

# Business Models & Competitive Strategies



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## Revision History

Name	Date	Reason For Changes	Version
Christian Reina, CISSP	10/30/2009	Draft version	1.0
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# **1. Introduction**

This assignment details the business model framework for Affinity Federal Credit Union and this organization's competitive strategies in the financial industry. In order to create a balance for the managerial, technological, and strategic issues of Information Technology, it is important to analyze and understand what makes an organization compete, evolve, and sustain a competitive advantage.

Affinity Federal Credit Union is New Jersey's largest credit union. This organization is a full service financial institution with a primary objective to provide financial wellness to its members. Affinity Federal Credit Union has been offering financial services with a member-oriented focus since 1935. In 1984, the credit union had assets of \$93.7 million and became the 2<sup>nd</sup> largest credit union in New Jersey. In 1998, the legislature passed HR1151 allowing single sponsor credit unions to expand their service to companies or organizations with a common bond. Today, Affinity Federal Credit Union is a \$2 billion financial organization with a forward thinking management mentality that is always improving internal processes to improve efficiency, service, security, and growth.

## **2. Business Model**

As a credit union, Affinity Federal Credit Union implements a business model that creates a balance between providing a cost effective solution to its members while understanding the need to increase their capital and financial stability. This business framework includes four sub-models that allows for financial strength, growth, and competitive advantage.

### **2.1 Market Model**

Affinity Federal Credit Union is an organic financial institution providing financial services to its members in the state of New Jersey. As a credit union most of the business is providing services; however, Affinity Federal Credit Union is a forward thinking organization that has increased the scope of its financial business model to include products like purchasing off-lease vehicles, Intuit financial software, and other business products to name a few. The organization's focus is a brand promise to work as a team as engaging and caring professionals to make members feel great about the Affinity Experience, while

offering the best and easiest to use financial products and services to meet their needs.

The financial services industry is very competitive and considering recent economic turbulence, it has been a struggle for smaller organizations to remain competitive. Affinity Federal Credit Union understands these challenges and has developed a strong market positioning over decades of exceptional member service that makes the Affinity Experience the differentiator amongst all other financial organizations offering the same products and services. Affinity's brand promise drives all strategic goals, operational objectives, and tactical plans in order to provide a value proposition like no other financial organization. The members who are considered by Affinity as the owners of the credit union receive a unique experience every time they engage with any credit union subject matter expert. It is our brand promise why members choose Affinity over any other financial organization.

## **2.2 Operational Model**

Affinity Federal Credit Union is a \$2 billion organization located in Basking Ridge, NJ serving over 130,000 members worldwide. Although the credit union is based in NJ, it is a member of a share branching network of credit unions allowing any member to access financial services at any participating credit union location. Increase NJ locations from 19 to over 3,000 nationwide and a number of countries. This medium sized credit union has a total of 415 employees working at branch locations throughout the New Jersey. About 50% of the staff works at branch locations and the rest at Affinity Federal Credit Union's headquarters in Basking Ridge. The Branch Operations and Member Development business units are responsible for the daily operations at the remote locations to ensure member satisfaction while keeping an eye on the bottom line remains a business priority.

Another operational initiative at the credit union is to provide adequate training and a development action plan for every employee. Affinity Federal Credit Union values its staff and understands its responsibility to provide educational, professional, and career opportunities. The Affinity Learning Institute provides onsite career development, training, and seminars for all employees

including 3<sup>rd</sup> party relationships with state colleges and other educational institutions.

### **2.3 Financial Model**

Affinity Federal Credit Union has experienced a rapid positive organic growth since 1988 after the legislature passed HR1151. As a credit union, it is important to understand the difference between "not-for-profit" and "non-profit" like charities or similar organizations. All credit unions operate to serve their members and a credit union's revenues from loans and investments need to exceed its operating expenses and dividends paid on deposits in order to maintain capital and solvency. A credit union uses excess earning to offer members more affordable loans, a higher return on savings, lower fees, or new products and services.

