Brand Preservation and Its Role in the Success of Mergers and Acquisitions: A Case Study

Analyst Author: **Rodney Nelsestuen** Research Director, Financial Strategies and IT Investments

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TowerGroup Take-Aways

- Australia's Community Alliance Credit Union (CACU) has repeatedly demonstrated it can exceed both the promised operational efficiencies and the marketplace goals that mergers and acquisitions (M&As) often fail to achieve.
- CACU has effectively demonstrated back-office consolidation strategies that result in unique customer value propositions for financial services institutions (FSIs).
- The right technology architecture enables marketplace differentiation and efficient operations, as epitomized by CACU's use of a single information technology (IT) platform to serve multiple brands.
- Using sourcing strategies that mirror an FSI's operating culture can result in superior alignment of the FSI's IT and business architecture.
- Multibranding on a single IT platform requires flexible systems and applications delivered through a collaborative effort with a vendor that has a robust global skill set and also shares the FSI's passion for local customer service.

Two Charles River Place
63 Kendrick Street
Needham, MA 02494
United States

T +1.781.292.5200
F +1.781.449.6982
towergroup.com

Report Coverage

According to a TowerGroup case study, Australia's Community Alliance Credit Union (CACU) demonstrates the value of sustaining brand image supported by strong business-IT alignment in mergers and acquisitions (M&As). CACU has kept unique brand identities for each of its five acquisitions. At the same time, the credit union has captured the efficiences that are possible from centralizing and consolidating operations using a single and functionally robust technology platform.

Introduction

Inferior results from mergers have caused many financial services institutions (FSIs) to reexamine the value of retaining brand identity. Many mergers underperform because the acquirer fails to overcome the complexities of lowest-cost IT integration across otherwise strong brands and instead retires the *brands* in a move that often alienates otherwise valuable customers. One FSI that has overcome these challenges is Australia's Community Alliance Credit Union, the legal entity under which five separate brand-name credit unions are maintained.

Brand Preservation as a Key to Success for CACU

During the past several years, there has been an exponential consolidation among credit unions in Australia. As a result, the number of credit unions is projected to go from more than 250 in 1999 to fewer than 100 by the end of 2009. Overall, since 1973, more than 700 niche credit union brands have disappeared. CACU management saw the loss of brands through ongoing mergers as a harbinger of the end of the credit union industry in Australia. At the same time, the executives believed they could build their business around the "mutual" benefits of credit union membership. Customers displayed strong loyalties to their local and individual brands in a world rapidly consolidating to a handful of global FSIs. Thus, brand preservation became a competitive differentiator for CACU.

Brand Preservation and Its Value in Today's Global Industry

Of course, no single strategy applies to all FSIs. The trends in consolidation of the financial services industry evident in other parts of the world may require the *elimination* of a brand. A failed institution or one that is forced to consolidate has lost its brand value; therefore, better results are possible when such brands are eliminated in favor of the acquiring, and still strong, FSI. Also, the emphasis on brand preservation may not be practical for every FSI. An insurance company that targets other companies in reinsurance or other risk sharing may need a single, identifiable brand to ensure its identity in the industry. Smaller wealth management and financial advisor firms can benefit from an acquirer's global brand image to connote greater financial strength, a broader product array, and deeper market intelligence.

Very large global FSIs have succeeded in creating a single brand image; names such as Citi and Barclays are among those recognized globally. Still, multibranding may have value, as recent events demonstrate. The downturn of the financial industry and the failure of several well-known FSI brands points to the risks associated with a one-brand image in the marketplace. When a single line of business in a global brand is tarnished, as happened in several FSI mortgage operations, it affects the entire brand negatively. Thus, large FSIs with a global reach may also take some lessons from this case study in segmenting brand image and reducing reputation risk.

The Value of Multibranding in High-Touch Retail FSIs

Institutions with a high-touch approach to the marketplace can best leverage lessons learned from CACU. Outside the credit union industry, banks such as US-based Synovus also have succeeded in leveraging a multibranding strategy. That success supports the value proposition of individual brand identity in achieving strong growth and marketplace presence, especially in consumer and small business markets. The CACU approach, then, provides a sound model that retail FSIs can follow.

Community Alliance Credit Union

CACU is a full-service FSI headquartered in Wollongong, New South Wales, Australia. The legal entity resulted from the merger of Illawarra and Unicom credit unions in 2003. Since then, CACU has added Shoalhaven and Western City and has launched a new online brand, bringing a total of five brands under its corporate structure. Exhibit 1 captures key elements of the corporate makeup and shows the credit union's brand logos.

