

The Hispanic Market

Outline of A Business Strategy



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This White Paper

This publication, *The Hispanic Market*, is written by Pamela Schnagl. Pam is a researcher for CUNA Mutual Group. She is responsible for designing and coordinating research efforts directed at increasing our understanding of the lending market. Recently her research has focused on analyzing lending strategies and trends, determining borrower preferences in lending products and service, and understanding how to better incorporate marketing into operations and delivery options to better reach credit union members.

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Executive Summary

The Hispanic market as underserved, and therefore offering potential. In targeting this market, financial service providers must understand the market and how to adapt marketing and operations to its needs. In the fall of 2003, CUNA Mutual Group completed research on the levels of service currently provided to Hispanics by credit unions and other financial service providers. The research focused on identifying market characteristics, needs, current programs, and future plans. This information can be used to design a strategy that will facilitates this market's growth.

The Hispanic market grew over 50% during the 1990's and is expected to reach 42 million by 2007. Immigration is a large contributor to this growth. Research conducted by the Pew Hispanic Center indicates that 63% of Hispanics in the United States are first generation . However, there is a slow rate of naturalization among these immigrants.

There are important demographic differences between Hispanics and the general U.S. population. Hispanics tend to be younger, with lower incomes and education levels. Hispanics tend to live in urban locations with larger families.

Cultural differences also exist. The Spanish language is one important part of their culture; however there are many other differences. Because of these demographic and cultural differences, Hispanics expect different types of interactions with their financial services providers than do non-Hispanic members. Hispanics desire a relationship, which requires the credit union to understand the culture as well as the language.

Overall, the percentages of Hispanics with financial products and services are lower than that of non-Hispanic Whites. Hispanics indicate several needs related to finance. Eighty-eight percent of Hispanics indicate that they would like more financial

institutions to offer products and services with them in mind. In addition, 82% wish that they had more information about saving and investing their money. However, specific product and service needs vary among different demographic groups.

Meticulous strategy development is needed to effectively reach this market. There is no "one-size-fits-all" strategy to serving the Hispanic market. Credit unions will need to identify and analyze their local target market, taking into account market size and the needs of different demographic groups.

In the research, credit unions varied in the levels of service they provide to Hispanic members. Five levels of service were identified: Mainstream, Transitional, Newcomers, Experienced, and Bicultural. Tools that these credit unions use vary, but can include a bilingual staff, marketing-related services, Spanish-language operational forms, acceptance of alternative forms of identification, and customized lending or deposit products.

It is imperative for credit unions to have an in-depth understanding of this market's needs. They must evaluate the market's benefits and advantages and develop a comprehensive strategy for targeting this market. To develop and grow the Hispanic market, it is important to take it a step at a time, monitoring the results.

Introduction

Purpose of this Outline. With the growth in the Hispanic population, a challenge for financial services providers is how to best serve this market. In designing a strategy, choices in levels of service need to be made. To make these choices, financial services providers must understand the market and how to adapt marketing and operations to its needs. Over investment in this market might net poor results, unprofitable attempts to serve, to the detriment of the credit union and its Hispanic members. This paper outlines issues to consider in developing a strategy.

Identification of Issues. In the fall of 2003, CUNA Mutual Group completed research on the levels of service currently provided to Hispanics by credit unions and other financial services providers. This research is helping CUNA Mutual assess this market and decide on how best to serve credit unions as they try to address the needs of Hispanic members.

The research included in-depth interviews of credit unions (N=20) to identify differences in how credit unions are meeting the needs of the Hispanic market and the reasons for these differences, as well as to gain insight into market development issues. In order to gauge varying service levels, we selected credit unions \$50 million or more in assets and serving areas with a greater concentration of Hispanics.

In addition to the interviews, we surveyed a sample of credit unions \$20 million or more in assets (N=362) to find out how many were serving the Hispanic market and the issues and concerns they encountered along the way. The sample credit unions selected were in states with a higher percentage of Hispanics, such as Texas and California.

The research focused on market characteristics, needs, current programs and future plans. This information serves as the basis for assessment of the issues and outlining options for the service.

Strategy Challenges. Credit unions perceive this market as underserved, therefore offering potential. The challenge is to assess this potential and meet its needs with the resources available and with the services that will encourage further use of the credit union. To be successful requires a pragmatism as well as a passion for meeting this market's needs.

The research found that credit unions are not only concerned about meeting the needs of these members, but meeting them in a cost effective manner. Credit unions are more likely to be using "trial and error" methods to discover what they could do for this market rather than using purposeful planning tools.

Credit unions serving Hispanic members discussed what must be done to be successful.

Timing is important. Being ahead of market or being behind in its development will hurt a financial services provider's ability to serve. Therefore in developing a business strategy, a market assessment is critical to knowing what Hispanics want from financial service providers now and what they may want tomorrow.

Looking at factors impacting success from an inward perspective, a financial services provider must assess its own capabilities and the results of its efforts when targeting a specific market such as Hispanics.

Credit unions have experienced difficulty knowing how to measure success because of being new to the market or not being able to segment out this market from others. However, the credit unions interviewed did have ideas on measurement and raised issues related to measurement which readers may benefit from.

The research shows credit unions are using varying levels of service to meet the needs of the growing and diverse Hispanic population. Generally, credit unions are not providing all services, but are limiting their service choices based on market size, market needs and resources. Based on the research, this paper illustrates those service levels.

Strategy Design. Credit unions have varying levels of experience when it comes to understanding the Hispanic market and its changing needs.

There are credit unions that have been serving Hispanic members for 50 years or more. But the Hispanic market has grown significantly in recent years and it has become increasingly diverse with the inclusion of new subgroups. Although credit unions new to this market might be able to learn from those that have served members longer, it is important to recognize that markets do vary.

