

Early Concept Document

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CONCEPT DOCUMENT



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EXECUTIVE SUMMARY

Savvy online shoppers have the Internet at their fingertips to research the best deals available for all types of products and services. Until now, consumers have not had the opportunity to purchase financial products at an exceptional value through social buying networks, despite the increasing popularity of these sites. Through Groupon.com, “a deal of the day” buying site, our team was able to offer a substantial incentive to consumers to finance their auto loan through a credit union. This improves on traditional financial promotions because consumers get a better deal than they could by simply walking through the door or visiting a financial institution online. It also gives consumers a motive to engage with credit unions, which represent a better banking alternative, by extending a clear and significant value upfront.

THE OPPORTUNITY

Social networking sites, such as Groupon, are growing exponentially and offer consumers an astonishing variety of daily deals. The selection of daily deals includes restaurants, spas, salons, car repair shops and more from every corner of the retail market. However, until now, financial services have been conspicuously absent from the deals offered on social buying sites.

Online social shopping sites for financial services could open the door for consumers to gain more awareness of credit unions in their local area while providing significant savings on financial services. Through attractive offers, these sites also provide an opportunity for credit unions to gain and nurture new members who already are receptive to the cooperative model, as evidenced by their existing participation in social/group buying.

THE SOLUTION

Using existing social shopping sites such as Groupon.com or LivingSocial.com, credit unions can attract both new and existing members with deeply discounted offers on financial services. Credit unions can get in as a featured deal, placing them at the forefront of their city’s Groupon/Living Social site, allowing them to be seen by all local visitors to that social buying site. Alternately, Groupon allows businesses to set up their own Groupon stores, which would allow a credit union to continuously feature deals, which the credit union could then publicize using its existing marketing channels (website, Facebook, Twitter, email, etc.). The details of the offer are determined by the credit union, but should be deep discounts/incentives that are not typically available at a branch or online.

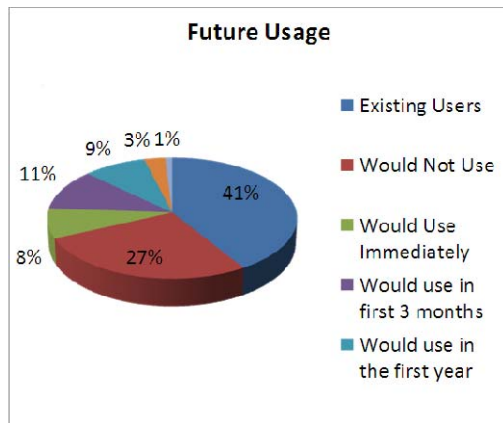
TARGET MARKET

A survey was conducted at the five participating credit unions in an effort to determine the best potential audience for a financial services offer via this channel. The participating credit unions included Directions Credit Union (Ohio), Interra Credit Union (Indiana), Christian Financial Credit Union

(Michigan), University Federal Credit Union (Texas) and Veridian Credit Union (Iowa). A total of 5,067 individuals completed the survey with the following results.

CREDIT UNION SURVEY RESULTS

Usage by Age. Of respondents that currently use these types of sites, usage is strongest in the 25-44 age group. When looking at future usage, the largest percentage of respondents who “would not use” is 65+, with a significant gap to the next highest “would not use” segment (respondents ages 45-64). Overall, there is high current usage and good acceptance of these sites for future usage in the critical 18-44 segment.



Usage by Household Income. When looking at current usage and future usage by household income, the higher income groups, including respondents with household income of \$100,000 to \$124,999, and more than \$125,000, had a higher current usage of 41.9% and 40.7%, respectively. The “less than \$30,000” segment had the lowest percentage of current users, with 30.8%. Results indicated a slightly higher usage in the higher income categories.

The “would not use” segment proved income as a factor to be inconclusive. When broken down by household income, the difference between most income categories responding that they “would not use” was less than five percentage points. This is typically within a normal range to negate income as a factor when determining which respondents would not use the service.

