



CONCEPT DOCUMENT

COOP Car

TEAM MEMBERS

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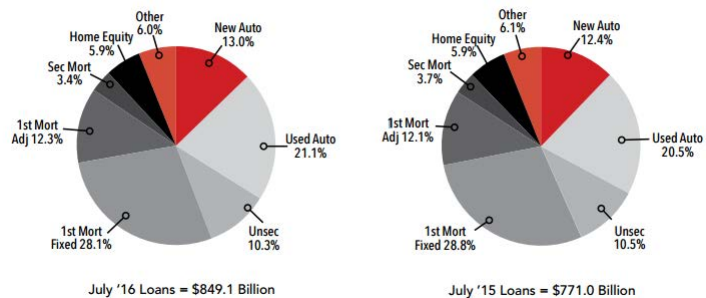
PROBLEM DEFINITION

Close your eyes.

Imagine that it's January 1st, 2017. You wake up with a slight headache from the glass of cheap champagne you had at midnight and check your iPhone. You're surprised to see a frantic text from your normally quiet CFO exclaiming: "Auto loans are dead!!!!", and you immediately reply with "What are you talking about?!" In response, she sends a link to an article explaining how self-driving cars will be available in your city starting in the second quarter of 2017. You shrug – that silly Accountant - and get going on making some coffee.

However, as you impatiently wait for your French press to do its magic, curiosity gets the better of you. You start wondering 'What *WOULD* happen if auto loan demand dried up? What if it dropped, oh... say... 50% in the next five years?' You know that as of July 2016 auto loans accounted for 34% of credit unions' collective \$849 billion loan portfolio. As you do some back-of-the-envelope math, you get slightly nauseous. It's not the champagne making you feel ill. It's thinking about how to replace that bread-and-butter revenue for your credit union!

Distribution of credit union loans



You think back to information you read on the website www.futureofcarsharing.com which noted that "In 2009, for the first time, the number of Americans who ditched their cars was greater than those who purchased new cars." You also think about how, according to RelayRides, the average car is used for a measly one hour per day. You remember that the average car costs its owner \$715 a month, and how that has been cited as a strong driver of the recent Uber explosion.

You take a sip of your coffee, then do a quick Google search to see whether your CFO might be right – *could all of this really be leading to the "death" of the auto loan?* You find that: California is pressing hard on regulators to legitimize self-driving cars; that Ford Motor Credit is currently piloting a 'group' auto lease in Austin, Texas; and that Larry Burns, the former corporate VP of R&D at General Motors, has recently stated that it is possible that their current auto lending business model could be completely disrupted.

You contemplate updating your LinkedIn profile and searching for a new career; but then you think twice and remember Filene's "Big. Bright. Minds." Conference in Madison, Wisconsin! You recall an i3 team discussing this exact problem, and offering up a solution to evolve the credit union auto loan business model before the current version goes extinct.

INNOVATIVE SOLUTION

Introducing Coop Car! The future of autos for credit unions. With Coop Car, a credit union Member has access to affordable, reliable transportation at the tap of a finger. Here's how it works:

- A Member submits a one-time application to participate in Coop Car.
- The Members application, including credit and driving history are reviewed by the credit union and he/she is approved for CoopCar.
- An email welcomes the Member and provides a link to the Coop Car scheduling app along with the Members unique usage credentials.

Once signed up, a Member simply requests to use of one of 5 different types of autos. Usage can be scheduled for as little as one hour, and up to perhaps two weeks or longer depending on availability. Rates for terms longer than three hours are priced at an increased rate, to ensure availability of the fleet and to provide adequate compensation to the credit union. The car can be either pre-scheduled or requested on demand, if available. Insurance and routine maintenance are handled by the credit union, and a gas card can be found in the glovebox. All costs are included in the hourly usage charge, with is automatically withdrawn from the Member's credit union account when the vehicle is returned.

So why would a Member choose Coop Car? For any number of reasons:

Car in the shop and need to run to the store? Coop Car!