Latinos in a more developed market may also have very different needs than those in an emerging market or vice versa. New immigrants are often more concerned with ID issues and wire-transfer services than third-generation Hispanic citizens, who may be interested in financial investment and retirement products. However, it is important to remember that recent immigrants may become credit union members and U.S. citizens and in turn parents and grandparents of second and third-generation credit union members. The credit union itself will need to evolve to adjust to these changes.

There is a great deal of speculation about the future needs. Strategy involves assessing these potential “scenarios” in order to be able to best address the market’s needs. There also must be periodic assessment to determine whether the strategy fits the market.

A thorough market analysis provides input to business strategy development. It sketches the options. Because of the diversity within this culture, research of specific markets is necessary to address

an individual credit union’s member needs.

Given its size and growth the Hispanic population requires strategic consideration. Hispanics are integrating culture and language with mainstream values. This paper recognizes the importance of tailoring business strategy to the requirements of an individual credit union and its Hispanic members. It is divided into four sections.

The Growth of the Hispanic Market. This section explores the demographic characteristics of this market and its arrival as a target market phenomenon. The section’s purpose is to put into perspective the market’s needs, so that the information can be used in structuring a business strategy.

Components of Strategy. This section outlines basic strategy components, as revealed by credit unions already serving this market, and provides a framework for assessing market development. The goal of strategy is to develop the market through tailored product offerings and delivery and then closely evaluate the results.

Credit Union Levels of Service. This section explores the levels of service currently operating in serving the Hispanic market. There are multiple models. There it is no one-size-fits-all business strategy.

Future Directions and Challenges. The Hispanic market will evolve and credit unions will need to adjust their products, services, and delivery systems. Planning helps to ensure continuity of development.

This paper does not try to list of all the possible product/service variations or make recommendations on where to start, because these decisions will be based on individual credit union markets and goals. However, it relates the experience of credit unions in addressing this market’s needs and their concerns for the future. It recognizes that financial services providers tend to be product rather than market-focused. Therefore any market-focused strategy has

to deal with the more product-driven aspects of the overall business strategy.

At its conclusion, the paper has embraced the complexity of serving this market, and in doing so, facilitates the development of a strategy that evolves as it moves towards providing products that address the Hispanic member's concerns.

Section One: The Growth of the Hispanic Market

During the 1990's, the Hispanic population increased more than 50%. By 2000, this population had grown to approximately 35 million people (12.5% of the U.S. population). The Hispanic population is projected to grow to 42 million by 2007.

Hispanics are integrating their culture and language with mainstream values.

Demographics¹: To better understand this market, it is important to start with describing it using demographics.

- Hispanics are younger. Unlike the nation as a whole, Boomers do not make up the largest share of the Hispanic population. Gen Y comprises 38% of the Hispanic population compared to 26% of non-Hispanic whites.
- They are concentrated in specific regions. Nine states are home to a higher-than-average share of Latinos (average=12.5%). Hispanics now represent about one-third of the population in California and Texas, and nearly half the residents of New Mexico. Approximately 90% live in urban locales. The bulk of the Hispanic population is expected to remain in these areas. However other regions of the United States, particularly the southeast, are experiencing significant increases as well.
- Household incomes are lower than the U.S. average. Hispanic households brought in about \$9,000 less in annual income than the average U.S. household in 2001 (\$33,565 compared to \$42,228). But although 36% earned less than \$25,000, 31% earned \$50,000 a year or more. Some 48% of Hispanics own their homes compared to 75% of non-Hispanic whites.
- Smaller shares of Hispanics are in the higher educational levels. In addition to lower Hispanic income, educational attainment is below the U.S. average. Generally, this is because many Latino immigrants arrived in the United States with less education. Forty-three percent aged 25 or older have not graduated from high school, while 27% have less than a ninth grade education. However educational levels of Hispanics (U.S. born and foreign born) are increasing.
- Hispanics live in traditional families. Married-couple families make up a solid majority of Hispanic households and a larger share than in the population as a whole. Hispanic married couples are also far more likely than average to have children at home--36% compared with 24% in the total population. Latinos live in larger family households; 26% of Hispanic family households consist of 5 or more people compared to 11% of non-Hispanic whites.
- The Hispanic population originates from different countries. About two-thirds of the Hispanic population is Mexican-American. Apart from Mexicans, Puerto Ricans and Cubans are the largest Hispanic groups in the U.S. today, but fast-growing smaller groups include "new Latinos" from Central and South America as well as from the Dominican Republic.

When broken down by the country of origin, additional variations exist in demographics. For example, Mexican-Americans have a higher proportion under 18 years of age and lower educational levels than Hispanics from other countries.

¹ U.S. Census Bureau, Census 2000 and Annual Demographic Supplement to the March 2002 Current Population Survey.

- Immigration continues to contribute to this population. The Census Bureau estimates that 40 percent of the nation's population growth is due to immigration. Immigration has contributed approximately 1 million new residents a year since the early 1980's, and is expected to continue to contribute similar numbers. As the U.S. population ages, our population growth from newborns will be outpaced by the growth due to immigration.

It is estimated that there are about 33 million immigrants in the United States. Almost one-third came from Mexico. If we include immigrants from other Latin regions, Hispanics currently make up roughly half of all immigrants entering the U.S., and the majority of immigrants over the next decade are expected to come from Latin America.

The Census Bureau estimates that 40% of the Hispanic population is foreign born. Other research generally shows an even higher percentage, most likely due the Census reporting procedures versus the survey research methods. Based on research conducted by the Pew Hispanic Center, 63% of Hispanics are first generation, 19% are second generation, and 17% are third generation or higher.

