



CREDIT UNION MARKETING BUDGET SURVEY

RESULTS RECEIVED IN Q3 2013



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CALLAHAN AND ASSOCIATES' MARKETING BUDGET SURVEY

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Callahan & Associates was founded in 1985 to assist credit unions in developing their unique competitive advantages. A leading consulting, research and data analysis firm, Callahan works with 4,000+ credit unions and industry suppliers nationwide to provide insight and solutions that help drive credit unions toward success.

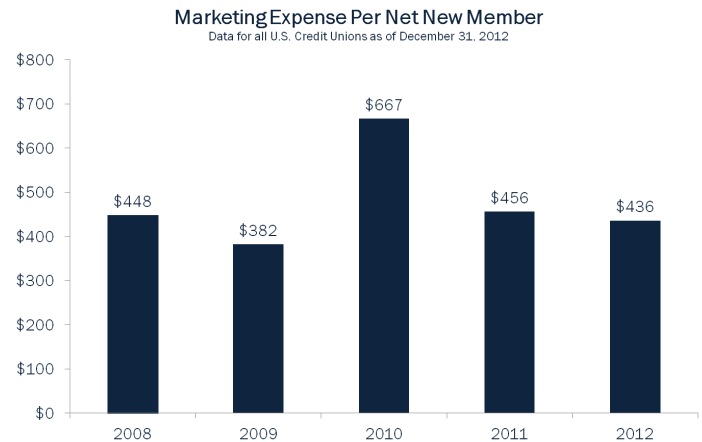
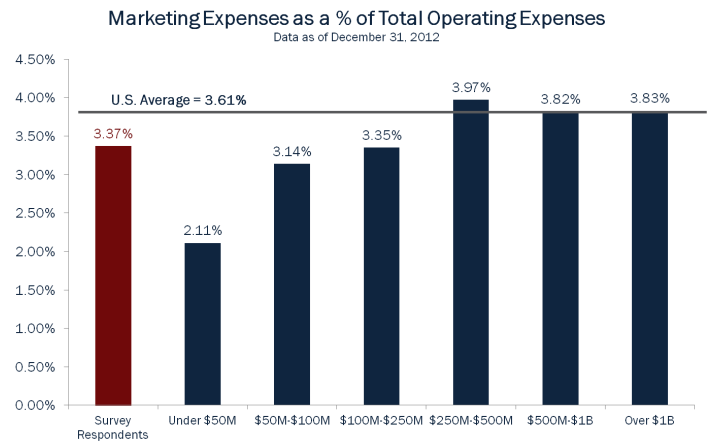
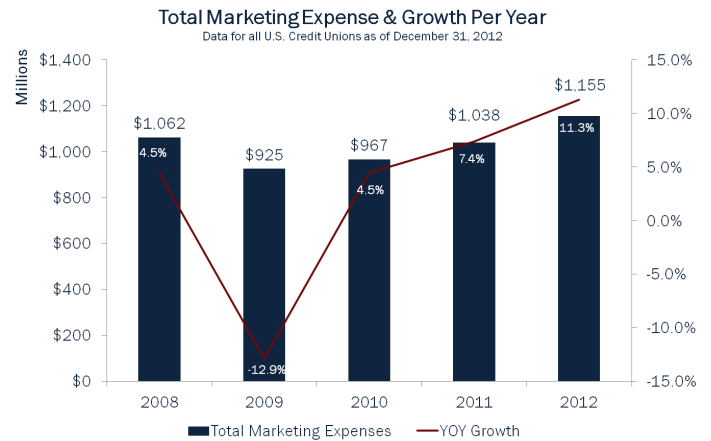
BACKGROUND

Marketing expenses on the 5300 Call Report are grouped into one overall category—the educational and promotional expenses line item (account code 270) on the income statement. With an increasing number of channels being funded by marketing expenses, many credit unions are wondering how they stack up against their peers in this area. Especially with social media becoming so prevalent, having one category on the 5300 for all of these expenses is not providing credit unions with much insight into areas for opportunity or improvement. Callahan & Associates’ Inaugural Marketing Budget Survey was created in an effort to provide credit unions with trends in marketing that are not apparent from the 5300, and can help credit unions get a better picture of this expense.

Nationally, credit unions spent \$1.16 billion on marketing and promotional expenses in 2012, up 11.3% from marketing expenses in 2011. The average amount spent on marketing expenses for the industry was \$166,000. The growth of marketing expenses is faster than overall expense growth, which was 7.5% as of December 31.

