

## Chapter 2

# Preplanning

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**Preplanning** is the first formal step in the strategic planning process. It's the stage in which credit union personnel gather research data, personal observations, and other specific operational information.

But before we get into the actual steps involved in preplanning, let's take a look at three other concepts that will help set the stage for your planning efforts. They are known as **strategic competence**, **strategic fit**, and **strategic window**.

### Strategic Competence

What does your credit union have going for it that will support it during good times and bad? Is it a professional, knowledgeable staff? Competitive rates? Mortgage loans? Friendly service? Whatever it is, this is your **strategic competence**.

As a director, it's your responsibility to encourage and develop a strategic competence. Since you're most likely on the board of a vigorous credit union, you can probably think of a number of areas in which your credit union does very well. These are the cornerstones of your strategic plan.

If your credit union expects to be successful over the long term, the board and management need to build on these competencies. Your credit union must have a clear definition of what it expects to offer members to fulfill their needs, and how to do this better than your competitors. If your board and your manager have a hard time defining the credit union's strategic competence, you will also find it hard to focus on what you want to achieve.

Your credit union has an advantage over other financial institutions because it is close to members, and it can communicate with them regularly, so you should be aware of what your members truly value from the credit union. Is it convenience, security, attractive loan rates, or competitive dividends?

For example, *segmentation* is one way to increase the effectiveness of your planning efforts. If you identify home equity loans as a strategic competence, you need to identify members who own a home. That means you must identify

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homeownership and other variables you want to use to develop a target list. Segmentation is critical in this preplanning effort. It keys your efforts to members likely to purchase specific products. Key features of a segmentation program are listed in figure 2.1.

Here are questions you might ask to assess your credit union's strategic competence:

- What are the primary benefits our members want from the credit union?
- Does our staff have the competence to provide these benefits?
- Do our members and potential members perceive the credit union and its products/services the same way the board and management do? If not, what should we do about it?
- Based on our answers, what is our real competitive advantage?

By asking these questions, your credit union is evaluating its strategic competence in relation to your members' changing needs.

## Strategic Fit

Your planning efforts attempt to focus on the right **strategic fit** between what the credit union does well now (competence) and what it wishes to accomplish in the future. Your planning efforts will identify new opportunities in products/services where your present know-how and expertise can be used to a strategic advantage over your competitors.

The right strategic fit may not be immediately apparent, or it may not exist given current conditions. It may not exist due to present lack of know-how. If this is the case, the credit union must overcome this deficiency before spending resources on developing a new opportunity.

**Figure 2.1** Key Features of a Segmentation Program

- Minimize marketing costs while maximizing results.
- Target members who are most likely to respond to specific product offerings.
- Use individual-level information as variables for selection.
- Reduce mailing costs significantly.
- Build on relationship marketing—knowing your member—by sending only the offers member groups want most.
- Build a predefined product profile to determine what to market to whom, based on your planning objectives.

For some credit unions, a strategic fit did not exist when they began offering commercial loans to members. They lacked the know-how to introduce this new product but they went ahead and did so anyway, and they failed.

But a strategic fit did exist for many credit unions when they began offering home equity loans. Because of their knowledge in mortgage lending or consumer lending, a strategic fit existed between their competence and that opportunity to stimulate loan demand.

## Strategic Window

Another important concept is that of the **strategic window**, popularized by Derek Abell of Harvard University. In the credit union industry, this idea means that there are time spans when the strategic fit between the needs of members and the competence of the credit union are most favorable.

As an example, mortgage interest is one of the few remaining consumer interest deductions. The home equity loan thus became an important product to offer to certain members. Here the strategic window is the limited span of time the credit union has to offer this product, while members are still interested in opening these accounts. The longer the credit union waits to offer home equity loans, the fewer members will be left who don't already have such an account with a competitor.

To identify specific strategic windows, your board and management should ask the following questions:

- During the span of time covered by the strategic plan, what general and specific external events may represent either opportunities or threats?
- What specific strategies for credit union growth will be needed?
- Will the credit union have a competent staff and enough financial resources to carry out strategies when new opportunities or threats appear?

The views from your strategic windows should be realistic, yet challenging. There is a tendency to identify incredible opportunities that are unrealistic or far beyond the credit union's capability in terms of funding, human resources, and expertise. The board's role of support for management is crucial in opening these strategic windows.