For over a decade Affinity Federal Credit Union has invested in a Credit Union Services Organization (CUSO) that provides mortgage lending and services to its members and several other credit unions in the US. Additional CUSOs provide a number of services to its members such as the Affinity Investments Services, Auto Resource Center, and Affinity Insurance Services.

### **2.4 Competitive Model**

In the financial services industry competition has always been fierce, but in recent times due to the economic global crisis, regulatory requirements, and increased risk, financial organizations are faced with difficult business decisions to balance short term financial growth while providing an adequate competitive advantage. Affinity Federal Credit Union has been a forward thinking organization that follows the concept of business to business collaboration, employee satisfaction, and member-oriented services while providing exceptional value to its membership.

The exceptional value that Affinity Federal Credit Union provides its members comes from long term business relationships with partners. Affinity Federal Credit Union has been offering an online home banking service for over a decade through a company that was created by an exceptional management executive that left the credit union to pursue a business venture. The business partnership with this

company grew and along with that a number of online services for its members. This business partner was acquired by Intuit recently and now Affinity Federal Credit Union has expanded its products by providing its members complementary offerings like QuickBooks and other software products by Intuit. This example is one of many 3<sup>rd</sup> party vendor relationships that Affinity Federal Credit Union works closely to ensure there is a win-win opportunity for this long term relationship. This is a type competitive business model that gives this credit union and competitive advantage with other financial organizations.

### **3. Relationships**

Affinity Federal Credit Union has always implemented relationship-based approach that focuses on improving the posture of its external relationships to improve other competitive strategies. The financial services industry is a very competitive environment and building strong relationships is must to remain competitive amongst all other competitors.

#### **3.1 Members**

Member-oriented relationships at Affinity Federal Credit Union are strengthened through ensuring all employees follow the brand promise. The Affinity Experience is the differentiator in ensuring member received the best value for the business with the credit union. To reduce the threat of substitutes Affinity Federal Credit Union provides free financial consultation, free information seminars, financial education, other special offers to promote member loyalty.

#### **3.2 Channels**

As financial organization, Affinity Federal Credit Union uses a direct channel to provide a full range of financial services to its members. These include online home banking, business banking, mobile banking, branch locations, and member relationship staff who are trained to work directly with small businesses. However, the credit union is also an active channel partner with other business vendors to sell complementary products like Intuit's QuickBooks, auto insurance, home insurance, and long term care insurance to name a few. As an indirect channel, the

credit union's not for profit but for service mentality offers share branching services to all other member credit unions and uses credit union services centers as indirect channels to offer members much more than just financial transactions.

### **3.3 Suppliers**

Affinity Federal Credit Union has worked very hard to develop strong relationship with suppliers. As a credit union offering business services, relationships with business members have helped the credit union increase their bargaining power. For example, the credit union recently opened its employee cafeteria and this was possible by building a relationship with a business member that supplies catering needs and manages the cafeteria for the credit union. This win-win relationship gives the credit union a strong bargaining power while providing a clear business opportunity and a true Affinity Experience for its members.

### **3.4 Partners**

Affinity Federal Credit Union has numerous partners in different strategic projects. As a credit union, it is clear that in order to remain competitive; a business needs to grow a strong by improving relationships with business partners. Over the years, Affinity Federal Credit Union welcomes new partners to work together and develop unique financial solutions for the credit union as well as other financial organizations. This relationship allows the credit union to provide partners an R&D opportunity while allowing the credit union to give direction on how a particular solution can effectively help its business objectives. There are numerous partnerships and more continue to grow, but some of the most important ones involve integration and operation functions. The online banking platform which currently supports personal online banking, business banking, and mobile banking is an example of an operational partner relationship with Intuit.

### **3.5 Competitors**

Although Affinity Federal Credit Union works hard to offer a full range of financial services to its members, the credit union acknowledges the importance in managing

relationships with competitors. As the largest credit union in New Jersey, and also one of the top 75 in the country, Affinity Federal Credit Union works very hard to promote one common objective amongst all credit unions which is to increase political and regulatory visibility for all credit unions. The Affinity Political Action Committee ensures this objective is addressed by analyzing post-election results and identifies key legislative positions to target the credit union's message as well as host activities such as post-election celebratory events to build relationships with legislators. Other credit unions support the same message, but they do not invite legislators to interact with small business members in their district or include a communication plan to keep legislators informed and updated on credit union issues.

