Innovation, Strategy, & Leadership: When Mission Isn't Enough

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JP Nicols

THE FOUR MOST DANGEROUS WORDS FOR LEADERS

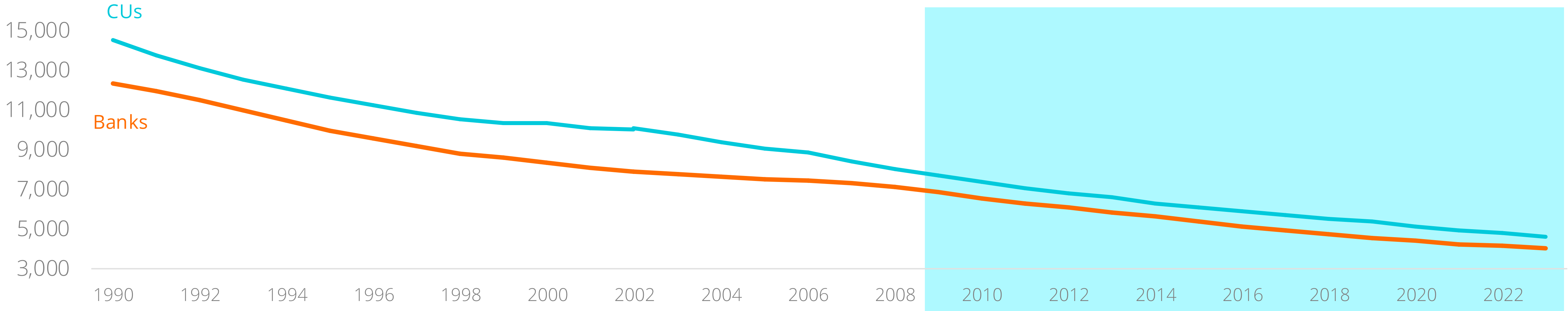
"Doesn't apply to us."

It’s true.
I came from the “Evil Empire”…

... but I’m here to Arm the Rebels.

Situation: Headwinds are increasing, while tailwinds subside

The number of both banks and credit unions have steadily declined, despite a long period that was generally conducive to the traditional business models.



Source: FD

	The Last Era		The Next Era
Defining Characteristics	• Rising asset prices • Falling interest rates • Deregulation	• Regulatory Moats • Geographic Moats • Narrow scope of competition	• Exponential increase in competition • Increased member expectations/power • Increased regulatory complexity
Winning Plays	• Size and scale • Traditional M&A • Cost reductions	• Punitive and junk fees • Local relationships • Branch experience	• Competitive differentiation • True member-centricity • Effective resource allocation

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We’re in a New Era

Defining Characteristics

- Higher member expectations
- Exponential increase in competition
- Increased regulatory complexity

Winning Plays

- Competitive differentiation
- True member-centricity
- Effective resource allocation

What this means for Credit Unions

External shocks increase pressure on the industry's fundamental vulnerabilities.

Increasing attrition and disruption risks…

- Aging member bases
- Low/no-growth legacy markets
- $68T will be passed down to younger generations who already have relationships
- Member expectations high and rising
- More competitors than ever

…exacerbate existing margin and liquidity pressures…

- Competition is driving up COF
- Lending opportunities constrained
- Efficiency gains slow to materialize
- Stablecoins and AI agents are likely to drive faster algorithmic outflows as deposits become more mobile and more automated

…exposing the fragility of core business models for many.

- Reliance on NIM creates vulnerabilities
- Unit economics favor digital operating models
- Constrained ability to invest in new ways to acquire and retain members

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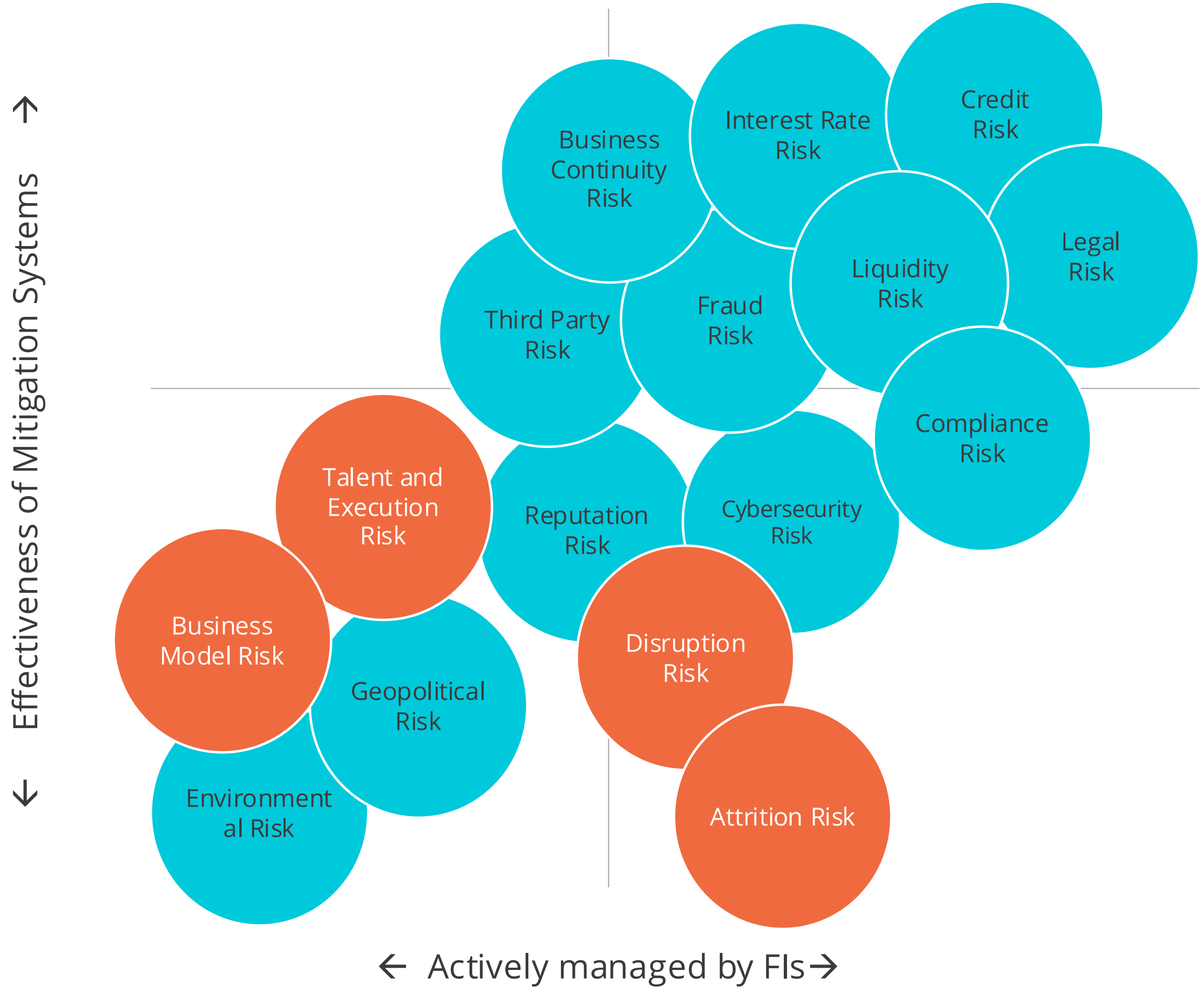
Latent and emerging risks need more attention



Managing these risks can prevent failure, but does not ensure success, or even independence.