## The Plan to Plan

As we mentioned at the beginning of this chapter, preplanning—the “plan to plan”—is the first formal stage of your strategic planning process. It involves information gathering in these areas:

- expectations of major inside groups;

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- an external analysis and evaluation;
- an internal situation audit;
- research and reports.

When preplanning a credit union gathers research data, personal input, and specific information to enhance board/management decision making and strategic planning.

### Anticipating Need

The role of the board is to anticipate the needs of members. You need to know what members want even before they want it. To do that, directors need to put themselves in the place of members. Nobody is better qualified to do that than the board, because the board represents the membership as a whole.

Directors exercising their leadership role in the organization first ask themselves what changes are likely to appear on the horizon as a result of both internal and external factors. Based on documents such as the mission statement, the vision, and the values of the credit union, the board formulates statements of strategy. These statements define how the organization will achieve its mission and vision and remain true to its values. This gives management the guidelines with which it

and the staff can formulate operational plans to carry out the board's intent.

Strategies address a credit union's vision of how it will serve members' needs. To assist in its fact-finding process, the board can ask a number of relevant questions:

- What products and services do members need?
- What can the credit union do to add value to everything it does for members?
- What roles do the board, management, and staff play in the overall strategy?
- Can the credit union play a role in developing financial solutions for its members?
- What competitive challenges do you face as part of the planning process?

Through planning, the board creates a set of priorities and goals so that the credit union can achieve much in a relatively short period of time. The purpose of strategic planning is to evaluate where you've been, understand where you are, and plan where you want to go. The plan focuses on long-term rather than short-term goals. Its success depends upon continual monitoring and faithful execution by both board and staff. Because long-term goals are involved, the plan must be flexible enough to adapt to changing conditions such as technology, competition, regulation, and distribution.

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## Facilitators

It is at this point—as you initiate preplanning—that an outside facilitator should be brought in. Start your strategic planning process correctly—get a skilled facilitator to assist you from the very beginning.

During preplanning a credit union should organize its staff and directors and assign responsibilities to collect the necessary information. Planners also should decide what and how much demographic information to collect. To gather pages and pages of data for the sake of having research to cite is counterproductive. The real challenge is to collect demographic information on those internal and external issues vital to the credit union's future.

Management and the board should also decide on the length of the planning horizon. In other words, how far into the future will you set objectives? Traditionally, objectives are set two to five years ahead. As you deliberate on the information collected, directors and managers will gain a better feel for how far into the future your objectives should be.

## The Role of Major Inside Groups

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than all the other remaining steps in strategic planning. It's a process that draws heavily on the knowledge, experience, and skills of people inside the credit union. These major inside groups are the board, management, and staff.

You must educate each of these inside groups about what's involved in the planning process. These key players must know exactly what's expected of them.

## Board of Directors

The directors' role during preplanning is in deliberating, debating, and ratifying the position of the credit union on the primary issues that will be part of the strategic plan. For example, should the credit union expand its field of membership or change its name due to a shifting membership base?

Directors are also a sounding board for management's new ideas. Throughout preplanning, directors must take the initiative to provide input based on their own perceptions. The more input, the more likely decisions will accurately reflect your credit union's competence and your members' needs.

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### Staff and Management

Top management is expected to be familiar with both the operational aspects and the larger perspective of planning. Frontline employees have firsthand experience with what is practical or what needs to be changed at the basic operational level.

Figure 2.2 shows the information flow during the preplanning phase as it involves the major inside groups.

### Dialogue

Once participants are aware of their roles in the strategic planning process, the dialogue begins. It may include brainstorming sessions, informal meetings among work teams, dialogue between supervisors and employees, questionnaires, and similar means to gather input from each department.

Keep in mind that this is basically an informal process. People must feel comfortable if they are to participate fully and openly. Later, the information gathered here will be worked into more formal reports.

The planning facilitator or someone in management should coordinate the dialogue and discussion. This coordinator will develop an internal report, based on the informational sessions, as a status report from the major groups inside the credit union.

This type of preplanning gives everyone a perspective on the full strategic planning process. It's the time to communicate openly and share information, and it encourages the unique contributions that all employees have to make to the process. Careful thinking during this phase prevents a credit union from rushing into a strategic plan that will present problems later.

**Figure 2.2** Preplanning Information Flow

