

**Brief Summary  
of  
Bachelor Thesis:**

**Development and Implementation of a  
Member-Oriented Corporate Strategy  
for Midsize Credit Unions**

**-Practical focus of study:  
The VR-AktivPlus added value membership program  
implemented by Raiffeisenbank Lohr am Main eG-**

Bernd Jacobs, *Diplom* in bank administration (ADG)

Changing values are a frequent topic of the current public discourse. What values are still important today? Buzzwords like quality, ethics, and sustainability are often given as answers. To deal with the tension involved in reconciling economic and sociopolitical goals, company managers seek the optimal means of attaining a sustainably high level of operational legitimacy.

For years, the German banking industry has been undergoing a consolidation phase, the end of which is currently not in sight. The number of independent banks reduced roughly by half between 1990 and 2005, from 4,719 to 2,344. In the same period, the number of Volksbanks and Raiffeisenbanks – credit unions in Germany – dropped from around 3,000 to 1,263. In contrast to this regressive development, the number of members of such banks increased from 11.4 million people (1990) to over 15 million by the year 2000. This growth dynamic, however, has slowed considerably in recent years. By December 31, 2006, nearly 16 million German citizens had joined a credit union. Detailed analysis shows that the Volksbanks and Raiffeisenbanks only contributed a proportionate increase of around 50,000 members to the positive trend recorded between 2000 and 2005. Germany's Sparda Banks (another group of credit unions) saw much better growth, gaining well over 700,000 members in the same five-year period. Then, in 2006 alone, Sparda Banks won another 130,000 members. The Volksbanks and Raiffeisenbanks, on the other hand, only gained 60,000 new members last year.

Closer analysis of this trend in market share poses questions regarding the future viability of primary credit unions. Between 1996 and 2006, German credit unions lost

market share in total assets (down 4.1% to 16.5%), clients' financial investments (down 3.6% to 24.8%), and consumer loans (down 1.3% to 20.2%).

Another cause for concern is the current trend in the operating results of the Volksbanks and Raiffeisenbanks ("VR banks"). Due to intense competition with the Sparkassen and major banks and the potential for retroactive term-transformation resulting from the currently flat interest rate structure, further decreases in returns are to be expected for the foreseeable future. Given the decentralized structures now in place, including the related high fixed cost block, a cost/price leadership strategy cannot be implemented at the VR banks. As a result, the credit unions essentially have good opportunities to differentiate – opportunities that are often not yet used, as shown by trends in profitability and market share.

In competition, German credit unions differ mainly in their specific cooperative philosophies and values. More than 163 years ago, people were already joining together to lay cornerstones like self-help, self-management, and personal responsibility as the foundation for Germany's credit unions today. The statistics cited above indicate that, while the country's VR banks have attained an appreciable market position, their growth rates in recent years have been insufficient.

To once again generate above-average growth in the future – a development reflected in the upward trend in membership – strategic company management is of increasing importance, particularly for credit unions. Reorientation, especially that which is focused on gaining further market share, must occur soon. Should the decentralization often cited in the context of credit unions remain as it is in the coming decades, securing a competitive position and autonomy will be crucial. Each individual VR bank must develop a clear strategic position to not only improve competitiveness, but also achieve profitable growth by means of additional transactions. A successfully implemented strategy should focus primarily on the customer and less on the competition. Cooperative companies should also pay more attention to the idea of member orientation. Aspects of member acquisition and retention need to regain greater priority in new strategies, particularly in light of the current situation faced by credit unions. The BVR study on membership published in May 2003 also clearly shows that membership contributes to customer retention and brand awareness.

At midsize credit unions with total assets between €250 million and €750 million, decision-makers have the option of initiating the development and formation of a

corporate strategy. In this context, management is understood as a process comprising various activity sets and stages. The archetypal strategic process developed for VR banks involves a cycle of five core phases:

- Determining a strategy (goal identification and strategic analysis)
- Formulating the strategy (contingent upon strategy selection)
- Implementing the strategy
- Communicating the strategy
- Controlling the strategy

This process model, which organizes and systematizes various managerial tasks by priority, actively supports managers at midsize credit unions in carrying out their strategic assignments. Initiating this systematic process regularly ensures the future viability of individual credit unions and reflects the extent to which each bank is reaching the aims it has set for itself. This also leads to an intensive discourse on the successes achieved, new goals, and further required measures. Either the bank's management or the entire executive board bears the responsibility for the result of this formal process.