- Naturalization lags behind immigration. According the Census, 52% of the foreign-born immigrated in the 1990's, but only 7% of these have citizenship. However, the rate of Mexican naturalization has increased significantly since the mid-1990's. The naturalization rate among Mexicans in 1995 was 16.5%. Just three years later, the rate had risen to 28.2%. This rise was attributed to fear over California's Proposition 187. However, Mexico still has the lowest naturalization rate among the major sending countries to the U.S.

Culture. In addition to demographic characteristics there are also cultural characteristics—the most easily recognizable being Spanish as the language of preference.

Hispanics continue to value the Spanish language as a means of communication.

Marketers need to understand the interplay between Spanish and English usage. An English-only future for Hispanics in the United States seems to be out of reach, denied by the combination of a strong desire to retain Spanish and the continued flow of immigration from Hispanic countries of origin. Hispanics in regions of various densities and of all ages are expressing their desire to speak Spanish within contexts of their choosing.

Although the language is important, it should not be viewed as the one dimension that provides all the answers. A sensitivity to and respect for the importance of the Spanish language is much more vital than trying to apply a language-based strategy to all messages and products. From a credit union marketing perspective, simply advertising in Spanish will not be as effective as ads that indicate an understanding of the related dimensions of culture and heritage.

Based on the Yankelovich MONITOR², the following characterizes the use of Spanish language.

- Nearly nine out of ten Hispanics regard Spanish as their native language, which they first learned as a child.
- In 2000, 69% of Hispanics said that the Spanish language is more important to them now than it was just 5 years ago, an increase over previous surveys.

² In 2000, Yankelovich Partners conducted in-person, door-to-door interviews among a population sample of 1,206 Hispanic consumers ages 16 and older in the seven largest Hispanic markets in the U.S. Interviews were conducted by interviewers fluent in Spanish and English. Seventy-eight percent of the interviews were completed in Spanish and 22% were completed in English.

- In the Yankelovich research, 64% consider themselves “Spanish-language dominant (speak Spanish exclusively or more than English at home),” 21% describe themselves as using English and Spanish equally and 15% are “English-language dominant.”
- The “Spanish-language dominant” are primarily foreign born and less educated and have lower incomes.
- Fifty-three percent of Hispanics say they prefer the Spanish language in every situation.
- Forty-six percent of Hispanics report needing assistance with English-language forms and applications.

Hispanics have an emotional connection to Spanish while also using it as a means of cultural identity. To them it represents comfort, familiarity, trust, confidence, community, and pride. But while the use of Spanish is pervasive within the culture, Hispanics do recognize the importance of English in being able to live within the United States. Eighty-seven percent say that all immigrants should learn English if they plan to stay in this country. Therefore, they seem to be endorsing a bilingual future.

Hispanics are even more likely to remain tied to their country of origin than previous immigrants. Each country of origin has its own history, traditions, customs, and values.

While Hispanics have influenced our culture, research shows significant differences remain between Hispanic culture and the dominant culture in the United States. Individual Hispanic countries differ from one another in this respect, but generally are more similar than dissimilar.

To better understand Hispanic culture, the Yankelovich MONITOR asked questions related to priorities and preferences. Forty-five percent of Hispanics in the U.S. think of themselves as Hispanic, not as American and 24% say that they are

Hispanic first, American second. Ninety-seven percent feel very proud of their Hispanic background. Research done by the Pew Hispanic Center/Kaiser Family Foundation (2002) shows similar results. Fifty-five percent of Latinos identify themselves first or only by their country of origin, 24% as Latino/Hispanic and 21% as American.

Examples of cultural differences provided by the Yankelovich findings are as follows:

- 89% of Hispanics surveyed feel that Hispanics have stronger family ties than most other Americans.³
- 75% compared to 50% of white non-Hispanics say that people’s main responsibility is to themselves and their family---not to making the world a better place to live in.
- On some measures, Hispanic consumers exceed Whites and African Americans in their desire to move up in status. Therefore Hispanics tend to be trend- and brand-conscious consumers.
- 92% of Hispanics compared to 74% of white non-Hispanics say that people should be free to look, dress and live the way they want whether others like it or not. For these Hispanics, there are multiple versions of the American dream.
- 77% compared to 55% of white non-Hispanics feel the need to find more excitement and sensation in life. For Hispanics, having fun and enjoying life are definitely priorities. Eighty-five percent compared to 67% of white non-Hispanics welcome more novelty and change in their lives.

These cultural differences indicate a need in marketing to focus on word-of-mouth, to build brand identity, to recognize both family ties and individual differences, and to validate Hispanic culture.

Bureaucratic environments, which tend to emphasize the member’s filling out large numbers of forms

³ Research done by the Pew Hispanic Center/Kaiser Family Foundation (2002) also shows that Latinos express a stronger attachment to family than non-Hispanic whites. Even those third generation or higher are still more likely than non-Latinos to agree with views that underscore the importance of the family.

correctly with little help and then waiting for a decision hierarchy to give approval, may not provide the best atmosphere to serve this market, which values relationships and personal interaction.