At the end of 2012, marketing expenses accounted for 0.12% of average assets at credit unions nationwide, and they made up 3.61% of total operating expenses. This is up from 3.36% at the end of 2011.

Credit unions were spending \$436 in marketing expenses per net new member. This is typically seen as the cost to acquire a new member. This number is calculated by taking annualized marketing expenses and dividing by the number of members this year less the number of members last year. As the marketing expenses are not broken out on the 5300, this number may be inflated as it is categorizing all marketing expenses as going towards acquiring new members, but is provided as a directional benchmark for comparison purposes. This metric has decreased from a high of \$667 in 2010, when member growth was significantly lower. Member growth picked up in 2011, as Bank Transfer Day and other grassroots movements put a spotlight on the benefits of credit unions.



Source: Callahan & Associates’ Peer-to-Peer Analytics

2013 SURVEY RESPONDENTS

A total of 68 credit unions participated in Callahan and Associates' Inaugural Marketing Budget Survey, varying in asset size from \$21 million to over \$6 billion. The responding credit unions represent 7.1% of the industry's assets and 5.6% of total marketing expenses in 2012. The average asset size for these credit unions was \$1.1 billion, with a median asset size of \$523 million. The respondents to this year's survey reported strong financial performance in many areas, including having an average ROA of 101 basis points, 15 basis points higher than the national average. Operating expenses as a percent of average assets at these credit unions were lower than the national average, indicating that they may be looking for ways to deploy additional resources to reach potential members.

The average marketing expenses for credit unions taking the survey were just over \$908,000. They had, on average, four full time marketing department employees. Only 12 of the credit unions reported having part-time employees as part of their marketing team, with five others having contracted employees. Six credit unions had outsourced marketing employees.

DETERMINING THE BUDGET

Determining the marketing budget is a big unknown in the credit union industry. Credit unions use a range of different methods in determining how much they can afford to and should spend on their marketing activities. As a general benchmark, The Financial Brand released a report that retail financial institutions should be investing approximately 0.10% of assets into marketing. As of December 31, the average credit union was hitting that threshold, spending 0.12% of assets on marketing.

Using budgeted loan and deposit growth goals, along with key performance measures from strategic planning sessions were the most commonly used metrics in determining the marketing budget. Thirty-eight credit unions reported using each of these techniques either as their sole budget determiner, or as one of the metrics used in considerations.

	Survey Respondents	All Credit Unions in U.S.
Average Asset Size	\$1.1 billion	\$148.7 million
Median Asset Size	\$523.4 million	\$21.0 million
Marketing Expense Growth	9.0%	11.3%
Marketing Exp./Avg. Assets	0.09%	0.12%
Marketing Exp./Total Op. Ex.	3.37%	3.61%
Cost Per Net New Member	\$370	\$436
Total Operating Exp./Avg. Assets	2.76%	3.19%
ROA	1.01%	0.86%
Net Interest Margin	2.71%	2.94%

Which of the following metrics are used in determining the amount of your annual marketing budget?

Metric	Used/Used Solely	Not Used
Key Performance Measures (from Strategic Plan)	38	6
Budgeted Loan and Deposit Growth Goals	38	4
New Member Growth Goal	35	6
Sales Goals	35	6
Total Credit Union Revenue	33	13
Geographical Area	21	20
Existing Member Count	18	23
Percent of Assets	14	28
Standard "Cost of Living" Increase from Previous Year's Budget	13	28
Other	5	9

How are the following expenses accounted for in the marketing budget?

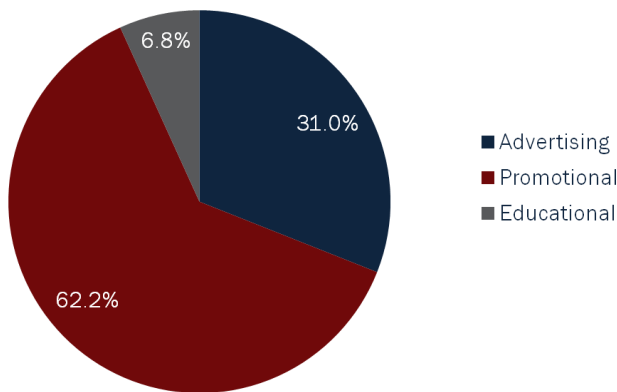
	In Marketing Budget	Reported in Account Code 270
Credit Union Branding	45	31
Business Development Expenses	34	21
Branch Opening Expenses	28	18
Corporate Stationery	12	10
Supplies (Office, Branch, etc)	11	6
Marketing Department Salaries	6	3
Notices (NSF, Maturity, etc)	5	7
Business Development Salaries/Incentives	4	2
Other Expenditures	7	4

Other common ways credit unions determined their marketing budgets was through sales goals (35 respondents), new member growth goals (35), total credit union revenue (33), and geographical area (21).