## **4. Competitive Forces and Challenges**

### **4.1 Supplier Power**

Affinity Federal Credit Union was relatively a large customer of a supplier that provided the credit union's financial services core system. However, the supplier was acquired by a much larger company along with other suppliers that offer similar services. The credit union's CIO is an advisory board member for this supplier; however, since the acquisition of this supplier, the advisory board member status does not provide enough bargaining power as it used to in the past. The challenge is in the ability for Affinity Federal Credit Union to provide a direction for our core system's development and the implementation of future releases that address credit union strategic objectives.

### **4.2 Barriers to Entry**

There are many new entrants in the financial industry and some include larger mergers. The challenge for Affinity Federal Credit Union is not with other credit unions, but rather other banks in New Jersey. The credit union has done a outstanding job to promote produce and services by pushing the brand promise, but it is possible that other financial organizations are starting to improved the customer-oriented strategies to match the credit union's competitive advantage.

### **4.3 Buyer Power**

A strong relationship-based approach will ensure low buyer switching costs. The credit union understands that the rates are very competitive, but they are not the lowest rates in the states; however, true value of the products and services provided is what makes it hard for existing members to switch to another financial organization. In contrast, location remains an issue for the credit union long term growth. As a sharing branching member, Affinity Federal Credit Union can provide financial services to members at over 3,000 locations, but the same level of member-oriented service and the Affinity Experience cannot be guaranteed at these locations. The credit union needs to improve political, community, and other smaller credit union relationships to continue its positive organic growth in years to come.

### **4.4 Threat of Substitutes**

Products and services provided by financial organizations have transformed in recent years to include a full range of financial wellness for customers. As a forward thinking organization, Affinity Federal Credit Union is not experiencing a significant threat of substitutes as long as knowledgeable, engaging, and caring professionals are committed to provide the best and easiest to use financial products and services to meet the member's needs. Affinity Federal Credit Union's Strategy and Consulting Services provide professional analysis and project management expertise to assist management in aligning IT to business goals.

### **4.5 Rivalry**

A well crafted competitive strategy is one that speaks of teamwork, collaboration, and complete culture change. As long as the credit union remains strong with its mission, brand promise, and forward thinking mentality, the only rivalry will come from larger banks. However, it is important to maintain strong relationships with legislators since these people are the ones that have given Affinity Federal Credit Union an opportunity for significant growth since 1998.

## **5. Competitive Strategies & Sustainable Competitive Advantages**

If a person is in the market to purchase a vehicle, most people would agree that at the time of financing, this individual will choose a financing provider that will have the lowest rate. Although the basis of competition tend to focus on price at times, at Affinity Federal Credit Union the true price is the value its members receive when taking full advantage of the many free services that come along with being a valued credit union member. Of course, in a capitalist economy, competition is essential and along with competition there are other factors to consider such as quality, service, reputation, reliability, functionality, and others.

Since 1979 Porter forces introduced businesses to horizontal and vertical competition. It is clear that all forces require specific strategies, but Affinity Federal Credit Union's management should be primarily concerned with the horizontal competition of substitute products. It is clear that vertical forces are always going to be present and they require an exceptional relationship-based approach, but the threat of substitutes is something that can appear out of the blue and have a significant negative impact for a financial organization.

In order to battle this challenge, the credit union should continue its effort to improve the advantage-based approach to competitive strategy. Affinity Federal Credit Union competitive approach has always been to provide an Affinity Experience to all its members while continuing to have a competitive advantage over its niche competitors. However, the threat of substitutes is eminent and improved technology has been a big factor in the development of new services to members. As a credit union, it is important to remain focused on quality and not so much quantity. The credit union has several free services for all its members along with very competitive products and services, but what is more important than the total membership number is the number of products and services per member account. The more services a member has with the credit union, the less likely a member will switch to another competitor even if the rates alone are lower.