Since cultures are fairly enduring, major studies done to examine societal differences can be used to uncover additional differences between Hispanic and U.S. culture as well as those between Hispanic countries themselves.⁴

- Hispanic culture tends to emphasize collectivism rather than individualism. With collectivism, group goals take priority over personal goals. By contrast in cultures such as the U.S., competition rather than cooperation is encouraged; personal goals take precedence over group goals.
- Compared to the dominant culture in the U.S., Hispanic cultures tend to try to avoid uncertainty and ambiguity by providing stability for their members, establishing more formal rules, not tolerating deviant ideas and seeking consensus, and believing in absolute truths and the attainment of expertise. Cultures more comfortable with ambiguity think there should be as few rules as possible, foster risk-taking, and tend to rely on self rather than the experts.
- Hispanic cultures tend to have more well-defined class structures than the U.S. culture as a whole. They are more likely to believe that power and authority are facts of life.
- Mexicans and the dominant U.S. culture tend to place a higher value on masculine rather than feminine traits. Other Latin American countries

⁴ Geert Hofstede, Culture's Consequences: International Differences in Work-Related Values. During the 1980's, Hofstede surveyed over a hundred thousand workers in multinational organizations in forty countries. After analysis, each country was assigned a rank of one through forty in each category, depending on how it compared to other countries. Klockhohn, Kluckhohn and Strotbeck, Variation in Value Orientations. These researchers examined hundreds of societies to come up with orientations based on culture.

tend towards more feminine traits. "Masculine" cultures value ambition, differentiated gender roles, the acquisition of money and power, while femininity as an attribute stresses caring and nurturing, promotes gender equality and holds that people and environment are important.

- While the U.S. culture is future-oriented, Hispanic cultures are more present-oriented. Present-oriented societies emphasize what is here and now. The future-oriented emphasize that the future will be better than the present, and that society is working toward grander goals.
- In "high context cultures," like the Hispanic, people tend to share similar experiences and networks. Therefore communication is less explicit. However the U.S. culture tends to be more diverse in experience so communication generally requires a greater elaboration to create understanding.

By circling back to the topic of language, we can see how it impacts and further helps us understand Hispanic culture. Language can drive and reinforce culture.

- The structure of the future tense demonstrates its lack of certainty.
- The masculine influence is revealed in the language through gendered nouns and pronouns.
- The Spanish language also expresses formality through separate verb conjugations for formal and informal speech.
- Finally the Mexican values of indirectness and face-saving are evident in their use of language.

So how does all this background information relate to credit unions?

Because of these cultural differences, Hispanics expect different types of interactions with their financial services providers than do non-Hispanic members. Relationship building requires understanding these cultural aspects in addition to the language itself.

Additionally, Latinos will seek out experts but may require more effort in communicating about financial services. Financial planning and insurance concepts (future-oriented) may be more difficult conceptually to understand because of differences in frames of reference. Marketing must also recognize the importance of community and gender/generational roles within families.

Financial Needs. Overall, Latinos report a weaker financial situation than do non-Hispanic whites. They report having lower household incomes, are less likely to own the home they live in, and are more likely to report having had financial difficulties in the past year. Furthermore, Latinos report having more severe financial hardships than whites in the same income bracket. Economically, Latinos are much more similar to African Americans, who report comparable incomes and financial difficulties.⁵

The Hispanic market is diverse, with specific segments varying in the types of products and services needed.

For instance, if a member (say a new immigrant from Mexico) does not have a checking or savings type of account and lacks education on basic financial transactions, he or she is less likely to be a viable market for more sophisticated financial products such as investments and insurance.

According to the Yankelovich MONITOR (2000), compared to non-Hispanic whites, Hispanics are significantly less likely to feel they are living in financial comfort. Hispanics voice a number of needs related to finances:

- 88% wish more financial institutions would offer products and services with Hispanics in mind.
- 82% wish they had more information about saving and investing their money.
- 83% feel the need to pay cash whenever possible versus borrowing the money or placing it on a credit card. They are less likely to base their spending on future earnings.

- 69% feel the need to plan for their retirement years.
- 34% feel the need to actively invest in stocks, bonds or mutual funds.
- 29% feel the need to work more with a money manager, stock broker or investment advisor.

Overall, the percentages of Hispanics with financial products and services are lower than that of non-Hispanic Whites.

- 49% of Hispanics compared to 81% of non-Hispanic whites have a checking account.
- 41% compared to 62% have a savings account.
- 4% compared to 22% have money market accounts.
- 4% compared to 20% have mutual funds.
- 45% compared to 70% have a credit card.
- 14% compared to 36% have an auto loan.
- 5% compared to 36% have a mortgage loan.

Product and service needs differ among demographic groups. For example, in looking at demographic differences in the need for savings and checking accounts, we find the following.

Education and Income. Less educated, lower income Hispanics are more likely to need savings and checking account products than those with more education and higher incomes.

Foreign and Native Born. Foreign-born Hispanics are more likely to need savings and checking account products than the native born. However, education and income have a greater impact on product use than whether a person is foreign or native born.

Occupation. Hispanics with blue-collar occupations are less likely to have a checking and savings account than those of white-collar occupations.

Country of Origin. Country of origin impacts as well. For example, Cuban Americans are more likely to have a checking account than Mexican Americans.

⁵ Pew Hispanic Center/Kaiser Family Foundation, 2002 National Survey of Latinos, December 2002.

To reiterate, the size and projected growth of this market demand credit unions develop service strategies. According to the University of Georgia's Selig Center for Economic Growth, the buying power of Hispanics grew from an estimated \$450 billion in 2001 to \$580 billion in 2002.

In addition, the acculturation process suggests that the Hispanic culture will remain viable into the foreseeable future. Even second generation Hispanic Americans have ties to the culture and to the language.

Research indicates that recognition of the culture is important regardless of the degree of acculturation. Culture—not just the language—impacts relationship, product and service development.

The increasing diversity of the United States makes a multicultural marketing strategy a necessity. By 2025, the term “minority” as it's currently used, will be virtually obsolete. The share of non-Hispanic whites is projected to fall to 60%. Financial services providers that are working to understand emerging ethnic groups will have an advantage over companies that wait.⁶

⁶ American Demographics, The Next 25 Years, April 2003.

