?
- ◇ Are they still in business and actively promoting your credit union to its employees?
- ◇ If your partner companies submit ACH deposits, are the amounts of these deposits declining or worse, no longer being provided?

If you’ve stopped staying in touch with your SEG’s, you might want to consider restarting a contact campaign to update your SEG portfolio. Bottom Line: Stay in touch with your partner companies.

- Green indicates SEG companies that are performing per your expectations. Income from loans is greater than dividends you pay on deposits. These are profitable SEG’s
- Yellow refers to SEG companies that are break-even.
- Red shows SEG’s that are not producing enough income to cover the cost you pay dividends on their share deposits.