These risks are underappreciated and overlooked.

Traditional risk management is no longer enough to compete

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New outcomes require new approaches

CU leaders must balance defending and extending legacy businesses with creating viable options for the future…

…with a focus on how we build and execute strategies to win in a rapidly changing environment.

What's Now

Defend and extend the the line of current results.

Extend

What's New

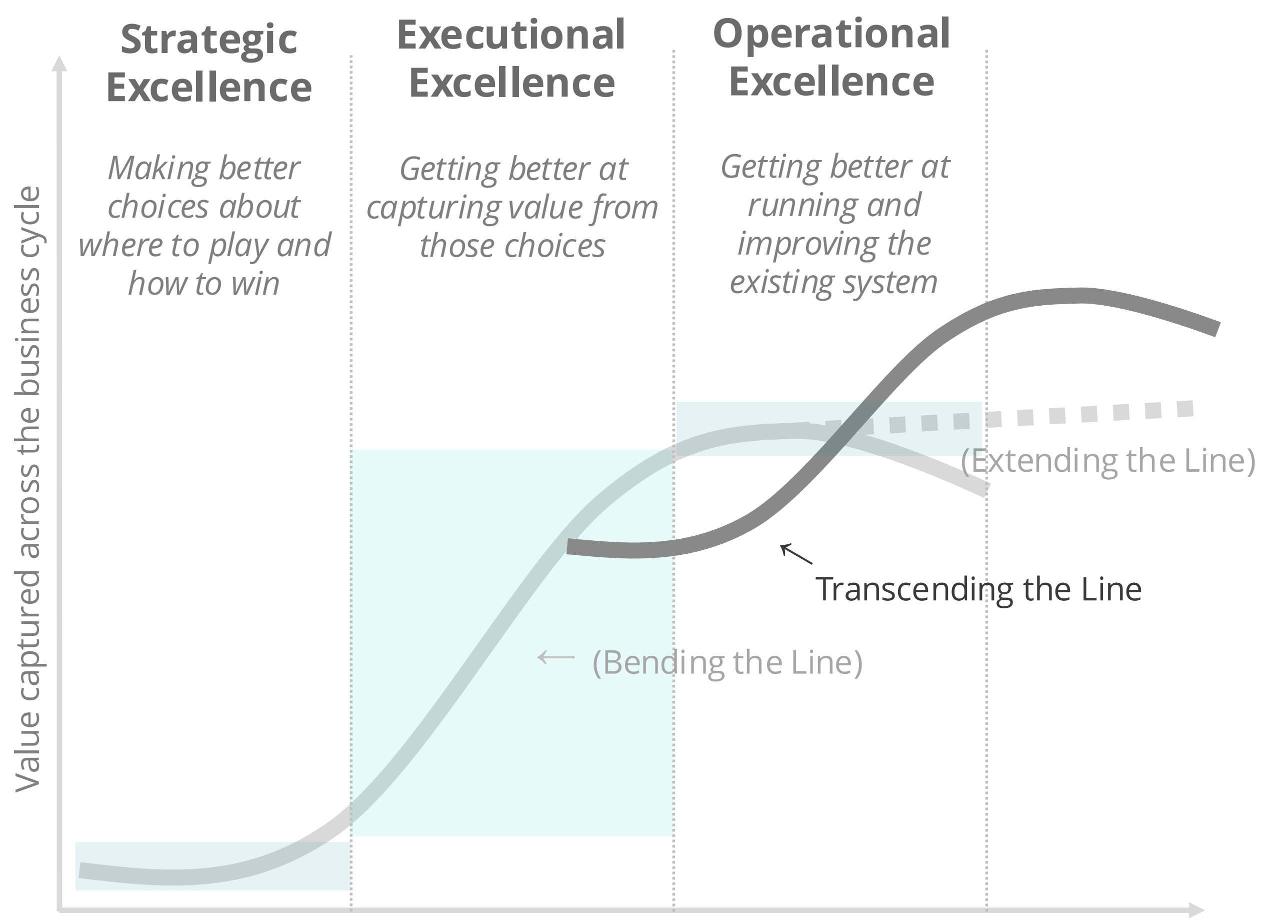
Bend the line to higher levels of growth,

Bend

What's Next

Transcend the line by creating viable options

Transcend



Four Key Forces Shaping the Next Era

Some familiar challenges, with a few twists, plus some new ones that define the Next Era

External: Disruption and Attrition Risks

VUCA
(Volatility, Uncertainty, Complexity, Ambiguity)

- Capital Markets
- Regulators
- Members
- Competitors

Attrition and Disruption Risks

- Aging member base
- Ever-increasing member expectations
- Increase in competition from all sides

Internal: Business Model and Execution Risks

Margin and Liquidity Pressures

- Competition for deposits driving up costs
- Non-interest expenses
- Loan/Deposit Ratio

Need for Efficiencies

- Non-Interest Expenses creeping up
- Efficiency Ratios too high
- Operational efficiency
- Member acquisition costs

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Much of the old playbook is no longer effective…

“Success is a lousy teacher. It seduces smart people into thinking they can't lose.” – Bill Gates

Old External Plays

VUCA
(Volatility, Uncertainty, Complexity, Ambiguity)

- Slow down and wait
- Double down on analysis and planning
- Lobby to maintain status quo and punish competitors

Attrition and Disruption Risks

- Sell more!
- Cross-selling campaigns
- ROI Doom Loop to evaluate new spending

Old Internal Plays

Margin and Liquidity Pressures

- Try to lower deposit rates without losing volume
- Try to raise loan rates without losing deals
- Look for new ways to charge fees

Need for Efficiencies

- Close branches
- Exit business lines
- Reduce headcount
- Automation to reduce labor hours

…exposing new risks that are both cyclical and systemic.

"We cannot solve our problems with the same level of thinking that created them."

– Albert Einstein

Commoditization has led us to the Red Ocean…

- Undifferentiated products and services
- Limited levers to drive new growth
- "Service" and "Relationships" no longer enough

…and the vicious cycle of expense cuts…

- Cutting expenses below current revenue rate has limited short-term upside
- Confusing investments in foundational capabilities needed to win with discretionary expenses

… keeps us stuck in a Doom Loop as we treat symptoms…

- Difficulty understanding ROI, especially on newer concepts
- Double down on meetings and spreadsheets
- Paralysis by analysis

…while under-diagnosing the underlying causes.

- Existential internal and external risks often overlooked and under-appreciated:
- Fragility of the core business model
- Reliance on spread income and cheap deposits
- Lack of differentiation

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Strategy disappears when operations consume everything

It’s hard to be “strategic” when all your time is spent just trying to keep up

Where are you most feeling the pressure?

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The New Playbook for The Next Era of Financial Services

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The new playbook for the Next Era of Financial Services

Today's (and tomorrow's) winners are not just executing the predominant business practices of the industry incrementally better; they're writing a new playbook.

