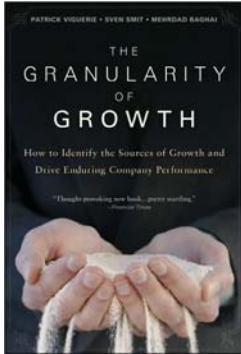


Book Review by John Janclaes

The Granularity of Growth

By Patrick Viguere, Sven Smit and Mehrdad Baghai



You've probably heard the expression that "leaders are readers." I believe that reading is a discipline that every leader should strengthen as part of their personal development plan. Our organization is fortunate to have many leaders who are serious readers. The next time you are with a peer, ask them, what book are you reading?

One of my favorite subjects is strategy. In particular, I enjoy reading research-based books on strategy that include case studies that explain why some firms out perform others. Books such as *Built to Last*, *Good to Great*, *Blue Ocean Strategy* and *Street Corner Strategy*. These books reveal clues about how to achieve our aim, which is to become the premier credit union in the country for the benefit of our stakeholders (Members, Sponsor, Cast Members, Volunteers, Strategic Partners and Managers).

I just finished reading a book on strategy called "The Granularity of Growth" that was written by three directors at McKinsey & Company, which demonstrates how to identify sources of growth that drive enduring company performance.

Here are my key take-away(s) after reading this book:

- Big, growing companies have a better chance of surviving, but growth is difficult.
- To generate growth, focus on granularity: Look at our business in a more "fine grained" fashion, so our analyses contain more elements.
- A large company can use its scale – that is, its size – to facilitate granularity.
- Granularity disrupts generalizations and exposes growth pockets in mature markets or product lines.
- Three cylinders drive growth: portfolio momentum, M&A and market share.
- The market we compete in is more vital than our relative performance.
- Develop a growth map of strategic plans on three time horizons: soon (known markets), intermediate future (adjacent markets) and distant (new markets).
- Track performance with granular clusters of employees, using specific, standardized and performance-based metrics. A granular path puts extra pressure on our leaders to perform at all levels of the organization.

For those of you who would like to learn more about these concepts before purchasing the book, a copy of an abstract can be found on CORE at the Leadership Corner. I'll warn you that the book is rather dry, but if you can wade through research and case studies it's chalked full of good information.

A good portion of the book was dedicated to demonstrating a segmentation scheme that placed firms into one of four groups (Performers, Challenged, Unrewarded, and Growth Giants). The four groups were used to identify firms who balanced both ends of the performance continuum, Shareholder Returns (earning per share) and Earnings. These companies were plotted into a matrix like the one below.

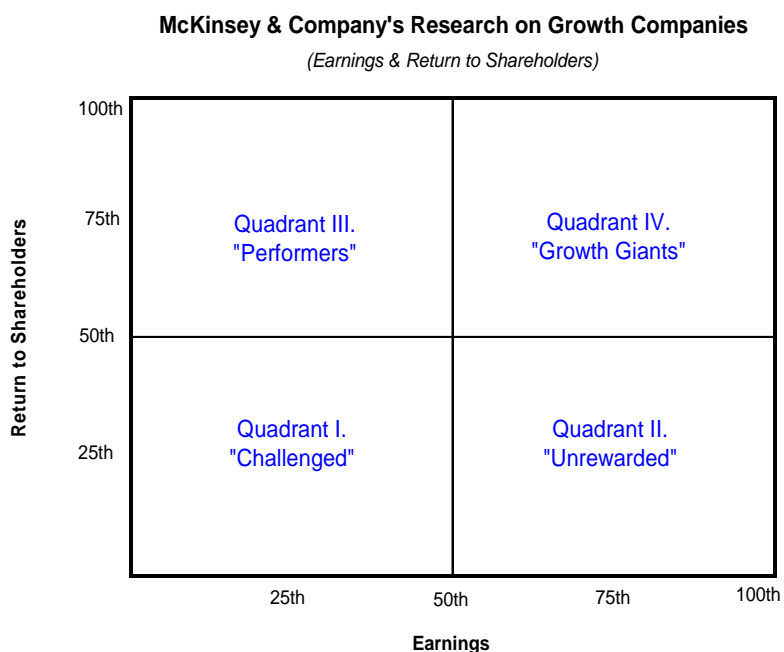
What is significant about the segmentation scheme is it allowed researchers to identify, at a granular level, "Growth Giants." These were firms who grew earnings while returning exceptional returns to shareholders over extended periods, which were higher than their peers.