Need a truck to bring home new furniture? Coop Car!

Driving the soccer team to a tournament? Coop Car!

Going out and want to impress your date with a sweet ride? Coop Car!

Coop Car embodies the cooperative spirit of credit unions. By utilizing the existing shared branching network, the cars could be made available for pick-up or drop-off at an extensive network of shared locations. The Coop Car fleet can be built using repossessed autos which have been re-purposed to the fleet, by buying new autos at fleet prices, or even through purchasing the repossessed autos of other credit unions!

Coop Car usage could be reflected in a Members credit score, and it would not require a long term contract. This creates a competitive advantage over other ridesharing services like Uber, and it's a better option than the Ford Motor Credit 'group' auto lease which is expensive and can detrimentally impact the credit scores of all participants to the contract.

Coop Car will position credit unions as leaders in the ride sharing economy, benefiting both current credit union Members and increasing the value proposition of credit union membership for the next generation.

PROTOTYPE

The Coop Car team created a prototype test to validate the assumption there is a need to have credit unions involved in the ride-sharing economy. The test was also "virtual", using hypothetical rather than actual cars, since it wasn't feasible to purchase a fleet of autos for purposes of testing.

The Virtual Prototype began with a survey of individuals across a variety of life stages and geographic locations. These results verified that credit union members are interested in having more options for ride-

sharing, with 56% indicating that they would be interested in participating in ride sharing opportunities sponsored by their credit union. This compares quite favorably to Uber's 15% national participation rate. We also found that only 54% of those surveyed had access to public transportation in their community. We also noted that, while 22% of respondents did not think a car-sharing cooperative would work in their community, another 46% said they were unsure or needed more information. This illustrates that awareness is a larger hurdle to success for car-sharing services than user demand.

The next step was to test Coop Car's feasibility. The Coop Car team designed a web form with a tracking mechanism for this portion of the test, built with the assistance of our third-party partner Make Greater LLC. The Coop Car team then assembled a group of 31 individuals, hand selected to fall into four types of "personas". These were: Young/Single Adults, One/No Car Households, Families, and those in Sales roles (i.e. Realtors, Insurance Agents, etc.). The testing period was set at 30 days. During that time, each of the participants was asked to log on to the web form and submit a "Usage Request" at any time when, given the opportunity, they would utilize a ride sharing service over their current mode of transportation. The idea was for participants to think about the Coop Car option as they went about their normal daily activities, so that the "Requests" would be representative of real-life situations.

The Virtual Prototype web form was designed to gather the following information:

- The types of autos most desirable in a ride sharing fleet. The 'virtual' transportation options were: Economy, Hybrid, SUV, Truck, and Luxury
- The purpose for using the Coop Car service. Participants could select from a set of pre-populated descriptions, or could select 'Other' and provide their own description. The standard descriptions provided were: Drive to work, Local errands, Road trip, Sunday drive, and My car is in the shop.
- The duration of use. For this data, participants were asked to log both the Pickup Date/Time and the Return Date/Time.
- The preferred Cost per Hour. Rather than providing options, we asked the participants to tell us what they'd pay to use the service in a free form field. In this way, participants could freely explore other options like Uber and tell us what a reasonable/competitive rate would be.

Screen shots of the website and the How-To guide provided by the Coop Car team are available in the attached appendix.

TESTING AND RESULTS

The Virtual Prototype collected a total of 203 valid "Usage Requests" for a total of 3,860 hours of usage over 30 days. The test group averaged 6.55 uses per participant, and an average of 124.54 total hours of use per participant.

The most frequent length of usage was under 2 hours, with over a quarter of all submissions falling in that category. This was also the highest rate per hour, with testers willing to pay on average \$8.31 per hour. This illustrates a strong need for access to automobiles for shorter trips, currently under served by existing options like car rentals or public transportation. There were also several usage requests that exceeded 24 hours, with reasons being either Drive to work or Road trip. This illustrates a strong use case for a second car option to supplement a primary auto.