1) Embrace VUCA as the New Normal

- Changes create new opportunities
- Increase speed and agility in decisions
- Small bets to test and learn (FIRE- Fast, Iterative, Responsive Experiments

2) Create Unique Competitive Advantage

- Drive efficiencies in core business (defense)
- Allocate resources to build differentiation (offense)
- Explore new business models

3) Build Memberer-Centricity Beyond "Service"

- Focus on jobs to be done, pains to be relieved & gains to be achieved from the members' perspective
- Partnerships are critical to non-rate value propositions

4) Structure for Success

- Top-down strategy, support, and resources
- Bottom-up tactics and empowerment
- Agile risk management
- Avoid the DROID (the Dreaded ROI Discussion)

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> *"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.*

Leon Megginson
Professor of Management and Marketing
Louisiana State University
(paraphrasing Charles Darwin)

1) Embrace VUCA…

New technologies have created new competitors and new risks, but also new opportunities for organizations that embrace agility and learning as they improve their innovation maturity.

Broad technological advances of the past decade and a half…

- Broadband and Wireless
- Battery tech and renewables
- Mobility, Smartphones & Apps
- Big Data, Machine Learning, and AI
- APIs, RPA, and IoT

…have led to new financial products and business models that have reshaped the landscape.

- Digital banking
- Neobanks
- Open Banking
- Real-time payments
- Banking as a Service
- Embedded finance
- DLT, blockchain, cryptocurrencies, NFTs

...and focus on improving speed and agility along the way.

Alloy Labs model identifies five levels of Innovation Maturity

1.Exclusion
- Efforts are few or non-existent
- Need for change not recognized or prioritized

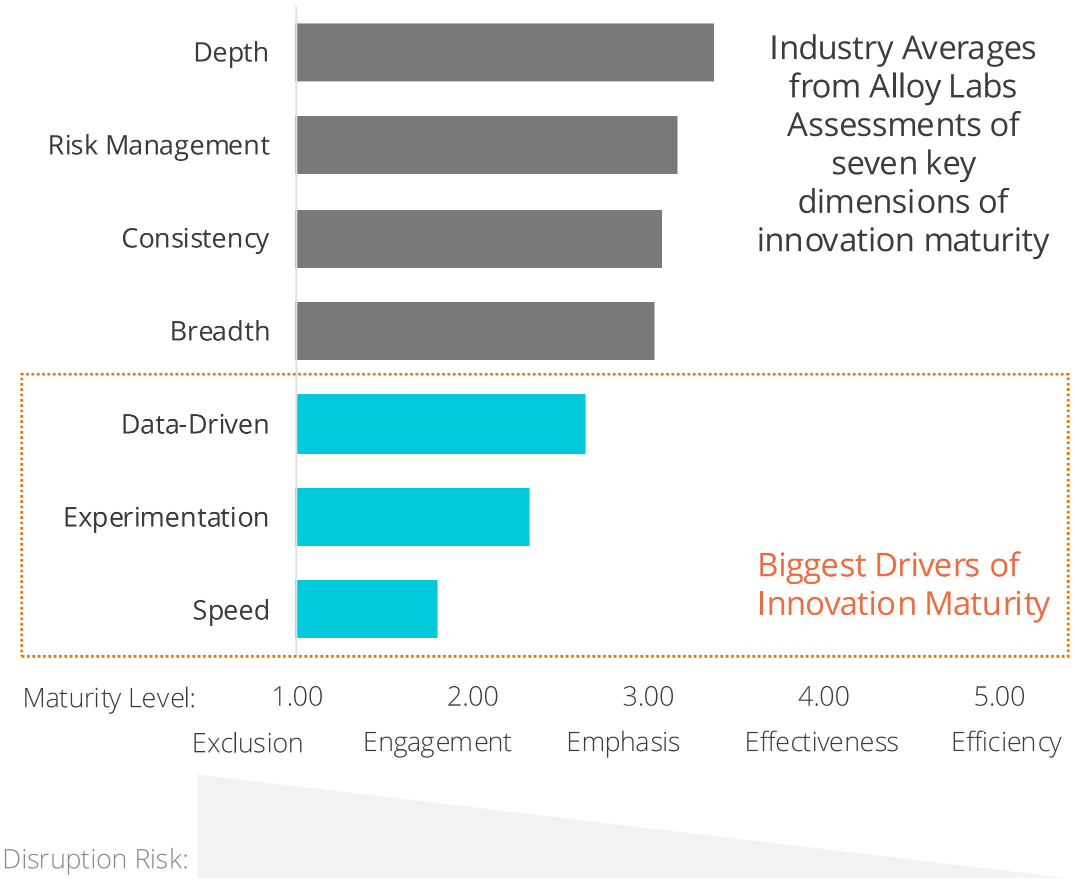
2.Engagement
- Efforts are ad-hoc, informal, or inconsistent
- Change mandate may be new
- Challenged with alignment to strategy and across LOBs
- Paralysis by analysis

3.Emphasis
- Focused on extending and defending core products/ services
- Often playing catch-up from under-investment
- Stuck in ROI Doom Loop
- Current program ineffective or stalled
- Challenged to prioritize limited resources

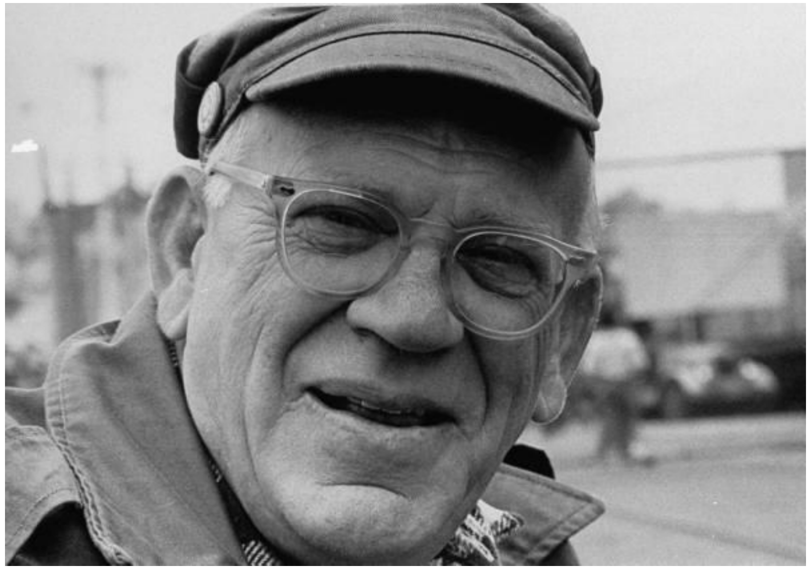
4.Effectiveness
- Focused on putting innovation into regular practice
- Building an agile and innovation culture
- Exploring viable future options
- Maturing risk/reward evaluations
- Regular testing through proofs of concept and pilots
- Realizing value sooner from partnerships

5.Efficiency
- Focused on big strategic or proprietary ideas
- Allocating more resources to emerging businesses
- Making more and larger bets across a wider portfolio
- Strategic partnerships with other institutions
- Policies and procedures optimized to drive speed as a competitive advantage

Experimentation, speed, and data-driven decision making are the biggest drivers



“A world that no longer exists”



Eric Hoffer
Author and Philosopher

“In times of change learners inherit the earth; while the learned find themselves beautifully equipped to deal with a world that no longer exists.”