Section Two: Components of a Business Strategy

Every business needs a growth strategy. Lack of growth impacts a business negatively in the eyes of customers, since without sustained revenue growth, the ability to innovate declines.

When it comes to growth, managers often think they have to “break the paradigm”. It is all or nothing. The building blocks for growth are the development of new products and services, an effective cross-sales program, finding ways to understand what the customer values, and segmenting markets, which have often been neglected and given inadequate resources.

The Hispanic market offers credit unions a revenue opportunity. However there are issues related to its development that need to be addressed in order to be successful.

To be successful, any business strategy needs to address risks as well as rewards. During the research, credit unions described critical factors impacting delivery to the Hispanic market. These factors or issues need to be considered in developing business strategy.

In your planning:

Focus on diversity, using a market development approach. The Hispanic market is only one market within a credit union’s membership. In selecting this market, recognize that there are others that may be more profitable to serve. Look at multiple targets to assess their viability and coordinate marketing efforts to these different segments.

Plan what steps are needed to develop the market.

There are stages to the development, and it is important to identify these stages and reevaluate with experience.

Fit the strategy to the market size. The business strategy should match the size of the opportunity. The research shows that credit unions vary the service level based on the market size. If your potential Hispanic market is small, for example, it may not be cost effective to take special measures to serve it.

Understand the local market. It is important not to overgeneralize. Although nationally, certain segments may be underserved on particular products, this may not be true in your locale. It is important to learn about the local needs and local cultural characteristics as you invest in this market.

Identify and analyze potential of target markets. As the research shows, the Hispanic market is diverse. There are many markets with differing needs within this one. Groups with lower education and incomes, although underserved, may not be cost effective to serve unless there is reach into markets that may be better served but more profitable. While those in less profitable segments may become more profitable over time, it is important to match your expectations to the timeframe involved, and manage effectively towards that goal.

Set measurable goals. In order to be able to handle the needs of the market in a cost-effective manner, short-term initiatives and long-term plans need to be considered. “Trial and error” methods, without measurable goals upfront, may result in greater costs without understanding what has been achieved.

Recognize it’s more than the language. Although the focus is often language, this market’s needs are much more complex. To truly serve the Hispanic market, bilingual staff is necessary but it is generally not sufficient. As the market develops, the credit union has to learn more about this membership and customize products and services.

Create unique messages and services. For example, credit unions have found that it is difficult to identify Hispanics in their membership for the purposes of direct marketing. Surname is not an adequate means of identification. Credit unions have to be inventive to reach this market--in marketing, in product development and in terms of lending guidelines.

Sustain the level of commitment. In the in-depth credit union interviews, there were credit unions that happened onto the market because of hiring a bilingual staff person. Over time this staff grew the Hispanic membership. A more systematic approach is to recruit Hispanic staff who are not only bilingual but can communicate with/educate Hispanic members about financial products and services. In other words, rather than starting to serve the Hispanic market by happening to hire a Spanish-speaking staff member, starting with the intention of recruiting a bilingual staff person to serve the needs of Hispanic members and then hiring the right person (or people) to fill the job. By intentionally developing the program, there is greater likelihood of being able to successfully sustain it.

Provide cost effective service. Because of their educational needs and preference to deal face-to-face, segments of this market can be expensive to serve. Credit unions need to try to meet needs but also keep in mind the expenses associated with specific products, channels and marketing strategies.

The goal is growth and revenue productivity.⁷ To develop and grow the Hispanic market, it is important to take it a step at a time, monitoring the revenue productivity. Revenue productivity means analyzing the return on investment. This may lead to redistributing expenses and eliminating other nonprofitable operations to be able to invest in this market more fully. However, this investment will depend upon the size of the market, and the competition for it. The return on the Hispanic market needs to be weighed against the potential of other new markets, products and services.

To grow this market, a credit union must ask certain questions. How does a Hispanic member use the product or service? What competitive advantage will be required to win the customer and at what price points?

This means, of course, conducting market research and developing formal and informal means of communication with this segment.

Also important is to be realistic about service options; what may be effective for one credit union given the market size and its resources may not be effective for another. Success will depend on being able to build and sustain in the marketplace, the ability to follow through, and the ability to monitor and check expenses.

A business plan that documents your expectations will go a long way to ensure that resources are being used most effectively. Putting more resources into the effort will not necessarily produce revenues, especially when those resources are not increasing the reach or penetration into the market.

Growth can further be achieved by segmenting and resegmenting a proposed market. For instance, within one locale there may be several subgroups of Hispanics – new immigrants, Hispanic youth, older Latinos planning for retirement, etc. In terms of market promotion and service, just marketing generic products to “local” Hispanics, as a strategy, will garner limited success and any success will be very vulnerable to the competition. Additional research and targeting up front can save money while helping your credit union communicate its message.

Product development, then, is based on the needs of that particular market or subgroup—meaning you have to do separate market research and commit resources for each initiative you undertake and evaluate the results as you move forward.

⁷ Ram Charan, Profitable Growth is Everyone's Business, 2004.

Examine the market in terms of developing a competitive advantage. What are the credit union's strengths in serving this market? What will this credit union do for this market that other financial services providers cannot do?

Once the competitive advantage is determined, taking the development a step at a time and measuring progress at each step will be important to "hitting the home run." Without a tracking system, resources may be used that have no impact on producing revenue. And monitoring will ensure that the market's needs are truly met.