GROUPON DEMOGRAPHICS

Taken from www.grouponworks.com/why-groupon/demographics, the demographics for Groupon customers align with the survey results above. Groupon demographics include the data illustrated in the charts to the right, as well as the highlights below:

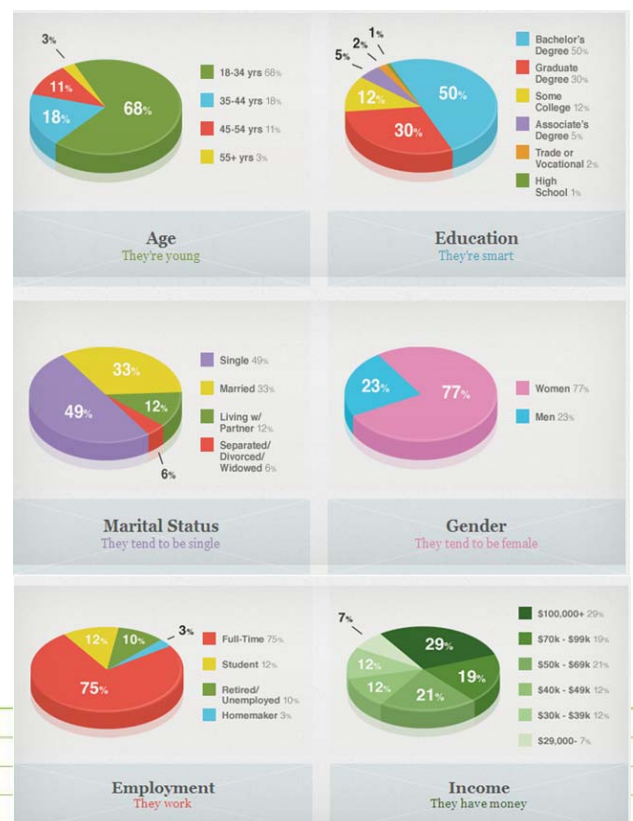
Groupon customers are:

- Socially active. 50% are habitual users of Facebook, Twitter, blogs and other social media tools.

According to a recent subscriber survey:

- 66% read Groupon write-ups every day.
- 66% use Groupon primarily as a guide to explore their city.

According to a recent business survey:



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- 92% said Groupon brought in quality customers.
 - 89% said those customers were likely repeat customers.

In summary, Groupon subscribers are one of the largest, most desirable audiences for any business — and one of the hardest to reach with traditional advertising.

CONSUMER BENEFITS

GENERAL

- Consumers have access to deep discounts/incentives not available by visiting a local branch or a credit union's website.
- Consumers gain awareness of credit unions and their offerings.
- Consumers that purchase the offer gain the added value of credit union membership.
- Consumers are incentivized to try a new organization of which they may not otherwise have been aware.

SPECIFIC TO OUR DEAL

- \$350 cash incentive on an approved loan (or reimbursement of coupon purchase if loan denied)
- Suggested additional offer (not yet piloted): \$150 incentive for opening a new checking account

CREDIT UNION BENEFITS

- Gain a marketing outlet across an entire local region while only paying for users who actually take advantage of the offer (no cost just to publish the deal).
- Increase membership.
- Grow loans or deposits as needed.
- Increase general market awareness of credit unions and their offerings.
- Capture “fence sitters” that were hesitant to try a credit union.
- Get in and out of the deal as they desire – credit union has total control of the deal offered and the level of new business it may generate (may set maximum amount of purchases using Groupon).

PILOT RESULTS

We established a Groupon store for Christian Financial Credit Union in Roseville, Michigan. The offer consisted of \$350 cash upfront on a new, approved auto loan. The offer ran as a one-day special whereby the Groupon consumer purchased a coupon upfront for \$50, which guaranteed the participation in the deal. Participants would receive the \$350 cash incentive when they visited the credit union to obtain loan approval. Purchasers had up to six months to cash in the coupon with the credit union, so even if they were not in the market for an auto loan at that moment, if they anticipated being in the market within six months, it was worth it to spend the \$50 for the coupon to take advantage of the extra cash incentive.