Head of Digital Strategy

"We're strategically positioned better than just about anybody out there. Never in my wildest dreams would I have aimed this high."

Head of Digital Strategy: Blockbuster, 2010

"We're strategically positioned better than just about anybody out there. Never in my wildest dreams would I have aimed this high."

Video Americain in Baltimore - Image credit: Baltimorefilmguide.com


BLOCKBUSTER
FREE
MEMBERSHIP
RENTA
GRATIS
OPEN
3749

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Where is the external pace of change outpacing the internal pace most?

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The new playbook for the Next Era of Financial Services

True member-centricity comes from deeply understanding the jobs members need to get done

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2) Member-centricity must go far beyond "service"

People "hire" products to get specific jobs done. Fintechs have sliced and diced the market by developing a deeper understanding and creating more effective member experiences.

Jobs to be Done

What is the job the member needs done?

- What are the other products have hired to get the job done?
- What work-arounds are they using to get **all** of the job done?
- They likely can't articulate it directly
- "Getting a loan" is not a job to be done, it's a step in the process
- What's the why behind the why (behind the why)?

Pains

What pains are they trying to relieve?

- What's getting in the way of getting the job done?
- Annoyances and recognized points of friction
- Don't stop at incremental improvement
- The most valuable will be unarticulated or unrealized because they are status quo (e.g., taxis before Uber and Lyft)
- People buy pain relievers more than vitamins

Gains

What gains are they trying to achieve?

- Can be well understood and consciously sought out
- May be hidden or unexpected
- Often social and/or psychological (status, belonging, safety, etc.
- Almost always involve tradeoffs
- We are not the rational decision-makers we believe ourselves to be – we decide with emotion, and justify with facts

You have to do more than put digital lipstick on an analog pig

Aging Members

$8.8 Billion

Annual losses from senior fraud, scams, and identity theft

45 Million

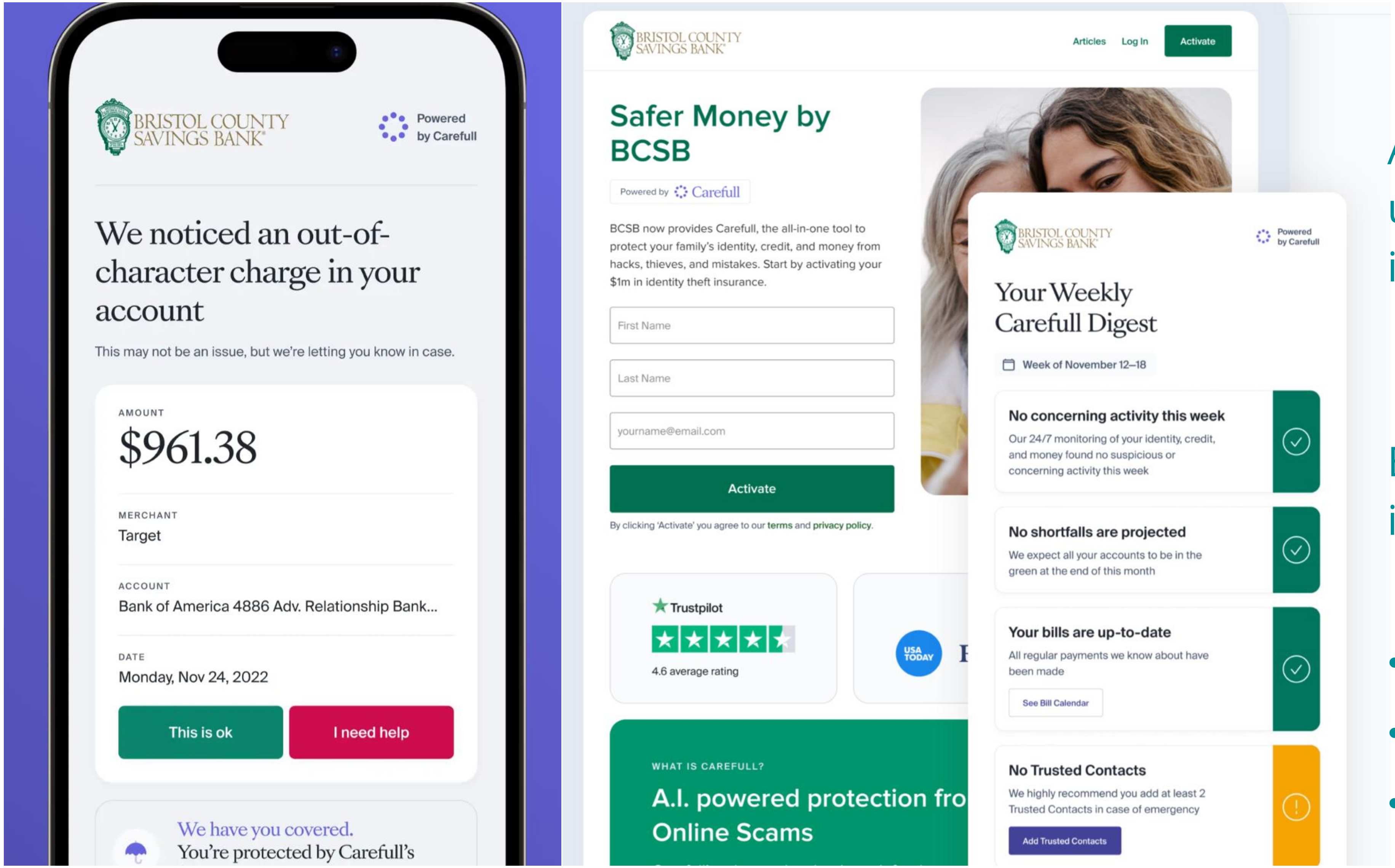
Financial caregivers who currently have no tools to care for their aging parent's finances

Carefull

- Money monitoring
- Smart bill alerts & organization
- Identity & credit monitoring
- Trusted contacts
- Home title monitoring
- Secure digital vault

Rethinking ROI

Carefull



4+

Accounts added per user, with 2+ institutions average

3x

Emails opened at 3x the industry average

- Retention
- Expansion
- Acquisition

What’s a job your members need to get done where they must use another provider?

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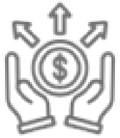
The new playbook for the Next Era of Financial Servicesing

Sustainable competitive advantage is a unique set of capabilities that allows one company to consistently outperform rivals.