I was curious to see if I could apply this research approach to our industry, which is the not-for-profit, cooperative, credit union industry. Here is how I adapted the segmentation scheme from

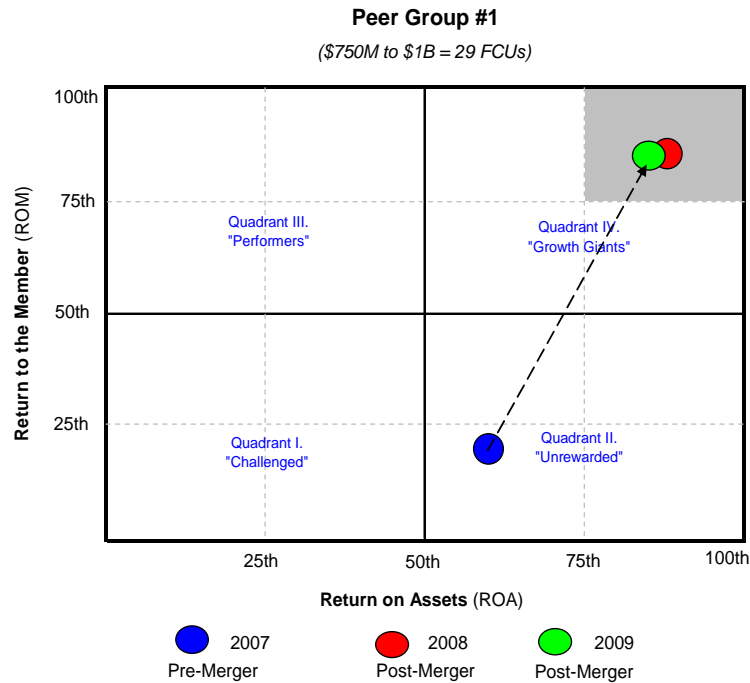
the book; Callahan & Associates Return of the Member (ROM) score was substituted for Return to Shareholders. ROM measures exactly that: the economic value members receive by utilizing the products and services available through their credit union. ROM has three components that reflect the central functions, lending, savings and product usage. I then substituted Return on Assets (ROA) for Earnings.

Note: If you are not familiar with ROM scores, a copy of the ROM detail sheet from Callahan & Associates software program (Peer-to-Peer) is attached.

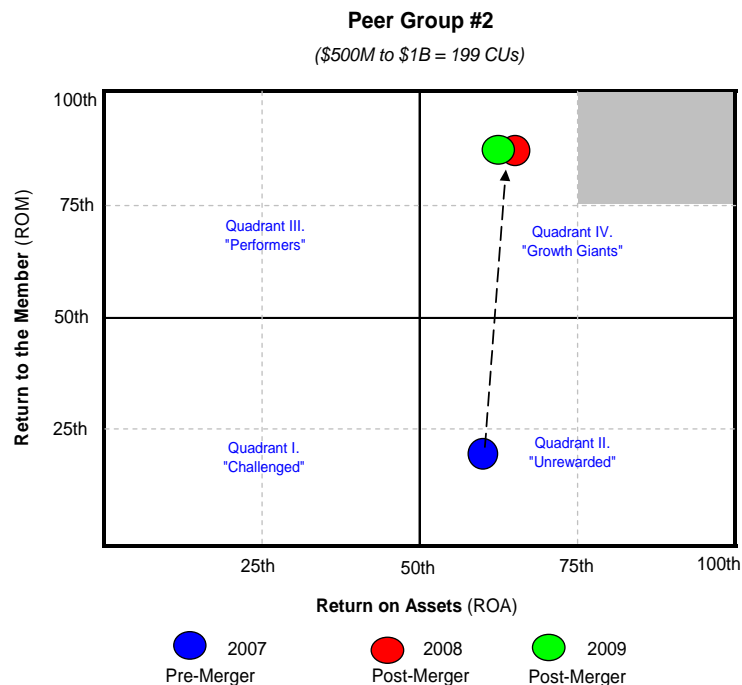
By using these substitute metrics that closely replicated the authors' for-profit metrics, I was able to draw peer comparisons among credit unions based on asset size, geographic locations, and those credit unions using mergers as a growth strategy. Additionally, I pulled performance data from two periods: PFCU Pre-merger (2007) at the credit union's then assets size and PFCU Post-Merger (2008 and 2009) at the credit union's new asset size. Finally, I prepared three scoring matrices for the following peer groups:



