

THE *BLUE* PAPER

◆ January 2009 ◆

The Eleven Steps To Cutting Expenses In This Fiscal Crisis

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Successful Credit Unions
Have Learned:

It Is Possible To Reduce Costs

Route to:

- EVP
- VP Operations
- VP Finance
- VP Marketing
- VP Lending
- Newsletter Editor
- E-Coordinator
- Marketing Manager



This financial crisis will be the worst since the Great Depression.

The project leader should be the type who can lead, delegate, and follow through to completion.

Last year this publication, the American Income Life *Blue Paper*, dedicated an issue to the importance of cutting expenses in anticipation of a potential financial crisis in this country.

It is now obvious that cutting costs will be even more critical in 2009, as the entire financial world spirals into an ever-deepening crisis.

Consequently, it's time to once again re-examine our expenses and budget. It's accepted knowledge that this financial crisis will be the worst since the Great Depression and that 2009 will be the most challenging year in decades.

AGREED: WE WANT TO CUT EXPENSES. THE QUESTION IS HOW?

As a group, Credit Unions are good at being concerned that expenses don't skyrocket. But cutting them is a different ball game. Let's take a look at *the eleven key steps that successful Credit Unions are using to contain costs.*

1 — THERE HAS TO BE A STRONG COMMITMENT.

Cutting expenses is not easy. And it's not something you can do in an offhand way. It takes a concerted effort and a *commitment* — from the entire management team. Without that you will not be successful.

The foremost problem that hinders most Credit Unions that want to cut expenses but “can't” is lack of commitment.

A Credit Union needs firm resolve on the part of all senior managers that this project is important. It will require a co-operative resolution.

2 — APPOINT A LEADER AND TASK FORCE.

It's critical that you appoint as the project leader a staff member who has sufficient authority to require that the work be completed. The person should be the type who can lead, delegate, and follow through to completion. Organizational skills are a must. A frequent choice is the Credit Union's number two person.

This individual should lead a task force made up of five to seven others from the various major departments of the Credit Union. Some Credit Unions add a board member to this group to show the seriousness of the effort and to give the group additional clout.

This group is not the place for the “also rans.” It has to be a task force of doers.

3 — COMMUNICATE THIS PLAN TO THE ENTIRE STAFF.

If the project is to succeed, the importance of the mission must be communicated to every employee. Cutting expenses is a Credit Union-wide endeavor and not something that can be done by management alone. There should be continuous communication to the entire staff about every aspect of the project: goals, successes, shortfalls, and project status. If employees are not included, the project is doomed to failure.

4 — EXAMINE PEER-TO-PEER COMPARISONS.

By comparing your costs to those of Credit Unions of a similar size and profile, you will be able to isolate the most likely areas for possible cuts. Such comparisons will also give you an index of the range of your probable cuts. How does your expense-to-asset ratio compare with that of your peer group? What other indices are notably high? Studying your peers will also show you what areas other Credit Unions have focused on to cut costs successfully.

5 — CLASSIFY AND CATEGORIZE YOUR EXPENSES.

Categorize your expenses into three groups:

<p>◆ A. Uncontrollable Expenses:</p> <p>Taxes</p> <p>Insurance Fees</p> <p>ATM Costs</p> <p>Etc.</p>	<p>◆ B. Long-Term Controllables:</p> <p>Salaries</p> <p>Rent</p> <p>Equipment</p> <p>Etc.</p>	<p>◆ C. Short-Term Controllables:</p> <p>Telephones</p> <p>Marketing</p> <p>Postage</p> <p>Etc.</p>
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6 — CHECK THE ARITHMETIC (DETAILS) IN GROUPS B AND C.

Here the object is to examine each major category with an eye for *detailed information* that might affect potential cost cutting. For example:

- ◆ What controllable short-term expenses are in the top 20%?
- ◆ What controllable long-term expenses are in the top 20%?
- ◆ What programs or services are underused?
- ◆ What programs or services are not generating the results originally projected?
- ◆ What categories are top-heavy in costs when compared with returns?
- ◆ What expenses can now be handled at a lower cost because of technological advances?
- ◆ What programs or services can now be handled at a lower cost through a different vendor or rebidding?

7 — CUT UNDERUSED PROGRAMS.

It's not easy, but some programs that are definitely underused may have to be cut or eliminated. Here are the *types* of questions to ask:

- ◆ Is that information kiosk in one of the branches just collecting dust?
- ◆ Should our Saturday morning call center be outsourced?
- ◆ Is anyone showing up for those educational classes in our outlying branches?
- ◆ Can the brochures for two or three similar products be combined into a single catch-all publication?
- ◆ Is every mailing important or are we just doing it because we've always done things that way?

8 — REALIZE (AND COMMUNICATE TO STAFF) THAT EVERYONE IS GOING TO HAVE TO DO MORE WITH LESS. THERE HAS TO BE:

- ◆ Less waste
- ◆ Lower telephone charges
- ◆ Lower travel costs — by using webinars, conference calls, etc.
- ◆ Less overtime
- ◆ Where possible, fewer personnel — by not replacing those who have left by attrition
- ◆ Fewer personnel — by doubling up on responsibilities

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Set goals for every category of expense that is targeted for reduction.

Rewards are a critical incentive in a project to cut costs.

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9 — SET GOALS.

Once certain categories are targeted for reduction in cost, set realistic goals for each. Most important, make one person responsible for each of these goals. If it's everyone's responsibility, it's no one's responsibility.

In addition to designating a person charged with reaching each goal, you should set timelines for completion. Projects should not be open-ended.

10 — REVIEW. REVIEW. REVIEW.

This program must stay in the forefront of everyone's mind. If you have a monthly staff meeting, this presents the ideal opportunity for updates, kudos, and success stories. It's the ideal time to update the "success thermometer" that should be kept in the lunch room. If you have an in-house publication, you should have a special page or section for information on your progress. The important thing is not to let the project become obscured.

11 — REWARD.

If the project is going to succeed, everyone has to buy into the program. To do this, some Credit Unions have offered a percentage of the saving as a bonus, divided proportionally among all employees. Others have offered extra vacation days. Some celebrate with a big success party for meeting various goals. It's a good idea to have smaller rewards throughout the year rather than waiting for just the final outcome.

More important, those most responsible for the success of the program should have their efforts reflected in their job reviews.

CONCLUSION

Successful Credit Unions realize that 2009 is going to be extremely challenging for any financial institution. Consequently, this is the time to take the bull by the horns and start cutting expenses.

It's difficult but it can be done. A well thought-out plan is critical to getting all employees on board. According to Ron Schmidt, President of CBS Certified Public Accountants and Credit Union Business Solutions, "Cutting expenses required planning, work, and patience."

It will not be easy; but the eleven steps listed above have proved effective for many Credit Unions. Using them can also be your game plan for successfully cutting your own Credit Union expenses this year. ◆

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