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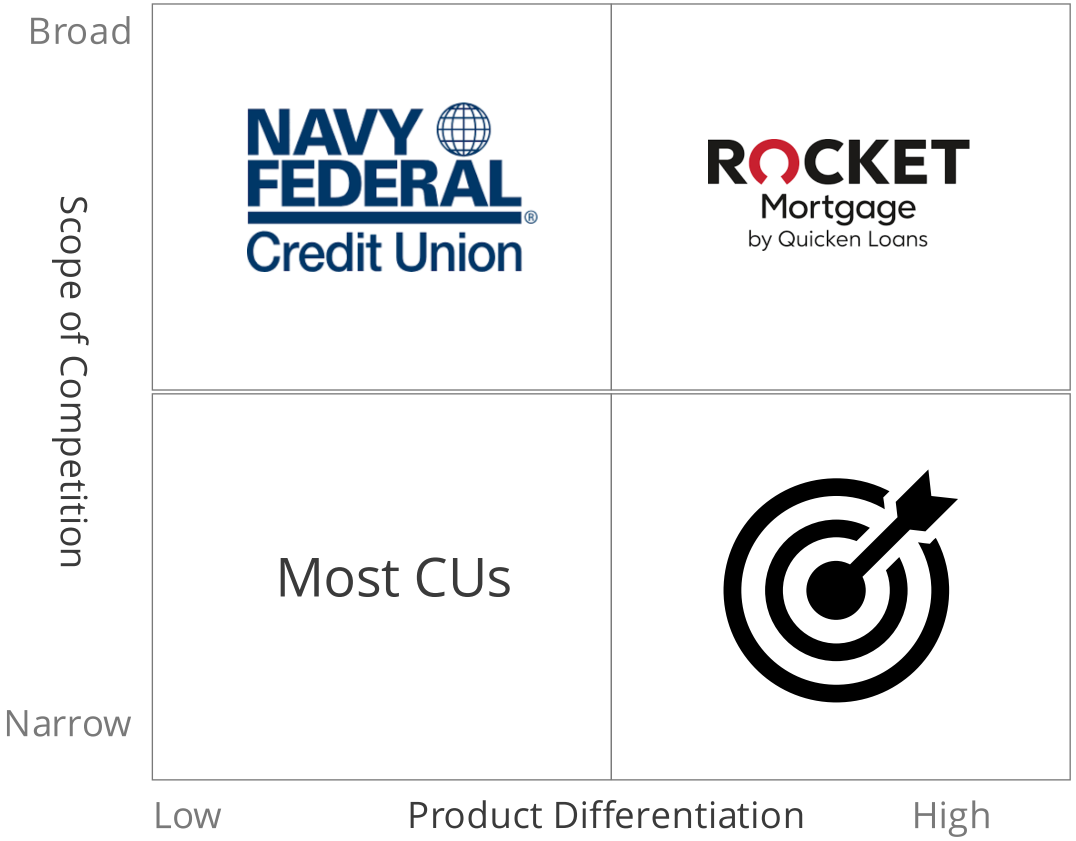


Michael Porter's Generic Strategy Model

Being a smaller version of the biggest, most efficient FIs worked when geography was a significant moat.

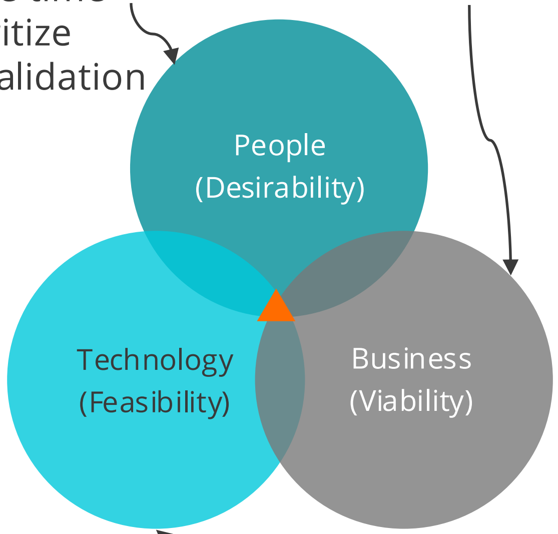
Winners in the new era pick their spots and focus on differentiation.

In most cases adoption/disruption risk > technical risk

All three matter but prioritize member desirability first

This becomes much easier to solve when you know you have something that members want.

FIs tend to spend far too little time here. Prioritize member validation sooner.

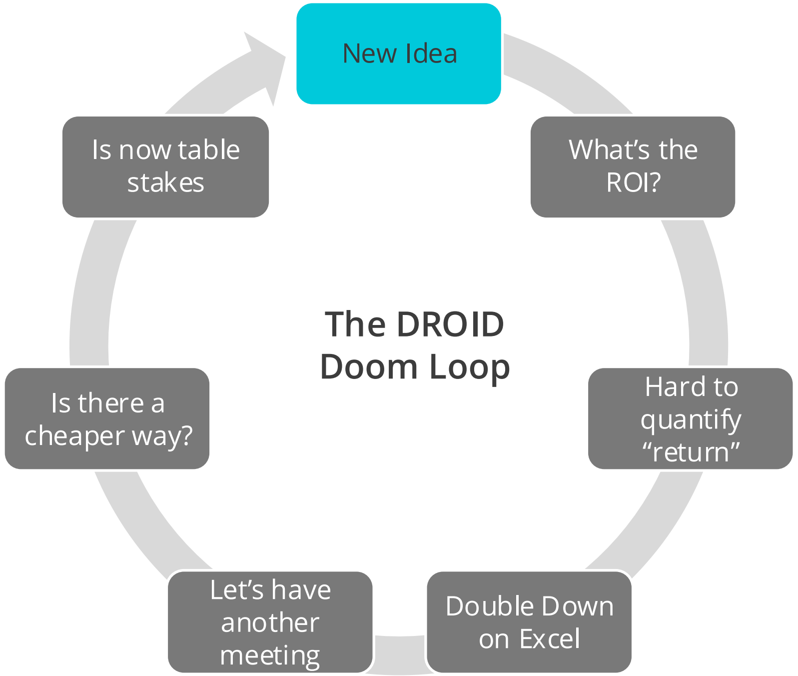


FIs tend to spend too much time here early on. Leverage others' experience.

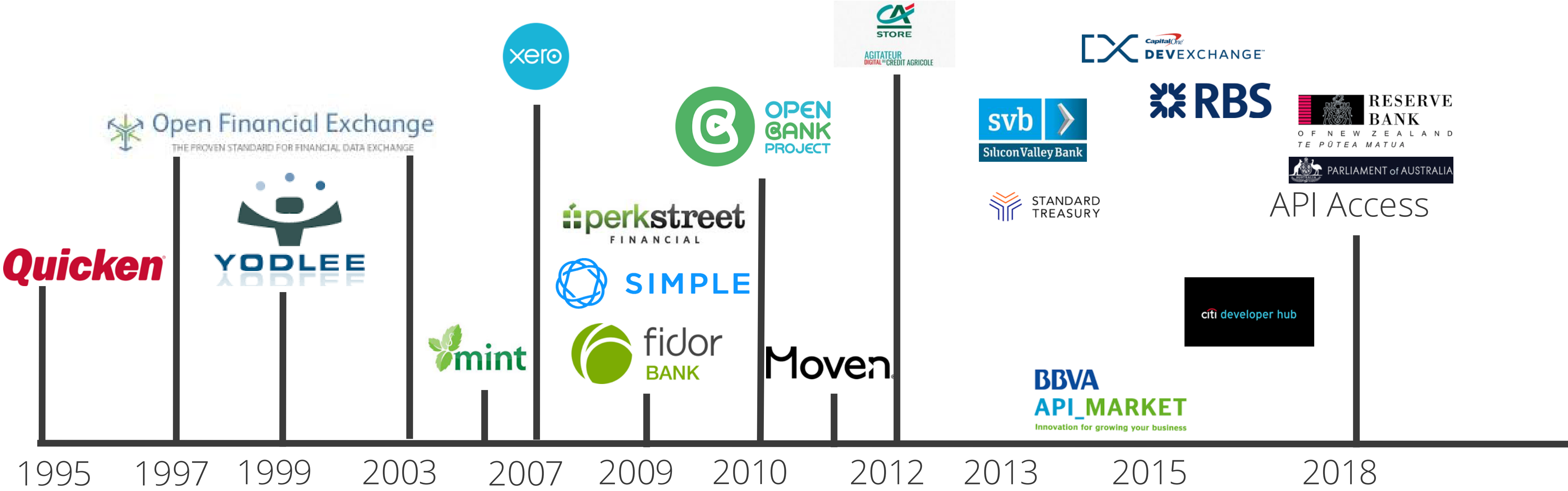
Look for fintech partners who are reinventing, not just replumbing