Section Three: Credit Union Levels of Service

The research identified five levels of service in states that have a higher percentage of Hispanics within their population. The states include California, Texas, Florida, Arizona, Nevada, New Mexico, Illinois, New York, and New Jersey. These levels of service are related to the percentage of Hispanic members within the credit union as well as the years of service to these members. Credit union asset size also impacts how service is provided.

In establishing its level of service, a credit union will consider such tools as:

Bilingual Staff. Without exception, bilingual staff were identified in the interviews as important to marketing and operations. Bilingual staff are seen as a first step to reaching and maintaining Hispanic member relationships.

Marketing-Related Services. Since “reach” is a significant concern, marketing and delivery includes such things as Spanish-language printed materials, web sites, audio response capabilities, advertising via TV, radio, and newspapers, access through ATMs and phone, and direct marketing.

Spanish-language Operational Forms. Credit unions varied as to what forms they had in Spanish. Credit unions serving the first generation of immigrants see Spanish-language forms as being more important than those serving primarily future generations. In our study, these forms included consumer lending forms, real estate lending forms, new membership account forms, deposit documents, and insurance forms.

Alternative Forms of Identification or Documentation such as Matricula Consular cards or Individual Tax Identification Numbers (ITIN). This type of documentation is important to serving new immigrants. In the in-depth interviews with credit unions, enhancing the ability to serve the new immigrants appeared to be the most significant concern.

Customized Lending or Deposit Products. Credit unions vary in the degree they have added products and services to meet Hispanic needs such as wire transfer services, non-interest bearing accounts and modified lending guidelines. Generally, such customization reflects greater involvement in the Hispanic market.

Setting market goals. Credit unions are developing this market gradually. It requires money and time, and these costs can be a significant barrier. By using a step-by-step, well-monitored approach, the likelihood of managing the costs is increased. However, goal-setting is in its infancy.

To identify these service levels, we used the in-depth interviews with credit unions serving this market. The survey data was then analyzed to determine the characteristics of these service levels.

The services levels were identified by the use of bilingual staff, development of marketing-related services, and the acceptance of alternate forms of identification.

In certain areas, credit unions say that within the last five to ten years there has been tremendous growth. Obviously length of service impacts the level of the service. Credit unions serving this market for 50 years or more years appear to be offering a different level of service than those credit unions that are relatively new entrants. Credit unions with a higher percentage of Latinos in the membership are going to be more likely to invest.

Generally reaching these members by developing marketing-related services was considered high priority in establishing a foundation in this market. If the immigrant market is a target, then alternate forms of identification increase in importance.

Other program characteristics, including use of Spanish-language operational forms, the customization of products and services and setting

market goals are used to provide more comprehensive service profiles.

The five levels of service we have identified are:

Level of Service: “Mainstream”

These credit unions do not have bilingual staff. They estimate that 1% of their members are Hispanic and tend to be smaller (only 12% are \$100 million or more in assets). They do not consider themselves as currently serving the Hispanic market.

A relatively small percent provide marketing-related services (9%), customized products and services (4%), and Spanish-language operational forms (1%). However, 35% of these credit unions say that they accept alternative forms of identification. Perhaps this relatively high percentage is due to a focus on the immigrant market. A small percentage (11%) have set goals for the Hispanic/Latino market for the next year.

Mainstream CUs

- Service Level**
 - No bilingual staff
 - Low percent Hispanic marketing, Spanish-language forms, and custom products
 - About 1/3 accept alternate ID
 - Small number setting goals
- Future Needs**
 - Not addressing Hispanic Market, and generally not planning to in foreseeable future
- Demographics**
 - Less than 1% Hispanic; less than 1 year served
 - 12% Mainstream >=\$100M+

Level of Service: “Transitional”

These credit unions do have bilingual staff who deliver products and services to this market. They estimate that on average, 6% of their members are Hispanic, and they are larger in size than “Mainstream” credit unions, with 44% being \$100 million or more in assets. They average about 1 year of service to this market.

But otherwise they look very similar to the “Mainstream” in the products and services that they deliver, including marketing-related services (10%), customized products and services (1%), and acceptance of alternative forms of identification (33%). The percentage of credit unions providing Spanish-language operational forms increases to 12%. To make effective use of the printed materials, bilingual staff support is necessary, because Spanish-speaking Hispanics need verbal as well as written instruction.

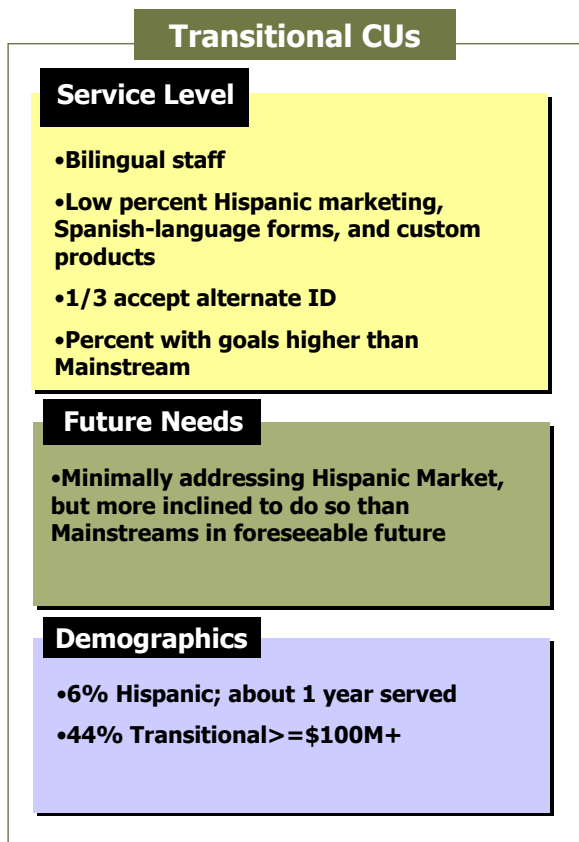
By building trust and relationship, bilingual staff help these members to be more comfortable with credit unions and develop their understanding of financial transactions and processes. Word-of-mouth member referral is a significant aspect of reaching Hispanic members, and these referrals are based on positive experiences with the bilingual staff.