On average testers were willing to pay \$4.65 per hour for a Coop Car. The strongest determinant of price was the length of the trip, with participants willing to pay more for shorter trips than longer ones as previously noted. This indicates that users are most sensitive to total trip cost, versus the rate per hour. A secondary

driver of price was the type of vehicle selected. Not surprisingly, users were willing to pay more for a Luxury car or a Truck than for the Economy car option.

The prototype produced a wide variety of use cases. Drive to Work was the top choice for both the One/No Car and the Family segments. The Young/Single segment selected Local Errands as its top use case. The Sales segment selected “Other”, with too little information provided to draw any meaningful conclusions for this group unfortunately. Over 25% of all Usage Requests selected the “Other” option, and although a wide variety of descriptions were provided these tended to fall in under the general headings of “night out”, “need larger car to fit large group” and “furniture moving”.

The Virtual Prototype found the Economy car to be the most popular option by far across all use cases, with over half of all use cases selecting this option. Hybrid vehicles came in a distant second, with 44 of the 203 usage requests. The Truck option wasn’t selected often, but almost always for some variation of “furniture moving”. The Luxury car also wasn’t a popular option, but was usually requested for “night out”. The SUV option was most popular “need larger car to fit large group”.

The prototype results clearly demonstrate a wide variety of potential use cases and a strong market demand for a Coop Car cooperative ride-sharing model. The test also confirmed that Members are willing to pay reasonable prices for services rendered, especially for trips lasting two hours or less. While testers had use cases for all types of vehicles, the prototype showed that a fleet of Economy and Hybrid vehicles would have the best utilization, with perhaps a few options for Trucks and Luxury cars for more occasional needs.

An exit survey of prototype testers found that 63% of testers thought that private ride sharing would work in their community. The remaining 37% indicated more information was needed to make that decision, with zero participants selecting that private ride sharing would not work in their community. Over one-third of testers indicated they would be extremely likely or very likely to use a similar service.

The test did not address the logistics of providing a credit union sponsored ride-sharing service, including pickup and drop-off locations, approving Members to participate in Coop Car, how to handle the inevitable insurance and legal issues, etc. These will need to be designed for the Beta Testing phase, along with further research to finalize the pricing model.

However we firmly believe that credit unions would be wise to begin live testing the Coop Car concept in their marketplace, to evolve their credit unions role as auto lender into a new role as a cooperative *transportation provider* -- before the current auto loan business model goes extinct.

BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA

If you’ll recall from the introductory scenario the average auto loan today costs members over \$715 per month - for just **one hour** of use per day on average! It’s no wonder that so many of tech-savvy, budget conscious Millennials are choosing Uber or other ride sharing options over car ownership.

On average, a Coop Car membership would cost just **\$150 per month**. This is based on the results of our prototype test, which indicated that on average users would utilize a Coop Car for about 30 hours in a given month, and would be willing to pay about \$5/hour for that usage. Our prototype results also indicated broad interest from members across all demographics. We believe this will result in strong adoption rates across all credit union demographics, and we have estimated that Coop Car will be in use by at least 2.5% of a credit unions total membership within the first three years of operations.

Key to the success of the Coop Car model is its scalability. On average, a single Coop Car can support about 11 users per month, and additional cars are added as membership and usage grows. Since the most popular car option by far was an Economy vehicle, we estimate that the average capital cost, after applying a fleet pricing discount, would be around \$22,000 per vehicle. Since all Coop Car members would be subject to credit and background checks, insurance costs can be kept very affordable by using high deductible plans. Maintenance costs can also be kept in check by establishing strong partnerships with local repair and auto-body shops at negotiated prices.

For participating credit unions, Coop Car is the perfect solution to transition into the sharing economy. In addition to building member loyalty and creating hard-to-come-by service differentiation, Coop Car would also be profitable from day one! Below is a summary of the projected Revenues and Expenses associated with the service. After just three years of operation, we estimate that Coop Car would generate an annual net margin of over **12%**. That's substantially more than the current auto lending model, where margins are often as narrow as 1% or less.