- Adoption risk is the hidden ROI killer (no one buys your product)
- Technical and compliance due diligence prevent failure, but do not guarantee success
- Test early, often, and late
- Launch date is the 50-yard line, not the end zone
- Going to the fintech petting zoo does not make you a farmer

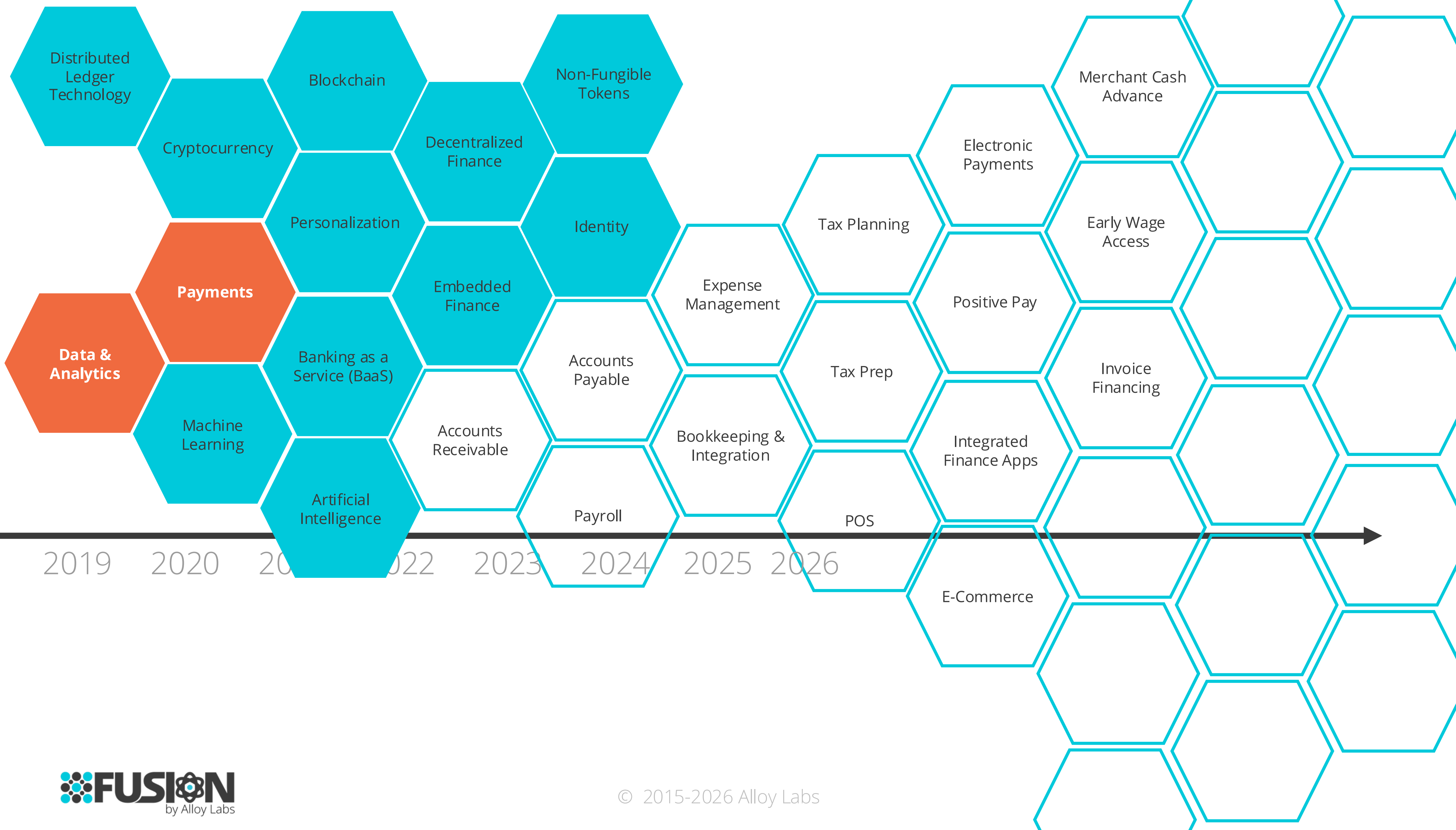
Avoid the DROID (the Dreaded ROI Discussion)



We’ve seen this movie before…



Digitized Transactions → Digital CX → NeoBanks → Open Banking →



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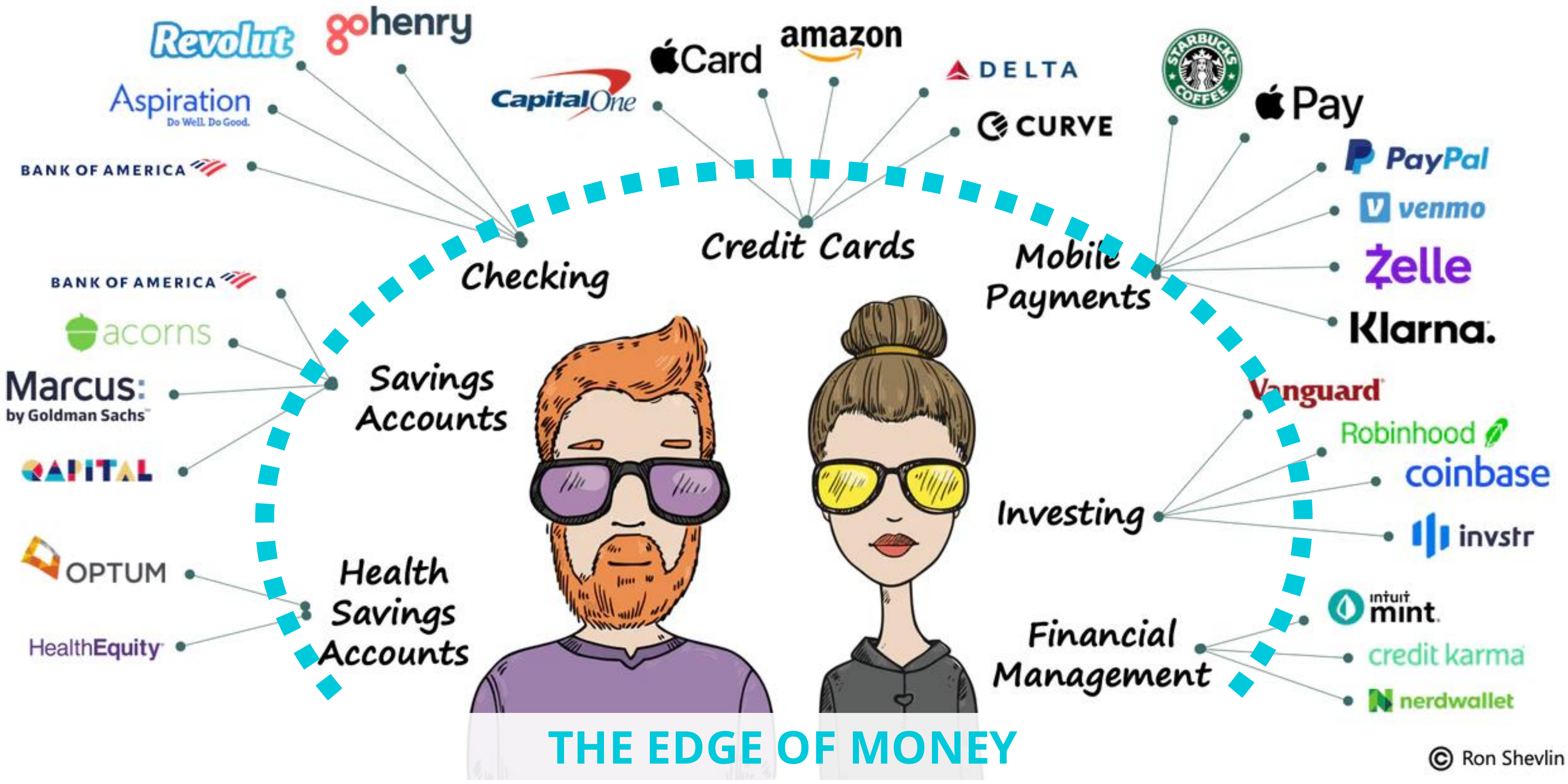
Americans' Shadow Financial Lives