OPERATIONAL AND OTHER CONSIDERATIONS

Operational considerations included:

- Determining the credit union's breakeven point for the product offering at the promotional-based pricing.
 - This requires the credit union to know the cost of providing each of their products and determining the ROI for the promotional offer.
- Determining which services the credit union can/is willing to offer at a deep discount
 - If you are using an existing social buying website (i.e. Groupon, Living Social) the site may require you to be able to provide multiple service offerings so that the largest audience can be reached.
- Educating existing/potential members about using this type of buying format if they are not familiar with the concept and you desire to market it via your existing channels.
- Choosing the appropriate buying site partner – finding the social shopping site that is popular and most used for your local area – or developing your own site if viable.
- Surveying your local market to determine if consumers will shop for financial services via this manner and what products and level of discount would successfully make them take part in an offer.
- Clarifying membership requirements at the front end so consumers know whether or not they can participate in the offer
- Training staff regarding the promotional offer so that anyone bringing in the coupon for the offer receives it.
- Researching the “Lottery and Gaming” rules for your state and local areas.
- Researching IRS code to determine if you will need to include the discount/reward in 1099 reporting for the member.

FINANCIAL PRO-FORMA/ROI

Groupon's "Deal of the Day" format allows retailers a great deal of flexibility in structuring their offering. Typically, retailers on Groupon offer a 50% - 90% discount on their product or service and Groupon does need to approve both the breadth of appeal and comparative value of each deal. From a credit union perspective, there is applicability for loan as well as deposit offerings, depending on market conditions.

ASSUMPTIONS

- \$50 coupon good for \$350 back on any approved and closed auto loan.
- Coupon expires six months from the date of purchase.
- Groupon keeps 30% of the coupon purchase as a fee (\$15 to Groupon, \$35 to the credit union).
- Groupons sold in one day increased auto loan applications by 14% for the same day.
- Cost of auto loan rebate nearly equals the average fee paid for an indirect auto loan.

PRO-FORMA

	Number of CUpons Sold in one Deal of the Day		
	10	15	20
Revenue			
Coupon Sales (\$50 each)	\$ 500	\$ 750	\$ 1,000
Average Indirect Auto Loan Profit ⁽¹⁾	<u>\$ 950</u>	<u>\$ 1,425</u>	<u>\$ 1,900</u>
Total Revenue	\$ 1,450	\$ 2,175	\$ 2,900
Expense			
Groupon Fee (\$15 each)	\$ 150	\$ 225	\$ 300
Rebate	<u>\$ 3,500</u>	<u>\$ 5,250</u>	<u>\$ 7,000</u>
Total Expense	\$ 3,650	\$ 5,475	\$ 7,300
Net Cost			
Indirect Cost Foregone (\$250 each)	<u>\$ 2,500</u>	<u>\$ 3,750</u>	<u>\$ 5,000</u>
CUpon Profit versus Indirect	<u>\$ 300</u>	<u>\$ 450</u>	<u>\$ 600</u>

⁽¹⁾ Based on Raddon Financial Group average indirect auto loan profit for peer group > \$500M.

BENEFITS

- Increased auto loan volume.
- Rebate cost is a wash versus average cost of indirect auto loans.
- Opportunity to cross-sell CUpon purchasers who are Groupon subscribers and not credit union members.
- No cost to credit union for coupons purchased but not used.

RESOURCES

We worked with different social media sites to determine the best one to use for offering credit union services. The sites we reviewed were Groupon and Living Social. We found Groupon to be the most established with the largest audience that reached across the United States and into most local markets. Groupon also provided demographics that are of interest to many credit unions trying to reach a younger age group.

GETTING STARTED

1. Contact Groupon to either make your desire to be a featured deal known and/or to establish your store – the challenges in establishing your store may vary by site and locale.
2. Analyze loan products and deposit products to determine breakeven points and establish the credit union's "deal of the day" offering.
3. Train staff on how to handle the Groupon coupon offers.
4. Recruit existing members and their social network to follow your credit union store on Groupon.
5. Launch your store.
6. Launch your "Deal of the Day."
7. Track your results.
8. Contact us if interested at innovation@filene.org.