	Year 1	Year 2	Year 3
REVENUES			
Average Number of Uses per Month for each Member	6	6	6
Average Number of Hours for each Use	5	5	5
Coop Car Average Fee per Hour	\$5.00	\$5.00	\$5.00
Average Monthly Revenue per User	\$150	\$150	\$150
Average Annual Revenue per User	\$1,800	\$1,800	\$1,800
Total CU Membership	80,000	85,000	90,000
Percentage of Membership enrolled in Coop Car	0.50%	1.00%	2.50%
Coop Car Members	400	850	2,250
ANNUAL REVENUE	\$360,000	\$1,125,000	\$2,790,000
EXPENSES			
Available Car Hours per Month (6am - 8pm, 7 days per week)	420	420	420
Coop Car Members per Car (reduced to 75% Usage Efficiency Rate)	11	11	11
Required Number of Cars	38	81	214
<i>Investment in the Fleet</i>	<i>\$838,000</i>	<i>\$1,781,000</i>	<i>\$4,714,000</i>
Operating Costs			
Insurance	114,000	357,000	886,000
Maintenance	46,000	143,000	354,000
Fuel	15,000	32,000	84,000
Coop Car scheduling system	25,000	30,000	35,000
Depreciation of automobiles	140,000	437,000	1,083,000
Other administrative costs	5,000	5,000	5,000
ANNUAL EXPENSES	\$345,000	\$1,004,000	\$2,447,000
NET INCOME/(LOSS)	\$15,000	\$121,000	\$343,000
Net Margin	4.17%	10.76%	12.29%
Annual Net Margin per Coop Car Member	\$75	\$285	\$305

COMMENTS, NEXT STEPS, AND CALL TO ACTION

It's now January 2, 2017 and you've spent a restless night considering - *What WOULD happen if auto loan demand dried up? What if it dropped, oh... say... 50% in the next five years?*. After arriving at the office, you immediately present the Coop Car Concept Document to your CFO along with a request to put the concept into action at your credit union. After reviewing the projections, expected profitability, and use cases, your CFO agrees that the Coop Car model is exactly what your credit union needs to move away from reliance on auto loans and evolve into a cooperative transportation provider for your Members.

Since your repossessions are low it may not be possible to draw a fleet from the current auction house. Instead, you know that your credit union has a strong relationship with a hometown auto dealer who is willing to partner in this new venture and lease the autos to your credit union during the initial roll out phase. The option to purchase the autos at a later time will also be favorable. The risk stays minimal as the credit union retains the ability to return the vehicles after the initial trial period. You call up your good friends at Filene and agree to partner in a live prototype. It's time to stop thinking about the future and do something about it. You share with Filene that you already have an auto dealer willing to assist with the leasing, and have already partnered with one of the many CUSOs that will offer the insurance coverage at a nominal price. You're off and running.....

Now it's time to get real!

The Coop Car team is seeking a credit union willing to sponsor a live Beta test, to further validate the assumptions and fully assess profitability. Inclusive in the Beta test will be the development of a scheduling application for users to set up an account, schedule autos and arrange payment. There are currently several similar applications already on the market that would require only minor adjustments to allow for automatic deduction from the Members account.

Once Coop Car has been through a live Beta test, additional facets of the concept can be developed including the credit bureau reporting and utilizing the shared branching network to broaden fleet availability.

The next step would then to be identify additional credit unions to partner in this venture in a formalized ride-sharing CUSO which would handle scheduling, maintenance, and other needs to keep the program running long term. The more credit unions that invest and take part, the greater the overall fleet access and availability. Just like shared branching, and in the spirit of the cooperative movement, the more we get together the happier we'll be!

ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at filene.org.

"Progress is the constant replacing of the best there is with something still better."

—Edward A. Filene



APPENDIX 1 – FAQ for COOP CAR TESTERS

Car Sharing

Exploring a New Benefit for Credit Union Members



Why is my Credit Union interested in “Car Sharing” services?