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THE EDGE OF

$1.8B

Idle balances on Starbucks app and cards

Payments Are Where Deposit Relationships Are Won or Lost

Members don't think about "banking", they think about getting paid, paying vendors, and keeping cash flowing. The FI that facilitates those workflows owns the relationship. The FI that doesn't is a commoditized rate option waiting to be replaced.

WHY FIs ARE LOSING GROUND

01 Silent displacement

PayPal, Venmo, embedded fintech workflows in QuickBooks, Jobber, and vertical ERPs are capturing daily SMB payment touchpoints. The FI becomes invisible between statements.

02 Deposits follow payments

Every dollar routed through a non-bank platform is a dollar at risk of staying there. Operational deposits migrate slowly — then suddenly. Recovery is expensive and rarely complete.

03 Traditional options fall short

Core-based solutions are undifferentiated and slow to evolve. Third-party hubs demand disruptive migrations. Building alone is unrealistic. Most FIs default to inaction, which is itself a choice.

WHAT THE WINNING PLAYBOOK LOOKS LIKE

Make the institution the payment hub

Integrate into how businesses actually move money — via business online banking SSO, not a separate portal they'll never use.

Continuously deliver modern payment products

Real-time payments, PayPal, Venmo, and embedded workflows — on the FI's roadmap, not the core vendor's.

Treat payments as a profit center

Payments should generate revenue, not just cost. Banks that shift this framing change what they're willing to invest.

Own the roadmap — don't outsource it

Shared product development with peer FIs reduces cost and restores control. No long-term migration commitments, no external vendor lock-in.

Rebolt is a shared payments platform being developed by and for community financial institutions. Integrates directly into business online banking and the FI's core to restore payment primacy. Banks get continuously evolving products (starting with PayPal and Venmo) without going it alone, and without vendor lock-in.

What is your competitive advantage?*

*Without saying “service”, “relationships”, “our people”, or “our members”.

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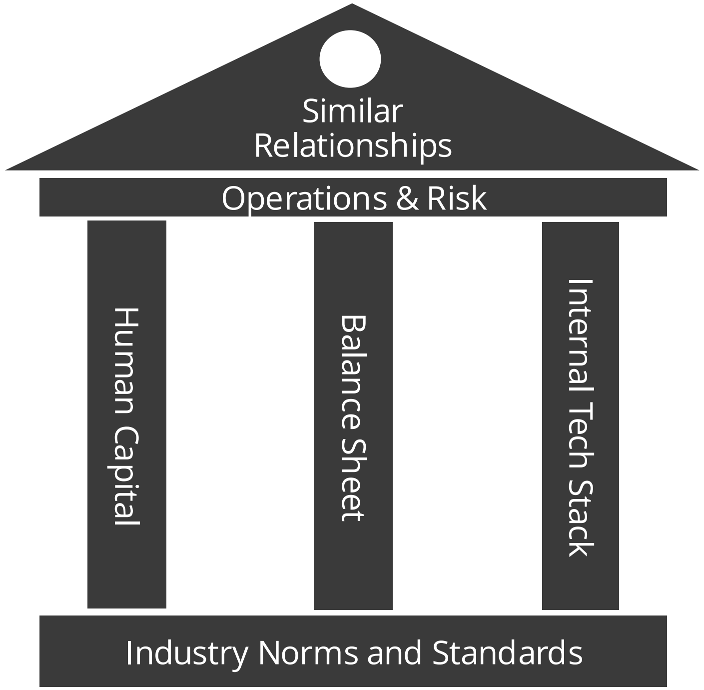
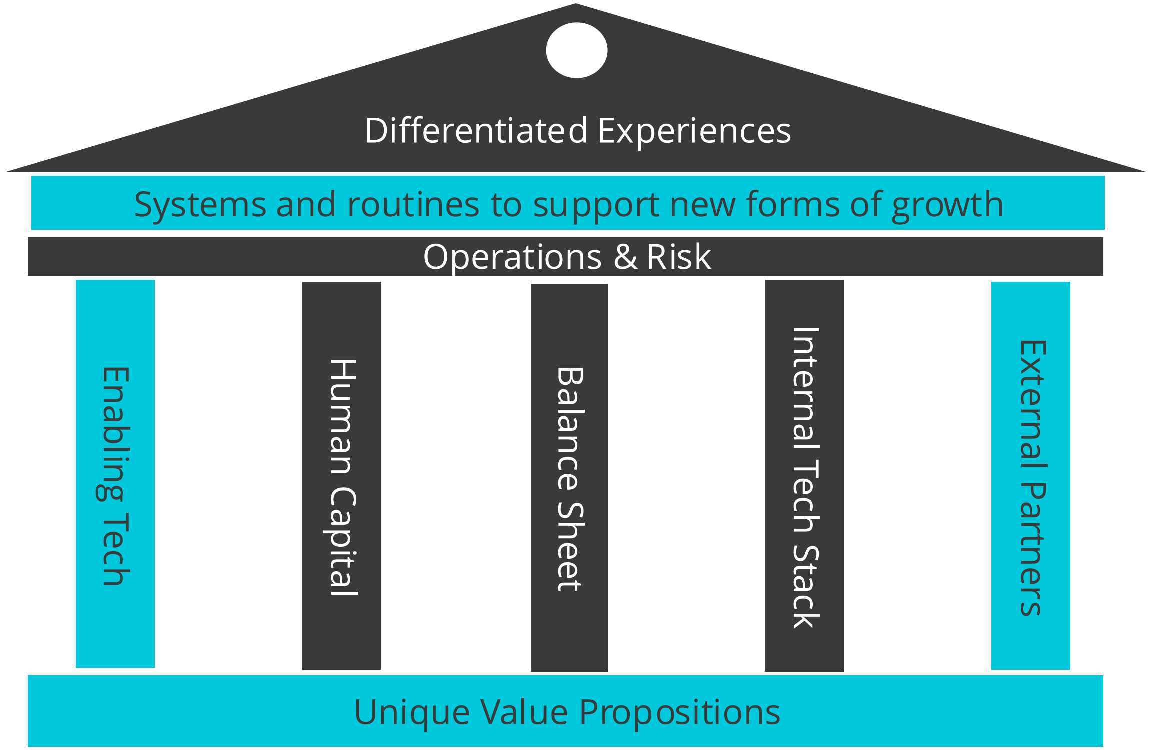
Traditional FI architecture