Member recommendations help raise expectations all around, and continuity and commitment become vital. Bilingual staff need to be retained. Because of their increasing familiarity with the Hispanic community and their financial training and expertise, it may be difficult to replace them quickly. Credit unions are paying extra incentives to avoid turnover and possible loss of this competitive advantage. Not only are bilingual capabilities necessary, but also important are familiarity and aptitude for financial transactions.

Latinos are being employed throughout the credit union, not just as front line staff, but at all levels,

including the board. Hispanic employees will influence the credit union’s culture and be more likely to recognize differences that will have a significant impact on market acceptance.

The percentage of “Transitional” credit unions setting goals for the next year is 18%, an increase over “Mainstream” credit unions.



Level of Service: “Newcomers”

“Newcomers” are defined as credit unions more seriously interested in this market that have been serving it for five years or less. They have bilingual staff and emphasize marketing-related services to reach their members.

They estimate that 6% of their members are Hispanic and on average a “Newcomer” credit union has been serving this market for 3 years. Fifty-nine percent of the credit unions are \$100 million or more in assets.

These credit unions are much more likely than the “Mainstream” or the “Transitional” to see bilingual staff and Spanish-language forms as being important to the members. One-third accept alternative forms of identification.

Their marketing involves developing a deeper relationship with the Hispanic community. Member education is an important aspect to service and is done primarily by bilingual staff. Currently, direct marketing of products and services is limited by internal capabilities and market needs. A database may not permit targeting, and credit unions express concerns about discrimination issues arising out of targeting.

Thirty percent of these credit unions provide Spanish-language operational forms, and 18% customize products and services. Fifty percent of these credit unions say that they are setting goals for the next year.

These credit unions appear to be using relatively soft measures for success and are setting global rather than specific goals for this market. Credit unions talked about learning by “trial and error” and making adjustments. They develop this market by doing what they can with the money and the time that they have.

In terms of goals, credit unions in the in-depth interviews point to communication and outreach as important. They want to develop closer ties by involving themselves in the community and fostering a bicultural environment in the credit union. By moving in a stepwise manner, a “Newcomer” credit unions not only addresses budgetary issues but improves the likelihood of a smoother integration of the Hispanic member with other members of the credit union.

“Newcomer” credit unions are focused on the Hispanic market and are most likely to have needs for support. There is interest in partnering with outside

providers that are sensitive to this market. These credit unions are interested in meeting member needs. Although they do want a return on their investment, they need partners that are sincerely interested in developing the market potential. A partner needs to commit to the market with the goal of understanding of its needs. These credit unions are learning and want a partner that learns with them through experience.

Newcomer CUs

Service Level

- **Bilingual staff**
- **100% Hispanic marketing, higher percent use of Spanish-language forms, custom products/services than Mainstreams, Transitionals**
- **1/3 accept alternate ID**
- **Percent w/goals higher than Transitionals**

Future Needs

- **New to Hispanic Market; focus on immigrants and want to serve more fully**
- **Recognizes and wants to address needs**
- **Looking for support and partners**

Demographics

- **6% Hispanic; about 3 years served**
- **59% Newcomers >=\$100M+**

Level of Service: “Experienced”

These credit unions were defined as serving this market for five years or more. Thirty-three percent have \$100 million or more in assets. Hispanic members comprise on average 13% of their membership. “Experienced” credit unions estimate that they have served these members for 17 years.

These credit unions rely on their bilingual staff to facilitate the processes, and are less likely to have

developed other types of products and services. Their Hispanic memberships may be more assimilated into the mainstream culture. When asked about member needs, a percentage similar to the “Newcomer” credit unions say that they need bilingual staff but a smaller percentage identify a need for Spanish-language operational forms.

Because they are more likely to be serving second or third generation Hispanics, they are less likely to be accepting alternative identification than the other segments (18%) and are less likely than the “Newcomers” to provide marketing-related services (62%), Spanish-language operational forms (16%) and customized products/services (10%). Thirty-nine percent of these credit unions say that they are setting market goals for serving Hispanic members.

Experienced CUs

Service Level

- **Bilingual staff**
- **62% Hispanic marketing; low percent use Spanish-language forms, custom products, and accept alternate ID**
- **Percent w/goals higher than Transitionals and Mainstreams**

Future Needs

- **Primary focus is on 2nd, 3rd generation, has served market for years with bilingual staff and marketing**
- **Tends not to use Spanish-language forms, custom products, perceives less support needs**

Demographics

- **13% Hispanic; about 17 years served**
- **33% Experienced >=\$100M+**

Level of Service: “Bicultural”

These credit unions are deeply committed to the Hispanic market. On average, Hispanics comprise 24% of the membership. Credit unions \$100 million or more in assets make up 53% of this group. Higher percentages than any other service level see their members as needing bilingual staff and Spanish-language operational forms.

In addition to the larger size of their Hispanic membership (being 10% more), “Bicultural” credit unions were defined as having bilingual staff, having marketing-related services and accepting alternative forms of identification. They are more likely to have Spanish-language operational forms (56%), and customized products and services (42%) than any other service level. Seventy-four percent of these credit unions say they are setting goals.