The survey respondents revealed that not all

Total Marketing Expenses Breakdown

Data as of December 31, 2012



marketing expenses are reported in the account code 270, again leaving the industry with unanswered questions around marketing benchmarks. Credit unions must consider many different expenses and how they want to account for those - whether just in the overall marketing budget, or also reporting it in the line item 270 on the 5300 Call Report. In doing this survey, we heard from many credit unions that they do not track their marketing dollars into these three distinct categories - advertising, promotional, and educational. We understand that marketing budget categories vary greatly and we decided to present the survey findings in these groups because it aligns with the 5300, and gives directional guidance to credit unions looking to understand marketing trends.

A few of the marketing expenses which are unaccounted for on the 5300 report are branch openings, branding and business development. Branch opening expenses were included in the marketing budget of 28 of the responding credit unions, but only 18 of them reported it on the 5300 Call Report. Credit union branding was in the budget for 45 credit unions, but on the call report for just 31. The table included on the previous page breaks down expenses and how credit unions accounted for them.

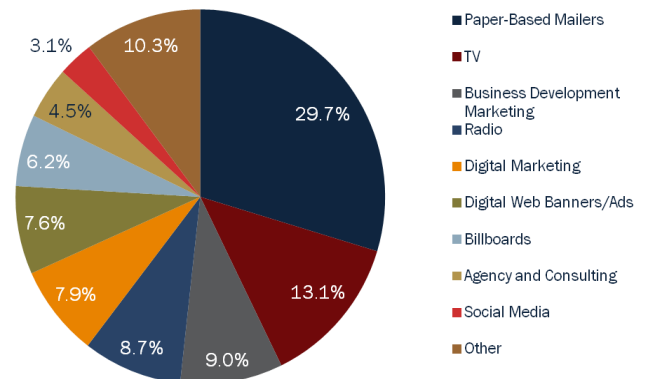
BREAKING DOWN THE BUDGET

The responding credit unions spent a total of \$61.8 million on marketing in 2012, up 9.0% from December 2011. This is slightly slower than the 11.3% growth of marketing expenses reported by credit unions nationally.

Year-over-year growth of marketing expenses ranged from a high of 97.0% at one responding credit union to a decline of 34.4% at another. A total of 19 of the 68 credit unions reported lower marketing expenses in 2012 than in 2011.

Advertising Expenses Breakdown

Data as of December 31, 2012



The majority of credit unions reported that the account code 270 on the call report does represent their total marketing budget, but 15 said it did not. Credit unions answering no to this question were asked to list what expenses were excluded. Responses included various charitable contributions, travel/training expenses, printing expenses, and website housing.

Although the marketing expense total is only one line item on the 5300, credit unions are deploying these expenditures in many different directions. The three primary categories of marketing expenses surveyed are advertising, promotional, and educational.

In the fourth quarter of 2012, advertising comprised 31% of the marketing budget at responding credit unions, while promotional expenses were the largest segment, at 62%. Educational rounded out the budget with nearly 7%.

Breaking down those components even further can help get a sense of exactly where credit unions are allocating their limited resources, and presumably where they feel their marketing is making the most impact.

Advertising

Although society is increasingly going digital, paper-based mailings (such as promotional postcards and newsletters) were the largest portion of the advertising component at nearly 30%. Some credit unions even indicated that paper-based mailers made up 100% of their advertising spend. Digital marketing and web ads together accounted for an additional 15.5% of advertising, with television advertising rounding out the top three.

Seven credit unions indicated that over 30% of their advertising budget was going towards other categories not listed in the survey. Some of the areas included

newspapers, bus panel advertisements, yellow page ads, and member promotion incentives.