Affinity Federal Credit Union should continue to look at horizontal integration of more CUSOs to provide added services to its members even though it is important to remain a value channel partner for other businesses. Continued support for legislators through the Affinity Political Action Committee will prove to a valuable strategy. In addition, the credit union should continue to push the brand promise and ensure all employees understand its value as a long term business objective and mission statement. Although aligning business processes with IT as the differentiator remains a work in progress, the Strategy and Consulting Services business unit will play a key role in slowly improving management's attitude towards IT.

## **6. Business Model Evolution**

This model-base approach will help management decide how strategies and the organization's business model should evolve.

### **6.1 Enhance**

Location is a key aspect in business growth. Affinity Federal Credit Union has provided a number of services to enhance its coverage by participating in the share branching network, offering online banking solutions for over a decade, and communicating with members via online chat, secure email, and 24/7 call center support. However, Affinity Federal Credit Union's physical footprint remains only in New Jersey with almost the same amount of branch locations for number of years. Affinity Federal Credit Union requires a bigger presence in order to compete with larger financial organizations that seem to be present in every town. The credit union understands this task and is beginning to acquire new locations throughout the state, but more locations may require a change in the network infrastructure. Enhancing the network infrastructure will provide adequate technical capabilities for future physical growth.

### **6.2 Expand**

As stated previously, Affinity Federal Credit Union should expand geographically based on average household incomes, current membership statistics, and key locations in New Jersey. Although the credit union's business

products and services was added recently, it is important to be a continue being a forward thinker and implement business services such as RDC and develop new business supplier and/or partner relationships for this type of business offer. Forward thinking means staying head of other competitors by implementing new products and services.

### **6.3 Extend**

Affinity Federal Credit Union needs to remain focused on providing financial services to its members including many small businesses, but also understand the importance of horizontal integration. The credit union should always maintain or improve its brand promise and not lower its guard during a merger or acquisition. It is important for the credit union to reevaluate its organic growth and consider merging with another credit union to increase its sustainable competitive advantage.

### **6.4 Exit**

As a growing financial organization that has taken its time in developing precise business strategies, Affinity Federal Credit Union has been effective in dropping products and services such as low limit unsecured education loans and introducing Federal Stafford Loans, Educational Line of Credit, and Federal Plus Loans. The credit union has also closed a number of branch locations over the last decade due to a number of economic and business reasons.

## **7. Best IT-Supported Proposal**

As the credit union continues to expand its market segment to include more New Jersey residents by adding more branch location throughout the state, it is important that management understands the significance behind the credit union's network infrastructure. A model-based approach to competitive advantage will include a proposal to enhance the network infrastructure to implement an MPLS cloud. Of course, this proposal has a significant magnitude and should be introduced to C-Level management by the Strategy and Consulting Services business unit. The proposal should present the enhancement as an IT initiative that supports and business strategy.

The Strategy and Consulting Services business unit needs to communicate precise information that C-Level management can understand. Executive management does not want to hear a problem, but rather a solution to achieve it's strategic goal. As Plate said, "wise men talk before they have something to say; fools, because they want to say something." It is crucial that when presenting the solution to management, we are viewed as wise men. If this business unit emphasizes the use of IT as a strategic element that adheres to the business objectives, then the proposal will become a top-down initiative. It is important to improve the existing network infrastructure prior to any expansion initiative because this model-based approach deals with business model evolution and as such, there is a sequence of evolutionary approaches.

Once an MPLS network infrastructure is in place, Affinity Federal Credit Union can expand geographically without any negative impact to network availability and security. In addition, MPLS will provide an efficient solution for the credit union quest to improve their Business Continuity Plan. The role of IT is that of an integrator that provides subject matter experts to efficiently implement an enhancement that will provide an adequate network capacity to expand the organization's footprint. The Strategy and Consulting Services business unit and a strong support from the CIO to ensure IT aligns itself to business goals will improve Affinity Federal Credit Union's sustainable competitive advantage.

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