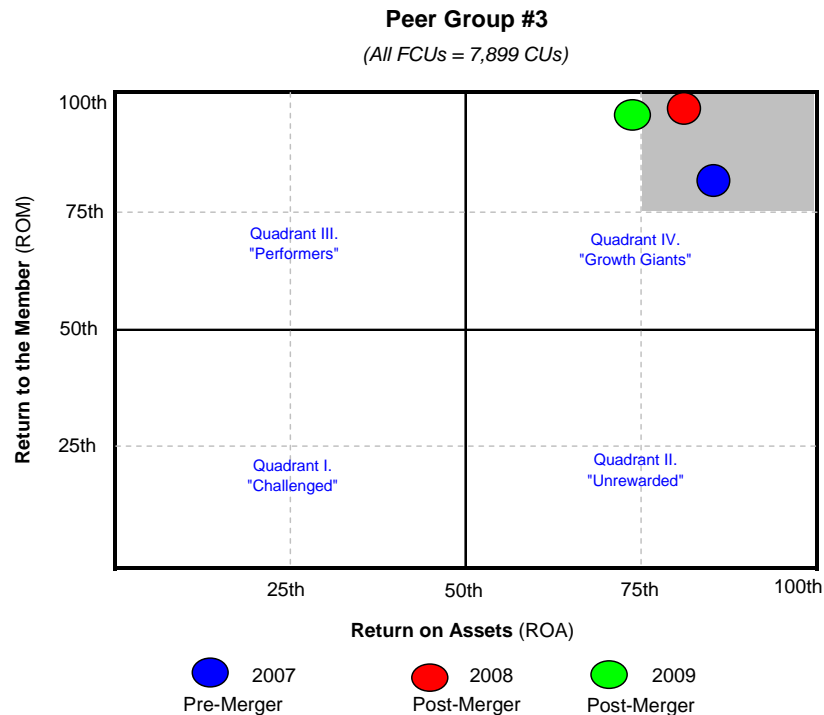
Peer Group #1 – Credit unions located in the sand states (Arizona, California and Florida) with assets ranging from \$750M to \$1.25B. This peer group totaled twenty-nine credit unions.



Peer Group #2 – Credit unions located anywhere in the United States that merged during the past five years and whose assets were between \$500M to \$1B. This peer group totaled one hundred ninety-nine credit unions.



Peer Group #3 – All credit unions in the United States.



Summary of the key learning(s) from the segmentation exercise:

- Larger credit unions create higher ROM scores indicating stronger value propositions on loans, deposits and service usage.
- Larger credit unions enjoy a size / scale advantage that promotes higher earnings and member value.

Note: In 2007, an economics professor at Berkley University completed a study that demonstrated this advantage to be roughly 60 basis points for credit unions over one billion in assets. For PFCU, with current assets at \$875M, this represents \$5 million advantage over credit unions with less than \$250M in assets.

- PFCU has enjoyed a significant lift in performance since the merger in 2007 when compared to industry as a whole; credit unions of similar asset sizes, geographic locations; or who used mergers during the past 5 years as a growth strategy.

Next Steps:

Through segmentation the authors identified Growth Giants, firms who achieved superior performance. They then deconstructed the elements of growth of these firms into three growth engines called: 1) Portfolio Momentum, 2) Mergers & Acquisitions and 3) Market Share. By dissecting these elements into more granular views, the authors state that it's possible to identify opportunities for additional growth that would otherwise not be visible. These additional growth opportunities lie on three horizons: 1) Soon (known markets); 2) Intermediate Future (adjacent markets) and 3) Distant (new markets). As part of our strategic planning cycle we are preparing growth maps that will deconstruct our growth engines into more granular views to see if we find additional growth opportunities. This work will be presented at the annual Planning Conference.

Final Thought:

I hope you've enjoyed this book summary and learned how we are creating positive momentum towards our ultimate aim of becoming the premier credit union in the country.

Addendum

Each quarter, I use Callahan's Peer-to-Peer software program to update the graph below to track our progress relative to our new peer group. So far, PFCU has grown member value (ROM) each and every year since the merger.

Sand State Credit Unions

(\$750M to \$1.5B in Assets = 31 FCUs)