Approximately 61% of the advertising budget at the responding credit unions went to member and account acquisition, while the remaining 39% went towards retaining existing members and accounts. Credit unions that responded to the survey have a higher average member relationship (the dollar amount of loan and deposits per member minus member business loans) than average credit unions, indicating that their members may be more engaged than the typical member. This could explain why more money is allocated towards attracting new members.

Promotional

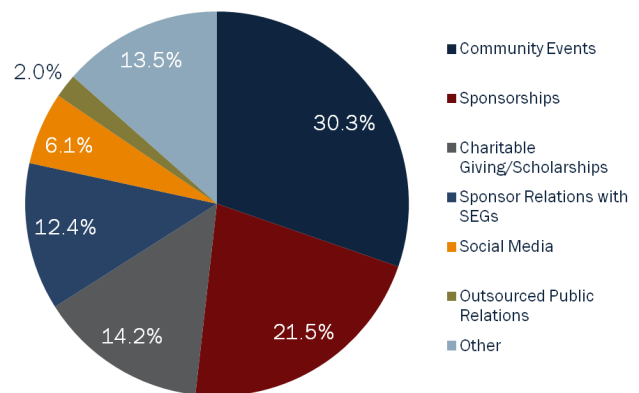
Credit unions are getting creative in the ways that they promote their cooperative values. Hosting community events for members accounted for nearly one-third of the promotional budget in 2013. Examples of these types of events are very diverse. Corning Credit Union hosts a home buying seminar to help members sort through the sometimes overwhelming process of buying a home. Delta Community Credit Union offers a shred day at no cost to members, allowing them to destroy personal documents securely in an effort to combat identity theft.

Sponsorships made up the second largest component of promotional expenses at 22%. Credit unions have increased their presence in this sector lately. CFE Federal Credit Union is the official financial institution of the University of Central Florida Knights and the university arena is named after the credit union. In July of this year, State Employees Credit Union in Maryland announced that they would pay \$4.75 million over the next 10 years to have Towson University's new basketball facility named SECU Arena. Scott Credit Union has recently been named the official credit union of the St. Louis Rams. As credit unions continue to grow, they are increasing their community presence.

Another major component of the promotional budget was the charitable giving and scholarships component at 14.2%. Credit unions have made significant contributions to their local communities, and this is just one way credit unions strive to help their members. Elevations Credit Union recently committed \$100,000 to help flood victims in their community. Employees at Wright-Patt Credit Union volunteered over 1,300 hours in 2012, according to their website, and WESTconsin Credit Union offers a volunteer program that members can join. In return for volunteer hours, members receive perks such as preferred rates on CDs.

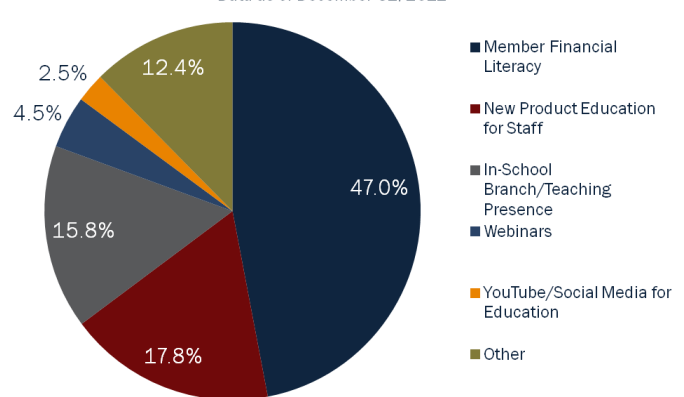
Promotional Expenses Breakdown

Data as of December 31, 2012



Educational Expenses Breakdown

Data as of December 31, 2012



Promotion on social media was a material component of promotional expenses at 6%. A few years ago this category probably did not exist, but it now is on nearly all credit unions' radars. A more complete breakdown of social media is covered later in the report.

The other category included a recurring number of responses related to member referral incentives, pre-approvals, and giveaways.

The percentage of the promotional budget going towards member acquisition versus retention was identical to the advertising breakdown. This is, once again, likely due to the strong relationships the responding credit unions have with their existing members.

Educational

The educational aspect of marketing is the smallest component of the overall marketing budget, but it includes some of the most important tools for members.

Nearly half, 47%, of the educational budget went towards member financial literacy programs. Offering these programs to members is one of the cooperative

principles that credit unions adhere to. Making sure members have access to financial resources helps them make smart decisions with their money. Redstone Federal Credit Union offered free financial consulting to furloughed workers during the government shutdown in the fall of 2013, and WESTconsin Credit Union offers online resources, seminars, and speakers designed to help members meet their financial goals.

