GENERAL MANAGEMENT
FIRST HAND

TIME OUT!

BY GARY ZENKER

Changing the rules of auto lending mid-game.

If you don't like the rules, you may need to change the game. That is exactly what Atlantic Credit Union, Newton Square, Pa., did when it changed its entire auto lending strategy to reverse a declining balance.

Eighteen months ago, the $113 million CU's auto loans showed significant balance decreases. The CU had just exited an indirect lending program because it provided a scant 10 loans a month. The cost had been high as well, with substantially lower loan profit due to a lower dealer rate and higher fees. And Atlantic CU was forced to offer the same lower rate to members walking in its door.

Marketing's solution was to change the game. While I was marketing vice president, we knew we couldn't compete with a 0.9 percent loan rate, no matter how we crunched the numbers. The truth is, we didn't want to. Auto loans are an important part of a member's core relationship, but they need to be profitable loans.

Dealers held too many cards. We lost all hope of getting the loan once members were at the dealership—sitting in the office with new car smells in their noses, shiny paint in their eyes, just a signature away from driving a new car home. At that point, financing is an annoying detail.

We concluded Atlantic CU could never win the financing business by wrestling it from dealers. We re-examined our entire approach to auto lending and decided to make a drastic strategic move. We changed the rules entirely.

We restructured our marketing efforts by placing the credit union earlier in the buying cycle, changing our focus from auto financing to auto buying. Positioning ourselves at the beginning of the car buying cycle meant our opportunities changed.

Auto buying pre-approvals and discount auto buying became the lead-in to the buying process and successfully repositioned us at the start of the process.

The CU no longer leads with loans or leasing, because people don't tend to think about those until they near the end of the buying cycle, where we have less influence. Financing is just a part of how people buy, so financing became our secondary emphasis.

The change included integration of all CU auto services into one car buying offering, including: discount purchasing, financing with loans or leases, extended warranty coverage, and Carfax used car reports.

THE RIGHT ELEMENTS

Regular contact with members was essential to the change. To that end, members receive at least one—and up to three—messages per month using direct mail.

Atlantic CU's targeted marketing took on several new forms—the key to which has been focusing on service groupings.

The CU uses a marketing customer information file system and participates in Raddon Financial Group's CEO Strategies program to understand and segregate members with different buying propensities.

- **Targeting pre-approvals.** Lending and marketing worked together with pre-screening criteria to qualify over half our 21,000 households for loan pre-approval.

We knew we needed to do more than just mail to households with the highest propensity to buy. We worked the entire membership—doing different appeals to various groups—to increase that "highest propensity" segment.

- **Mailings to existing borrowers.** Auto loan holders are commonly considered to have the highest propensity to take out subsequent auto loans, so we targeted them at specific dates during their existing auto loan. Special mailings went out to hundreds of members each month.
- **General efforts.** Support strategies, including focus in our bimonthly newsletter, stuffers, on-hold messages and point-of-purchase ads, were used.

Though re-teaching members about who we are takes time and frequency, Atlantic CU started seeing changes within a year—fast results considering most households are in the market for car about every four to six years.

Marketing was also involved in changing staff approaches. We knew we had to change our CU's message from staff to the member. Without that effort, our program might not have succeeded.

THE FINAL SCORE

As of August 2001—a time when area auto lending was down 15 to 20 percent—the CU's balances totaled $27.6 million, up 45 percent since year-end 1998 and up 15 percent in eight months. Lending remained strong even after the Sept. 11 attack and subsequent economic downturn.

This is the kind of growth any credit union wants. It's not rate driven, so we didn't have to give away margins to get volume, making results profitable and sustainable.

As a bonus, home equity loans also soared due in part to the auto loan efforts. Once members see you as an aggressive lender, they're more likely to think of you for any loan.

Atlantic CU is showing significant loan increases because it identified the part of the game it couldn't win and altered tactics to essentially change its role and placement in members' auto buying. ■

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