From 2000 to 2003, Raiffeisenbank Lohr am Main eG (€360 million in total assets as of December 31, 2006) faced the most severe crisis in its history. Due to its merger with a nearby bank, its handling of very high value adjustments to receivables (particularly from cross-regional credit arrangements), and a major investment error involving the purchase of a hotel, the bank's profitability and equity substance were significantly weakened. A new management team was tasked with developing and implementing a new, visionary, market- and value-oriented corporate strategy to secure the bank's future success. Its successful implementation of the strategic VR process resulted in a clear strategic position at Raiffeisenbank Lohr am Main eG, which now enables the bank to distinguish itself with purpose in regional competition. Its member-oriented vision serves as the foundation for this strategic positioning and focuses on a strategy of differentiation. The main aim of Raiffeisenbank's future activities is to increase member value. The decision to do so in the strategic VR process was based on a company roadmap introduced in 2003; existing competitive advantages identified in 2006, as well as those set as goals for future achievement; and the corporate strategy formulated as a result of these advantages. Membership was determined to be a USP and thus a strategic success factor. All customers should also be members of their respective credit union and carry out their financial business with their own bank for the long term. This leads to an increasing focus on member business.

A program intended to increase value for credit union members and substantiate and energize member support, VR-AktivPlus ([www.vr-aktivplus.de](http://www.vr-aktivplus.de)), underwent project development in fall 2005 and was introduced to the market in February 2007. Its derived concept involves six areas of support designed to make credit union membership significantly more attractive. Cooperative returns represent an integral aspect integrated as a bonus system into one of these areas. Using the archetypal customer-bank relationship as a model, this paper will demonstrate the way in which this bonus system actively supports an increased exchange of services with the credit union. Doing so tells longstanding members who do a significant amount of banking that they are important to the VR bank and enjoy a higher priority than those who have only just joined the credit union and are thus less active. By tying the bonus system to the amount of interaction between the credit union and each of its individual members, a measure of fairness is added to membership. Individual members who maintain multiple bank accounts are thus encouraged to transfer some volume of their business to the credit union in order to maximize their returns. In the end, this leads to an expanded business relationship.

At Raiffeisenbank Lohr am Main eG, membership returns will in the future comprise annual dividends and the variable cooperative return (depending on the services used). In a survey performed by the credit union, over 59% of responding members approved of this means of calculation. It was also apparent that the supporters of this dividend policy are more resistant to change. Since cooperative returns constitute a tax-deductible operating expense as an area of member support, this also results in lower taxes for the bank. The bank's members also benefit from the greater amount of dividends to be paid out. In addition to cooperative returns and dividends, the VR-AktivPlus program's four additional support areas include special member products, exclusive information for members (such VR-News, the member newsletter issued three times each year), exclusive member events, and member coupons (attractive offers from regional partners).

This paper will examine in detail the development project, external communications concept, and implementation phase of the VR-AktivPlus program, taking the program's implementation at Raiffeisenbank Lohr am Main eG as an example. Initial measurable results and additional indicators achieved through the added value membership program between February 1 and June 30, 2007 will demonstrate the accomplishment of the following main goals of VR-AktivPlus:

- Differentiation from the competition

- Increased member retention through increased active interaction with the credit union
- Acquisition of new members with a high level of interaction
- Increased market share through above-average growth

Of particular interest are the over 400 new members and the €184,000 in new business volume gained in the program's first five months. An additional 300 members have increased their business volume by over €172,000 in order to collect bonus points for their banking. A number of other aspects (such as the positive trend in customer investment and passive financial volume and new acquisitions of foreign investment) will demonstrate that both longstanding and newly acquired customers of Raiffeisenbank Lohr am Main eG are intensifying their business relationships with their bank.

Further thoughts on the future development of VR-AktivPlus will then be presented in six basic fields of activity. This will show that member orientation is an ongoing learning process. A final summary will then determine that member acquisition, increased member retention, and member satisfaction are high-priority strategic goals pursued by German credit unions. VR-AktivPlus, the program developed and implemented to increase value for credit union members, represents a concept and instrument that can be used to achieve these goals and realize above-average growth in the future.