The other response category included payment for branch exclusivity on a college campus, regulatory education for staff, youth member education, and member scholarships.

TRACKING THE SUCCESS AND IMPORTANCE OF THE BUDGET

When credit unions are faced with economic challenges such as the Great Recession, marketing budgets are often seen as one of the go-to areas for reducing costs. While this may seem like a smart idea to boost the bottom line, there have been many sources stating that this may be the most opportune time to increase the marketing budget. If everyone else is pulling back, this allows you to speak more loudly and potentially get more bang for your buck.

The competition for limited dollars within a credit union's overall budget is not expected to ease, therefore it is important for credit union marketers to continue to track and communicate the return on their activities. Substantiated return on investment (ROI) cements the importance marketing plays in the overall success of the credit union. It is encouraging to see that when tracking the success of the marketing budget, the ROI for individual marketing campaigns was the most frequently given answer. Forty-two credit unions tracked their success using this metric. While this is the most commonly-used metric on our survey, from a broader financial services perspective, The Financial Brand has reported that 66% of the respondents to their marketing survey could do a better job at establishing marketing ROI.

Other success measurements used by credit unions included advertising impressions versus website traffic, loan growth, increases in the loan-to-share ratio, increases in services per household, and the ROI for auto pre-approvals.

It's not just the amount of the marketing budget and the ROI of activities which send a message, but it is also the organizational status of the head of the marketing department. Twenty-eight of the 68 responding credit unions reported that the head of the marketing department reports directly to the credit union's CEO. Another 11 said their marketing manager

ARE THE FOLLOWING MEASUREMENTS TRACKED BY YOUR CREDIT UNION?

Metric	Yes	No
ROI for Individual Marketing Campaigns	42	7
SEG Penetration	21	20
Marketing Spent Per Member	20	29
Average Cost of Marketing to Acquire a New Member	16	30
Average Growth in Assets Per Marketing Dollar Spent	8	40
Other Success Measurement	10	5

reports to the Vice President. This relationship conveys that the marketing function is deemed critical to the overall success of the credit union.

One of the main goals of marketing is to drive balance sheet and member growth. In the graphs in the Appendix, the similarities between increased marketing expenses and loan and member growth can be seen. While the end of the Great Recession can attributed to much of the increase in loans, the growth of loans and members coinciding with increased marketing expenses cannot be ignored.

ONLINE DOMINANCE

According to a AlixPartners, a consulting firm in New York, 53% of banking transactions now happen online. This means that a well-designed and interactive website is a must.

Credit unions indicated that over 4% of their marketing budget was going towards maintaining and enhancing their websites. When asked how they track website success, a significant number said that success was not measured, as web presence is considered a cost of business. Tracking "click through" activity was the most common response on gauging success, while the amount of revenue driven by generating product acquisition and new loans to existing members was another frequent answer.

There's no doubt that social media is changing the way we communicate and receive information, and credit unions are not letting this trend pass them by. An online and social media presence is at top of mind at many credit unions.

According to the results obtained from the survey, 64 of the 68 credit unions reported being active on Facebook. The second most prevalent social network used by the responding credit unions was Twitter, with 28. YouTube was third with 23.

A total of 35 of the credit unions say that they had a defined social media marketing strategy, with 2.9% of the overall marketing budget going towards social media activities. And 34 credit unions reported that

they had an employee who was responsible for managing all of the credit union's social media activities.

With growing importance on social media in the marketing budget, credit unions need a way to measure the success of their ventures.

The most common way credit unions are measuring their social media success is through the number of "likes" on Facebook and followers on Twitter. Thirty-seven credit unions reported using this strategy. Another common response was the number of social media interactions—or engagements that the credit union receives from their "likers" and followers.

While these are relatively easy metrics to track, they may not be the best barometers for return on marketing investment in the social media space. The growth in new members, balances and loans generated by members actively engaged with the credit union on social media is the real bang for the marketing buck. Credit unions making the investment in social media should take it to the finish line and track those metrics which directly impact the bottom line.

As credit unions increasingly promote their brands and events on social media, improved community awareness and event attendance is another way credit unions are gauging the effectiveness of their social media endeavors. One-third of the credit unions taking the survey said that they used this metric in measuring social media success.