Length of service was not used to define this level, so “Bicultural” credit unions include those that might otherwise be defined as “Newcomer” or “Experienced,” but provide a deeper level of service.

However the average length of service to this market is 12 years so most “Bicultural” credit unions have been serving the market longer than the typical “Newcomer,” most likely due to the greater size of the market in their membership.

The effectiveness of their operations starts with bilingual staff. Credit unions meet deposit needs with debit cards, direct deposit, and check cashing. For recent immigrants, debit cards can provide a better service than checks, since they won’t be asked for identification. In customized services, these credit unions could also be providing wire transfer services and non-interest earning savings accounts.

To serve this market, credit unions are using risk-based pricing. In addition, they make smaller loans and don’t rely as heavily on credit scores in the approval process. The definition of a borrower may also differ from other markets. For example, mom and dad may have multiple loans as a result of

cosigning for other family members, or there may be four people applying for a home loan instead of two.

On deposit and lending forms, credit unions vary in what they have in Spanish. There are many variations to the translation process, in terms of who is doing it, with legal forms being the most difficult to translate.

This analysis of levels of service shows the following:

- There is no one-size-fits-all strategy to serving this market,
- Service levels are related to years of service, market and asset size, and
- As the market demands, service levels change.

Credit unions can’t predict how this market will evolve. In terms of Spanish-language need, they don’t know if it is temporary or a permanent requirement. Credit unions have to do their homework in addressing this market’s needs, and the resulting strategy needs to be developed based on the credit union’s market, resources, and other competing priorities.



Section Four: Future Directions and Challenges

The research emphasizes that there is not a “one-size-fits-all” strategy for addressing the Hispanic market’s needs. Strategy will be based on the size and characteristics of the market for each credit union. The first step is to understand each distinctive Hispanic market that a credit union can possibly reach within its own charter or locale.

In an article in the 1998-99 issue of Northwestern University Medill School’s Journal of Integrated Marketing Communication, Dr. Lisa Fortini-Campbell contrasts the generally simplistic way of looking at customers with the efforts that actors employ to understand their characters. Actors try to become their characters, even beyond the limits of the role. However in business, oftentimes, market knowledge gets no further than a demographic description, and demographics alone can be misleading.

In the financial services market, with its increased amount of variation and individuality, focus on the theoretical, average member has clear dangers. Marketing to the average is at risk of missing the target.

To understand the Hispanic market, a credit union starts with demographic information. Demographic information includes age, education, and income, country of origin, generation, and language preferences. The Census provides this type of information for specific geographic areas.

However, credit unions must listen to these members to better understand their concerns. They have to determine who the competition for this market is and how the competition is addressing the market’s needs. But to get accurate information, the credit union needs to do more than just talking with a few members or key contacts within the community. More formal methods like member surveys are also needed. A credit union should not rely on the

popular press for its market insights.

One of the primary reasons for assessing the competition is determining a competitive advantage. This advantage can be created through pricing, types of products or services, marketing, relationship, and delivery. By understanding the competition in addition to the market, a unique offer can be made.

This type of competitive assessment aids in deciding how to address this market with different options, such as bilingual staff, marketing-related services and community involvement. Additional levels of service may include customized products, Spanish-language forms, and additional transactional services. A step-by-step approach is wise in determining the product and marketing mix to fit the market’s needs and evolving as the market develops.

To monitor the needs of the market, a credit union develops measures of success. For example, if a credit union decides to target the immigrant market, it estimates the size, level, and type of service to provide. It monitors the use of these products and services. If educational seminars are conducted, then the resulting products and services delivered to these members are tracked.

Another measure is market penetration. If the estimate for the entire membership is 7% Hispanic, the actual penetration can be tracked through member surveys. Member surveys can also measure satisfaction of this segment with credit union services.

To be effective, credit unions need to consider the service level alternatives based on their market place. Given market potential and priority, credit unions should consider integration of the Hispanic culture into their operations and marketing. This integration is facilitated by bicultural staff, with the understanding of Hispanic culture spread among all

employees. The “Bicultural” credit unions seem to achieve this integration better than the other service levels. The credit union becomes increasingly in tune with the market, improving product development and marketing tools.

Credit unions must also envision what the future may hold in working with the Hispanic market. One way of doing this is to write scenarios, that is, possible futures. The credit union then decides what possibilities hold the most promise and sets its goals to achieve those possibilities. As it goes along, it learns from its experiences with the market and refines its product development and marketing techniques. The credit union must also adjust to demographic, cultural and other changes as they occur. This process of setting goals, learning, and adapting repeats itself and never really dies.

In conclusion, the challenges in targeting the Hispanic market can best be met by the following:

- In-depth understanding of this market’s needs,
- Evaluation of the market’s benefits and advantages,
- Determination of the market’s requirements, measurement, and monitoring of change,
- Creation of a market-focused operations environment that communicates and translates information into action, and
- Development of scenarios that reflect the options available in serving Latino members.

By addressing strategic issues and challenges, the future direction will start to emerge. There is so much diversity within this one market. To view these members only as Hispanic with Spanish-language needs would be to reduce the opportunities to serve these members.

With the new immigrant market, one of the biggest challenges is developing it through education, and creating trust. For those born into the second generation, it is developing customized loan products, including mortgages. For the third

generation, it is focusing on products such as investments, financial planning, and insurance, offering a holistic approach that embraces the culture.

Whether a member originates from Mexico, Cuba or Central and South America also makes a difference. Recognition of variations in culture and needs by country of origin will facilitate reaching out to this market.

As a whole, the Hispanic market is diverse and underserved and requires a well-planned systematic approach to meet its many and future needs.



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