Re-architected for growth and agility



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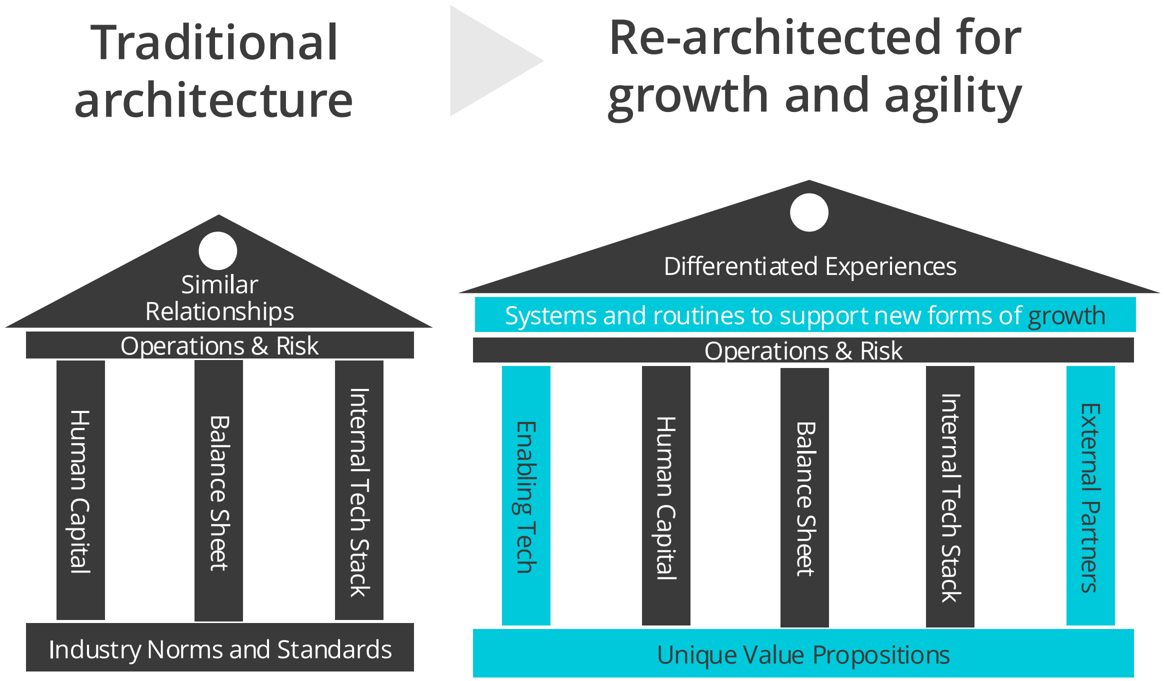
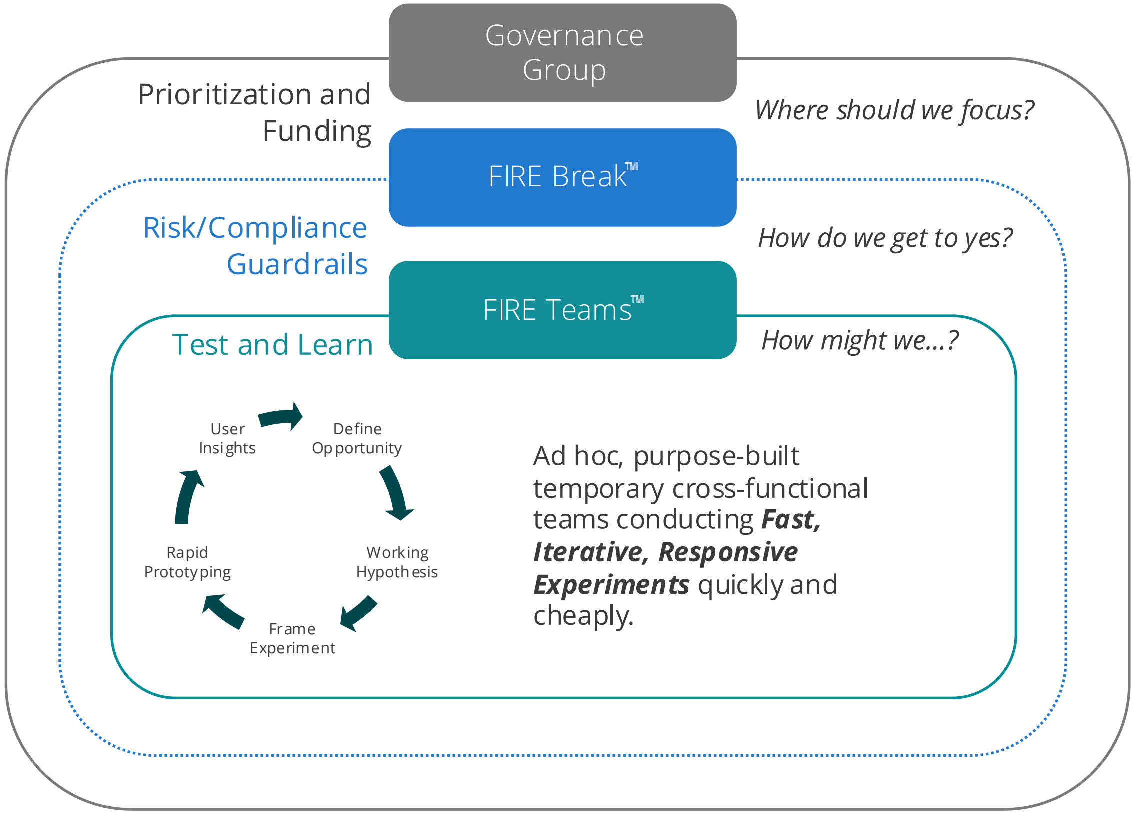
4) Structure for Success

Traditional FI architecture augmented with new capabilities to support a differentiated strategy creates a stronger infrastructure



Internal structures must support testing and learning with the appropriate level of agile risk management controls



Where in your structure do you most need to strengthen for this new era?

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"They assumed themselves to be in the railroad business rather than the transportation business"

- Ted Levitt, Marketing Myopia, 1960

What business are you in?

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Innovation, Strategy, & Leadership:
When Mission Isn't Enough

JP@AlloyLabs.com

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