LOOKING AHEAD

Twenty-five credit unions reported that their marketing budget in 2012 was greater than in 2011, while 16 said it stayed the same, and eight said it declined.

Looking ahead to 2014, 19 credit unions said they expect a significant shift in their marketing budget allocation, while 30 said they do not expect any major changes. Charter expansions, member growth initiatives, rebranding, expansion of services, and decreases in net income were some of the reasons given as to the changes in marketing budgets moving forward.

One interesting finding from the data and responses given is that credit unions are looking to grow their membership, yet they are not planning to increase their marketing budget. Holding the budget steady implies that the credit union is okay with the status quo. Marketing, and especially the growing online marketing platform, is largely driven by what you put into it, and one way to see the desired increased member growth is to increase awareness of the credit

LOOKING AHEAD...		
	Increase/ Yes	Decrease/ No
Will your marketing team headcount increase or decrease?	18	30
Will your marketing budget allocation change significantly?	19	30

union through increased marketing.

The majority of credit unions reported that their marketing staff headcount held steady from 2011, with 12 reporting an increase and five reporting a decrease.

Moving forward, as credit unions plan for 2014, 18 reported a projection to expand their marketing department, while 30 do not plan to add additional staff.

Many different initiatives are on the minds of credit union marketing executives as they move through 2013, but none more-so than loan growth. Lending is picking back up at credit unions - the loan portfolio growth at mid-year 2013 of 5.4% was the highest since 2008, and loan growth has topped share growth for the first time in five years. As consumers feel more confident about their financial situations, they are looking to borrow, and this is an area where credit unions will best see the fruits of their marketing labor. When a member is looking for a loan and chooses their credit union over other financial institutions, it is a testament to all of the effort put into the various marketing channels.

Other top initiatives indicated by credit unions included increasing brand awareness, growing the number of active checking accounts, promoting shared branching and increasing penetration of the Gen-Y demographic.

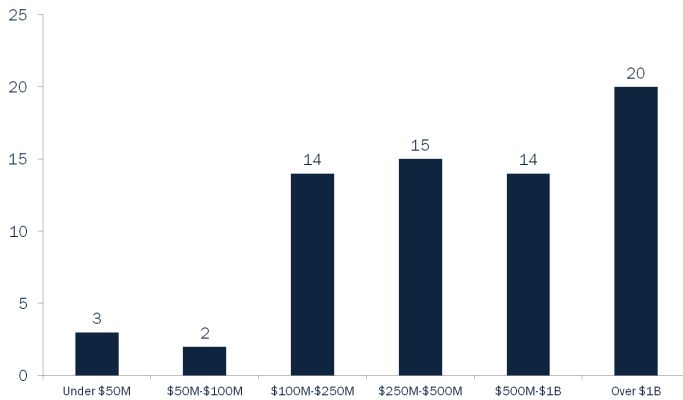
The Gen-X and Gen-Y demographics are so important to credit unions, as they are the generations that will be taking out home, school, and auto loans going forward. As credit unions try to capture this segment, they need to understand the importance of social media in the lives of young people. Advanced digital marketing is a necessity to capture the attention of consumers attached to their Smartphones and other electronic devices. By focusing on investing in these areas, credit unions should hopefully see increased success in attracting this demographic.

Marketing expenses, at 3.6% of total operating expense, may play a larger role than the percentage or dollar amount conveys. As consumers receive their information in new and innovative ways, credit unions are stepping up and getting creative. The amount of time and effort credit unions are devoting to marketing and the results coming from such efforts cannot be understated.

APPENDIX

Respondents Breakdown

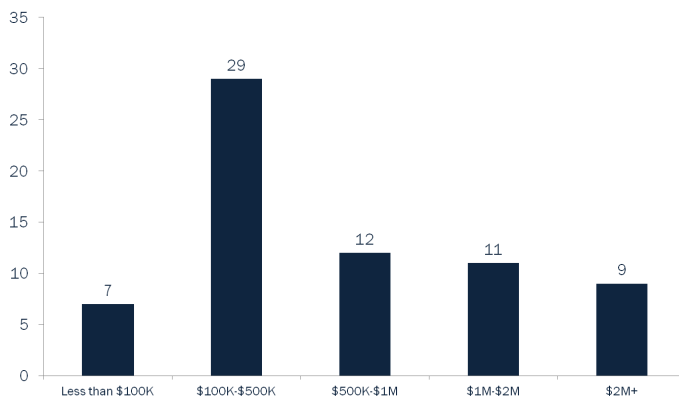
Data as of December 31, 2012



The 68 credit unions responding to the Marketing Budget Survey spanned all asset ranges, with the highest concentration in the over \$1 billion peer group. The average asset size for credit unions responding to the survey was \$1.1 billion.