Car Sharing is a growing segment of the U.S. economy, offering the benefits of access as opposed to the burdens of ownership. Today car-sharing services can be found throughout North America including Uber, GoCar, Zipcar, etc. However these models are all supported by large corporations or private investment, and to date very few large-scale not-for-profit models for car sharing have emerged.

What is the purpose of this test?

Your Credit Union, in conjunction with industry-leading research group Filene, is participating in a nation-wide effort to design a car-sharing service for Credit Union members! This service would extend the credit union cooperative model to car-sharing by allowing members to access a fleet of vehicles for short-term rental as needed and at affordable rates. Credit unions are the ideal option to ensure long-term, affordable access to cars for all consumers in the emerging sharing economy! The purpose of this test is to assess the services’ feasibility and pricing model.

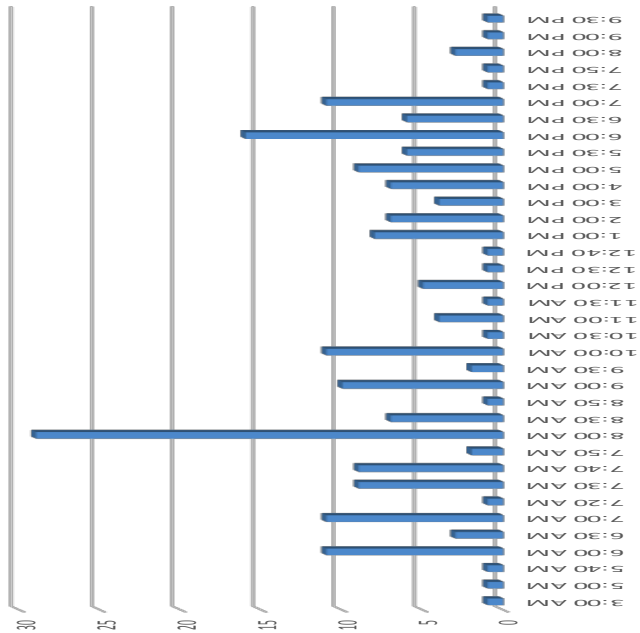
What would I have to do?

We are looking for testers to participate in a virtual prototype of a credit union car-sharing program. For period of 30-days, you’ll be asked to simply log dates and times that you might consider using a ride sharing service and your preferred threshold for cost. That’s it! (There are no real cars involved since the test is “virtual”.) A tracking system will be provided which makes it quick and easy for you to log your preferences. We estimate it will take no more than 15 minutes of your time each week, and a credit union contact will check in with you weekly to assess your progress.

[To thank you for your participation you will receive a \\$25 VISA gift card \(courtesy of Filene\) upon successfully completing the entire 30 day test period.](#)

APPENDIX 2 – COOP CAR PROTOTYPE SUMMARY

Use Cases - by Requested Pick-Up Time



Use Cases:	Dineo		Local		Roadtrip		Sunday		My car is in		Other	
	work		errands				dine		the shop			
Young/Single	18	25	11	4	5	21						
One/No Car	11	9	5	0	0	5						
Family	35	12	8	4	2	20						
Sales	0	0	0	1	0	7						
	64	46	24	9	7	53						

#1 by Count
#2 by Count

APPENDIX 3 – COOP CAR Website



Why limit yourself? Choose the vehicle that best fits the road ahead!
We offer a variety of makes, models, and pricing options to fit your needs.



Moving a family member? We offer a variety of trucks and SUVs that can fit all of your belongings.



Pay as you go!

Why pay for daily rentals? Simply use Coop Car when you need it.



Maintenance

You have enough to worry about. Let us focus on finely tuning our fleet so you can get to where you are going, worry-free.



Open Road

Dropping traditional rentals off in other cities can be expensive. With Coop Car, we make it easy to hit the open road, so you can save your cash for roadside repairs.

NEED HELP?

Contact Us:

Monday - Friday: 7 am - 6 pm
Saturday: 7 am - Noon

1-800-COOP-CAR