Total Marketing Expenses by Peer Group

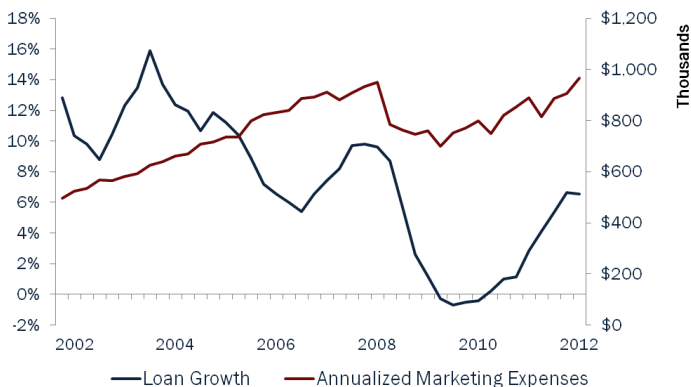
Data as of December 31, 2012



Total marketing expenses (reported as account code 270 on the 5300 Call Report) varied widely among the survey respondents. They ranged from a low of \$12,000 up to a high of nearly \$5 million for 2012. The majority of respondents were in the \$100k-\$500k range. The average credit union spent over \$166,000 on marketing expenses in 2012.

Marketing Expenses vs. Loan Growth

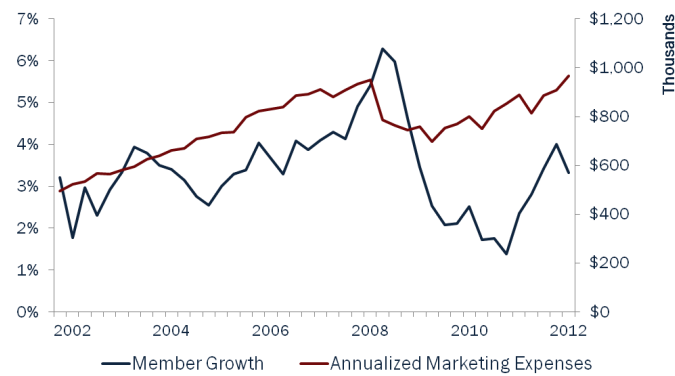
Data for Survey Respondents as of December 31, 2012



After the Great Recession, marketing expenses began to increase again as credit unions had more breathing room in their budgets. As a result, loan growth began to pick up from the lows seen in 2009. While the end of the Recession had a lot to do with the loan resurgence, the correlation between increased marketing and increased loan growth cannot be ignored.

APPENDIX

Marketing Expenses vs. Member Growth
Data for Survey Respondents as of December 31, 2012



Similar to the loan growth graph, membership began to pick up at the responding credit unions when they began to spend more on marketing once again. This graph is also partially driven by the Great Recession, as membership growth went down sharply during the height of the financial crisis.

TOOLS TO MEASURE WEBSITE SUCCESS

Google Analytics/Google Webmaster Tools	46
Compete	2
Proprietary In-House System	2
Alexa	1
Searchmetrics	1
Other	8

The overwhelming majority of credit unions that responded to the question asking how they measured website success used Google Analytics. Responses for the other category included Crazyegg, HubSpot, measurements from the host of the website, monthly surveys, and out-sourced reporting.

Although most credit unions are already taking advantage of Google’s offerings, Google Analytics is just the start of what Google offers for tracking website performance. There is still a huge space for credit unions to take advantage of the other tools that Google has to offer.

HOW DO YOU MEASURE WEBSITE SUCCESS?

Tracking “click through” activity	32
Not measured, it is a cost of business	23
Driver of revenue by generating product acquisition and new loans to existing members	21
Tracking “click to action” to fulfillment	18
Acquisition of new members	16
As a replacement to paper-based mailings	13
Periodic surveys of website users	11
Other	10

The most common way of measuring website success was through “click through” activity. Other common answers included revenue driven by the website, tracking “click to action” to fulfillment, and acquisition of new members from the website. Many credit unions reported that they do not track their website success, as it is a necessary cost of doing business.

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