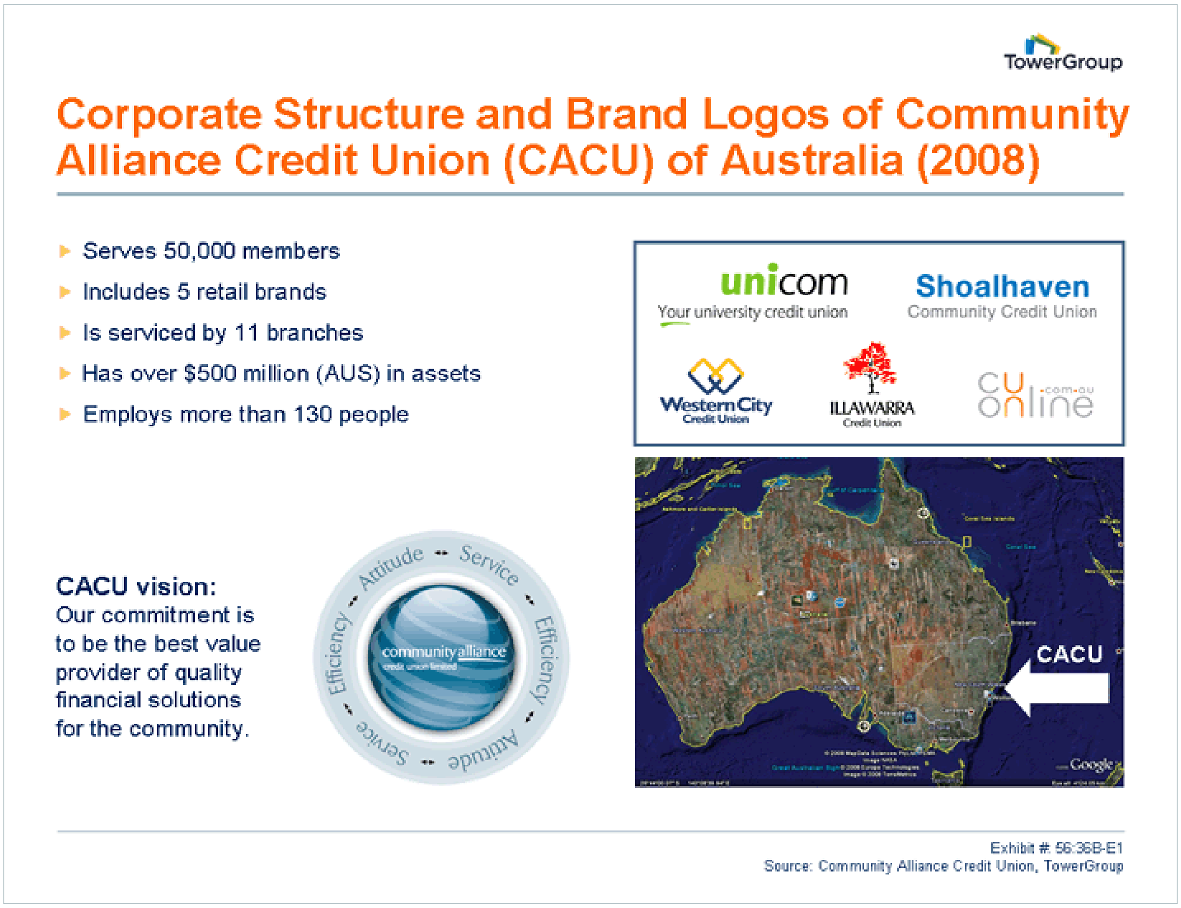

Exhibit 1
Corporate Structure and Brand Logos of Community Alliance Credit Union (CACU) of Australia (2008)
Source: Community Alliance Credit Union, TowerGroup

The credit union provides traditional credit union services directly and offers other services through a network of provider alliances. It offers card and foreign exchange services through partnering with leading providers like Visa, MasterCard, American Express, and Travellex. Consumer credit and property and casualty insurance are provided through CUNA Mutual Insurance. CACU offers retirement and investment advice and products, now totaling about $90 million (AUS, about USD$75 million), in an alliance with Bridges Financial Planning Service. In 2007, CACU completed its first year of full operations with the four merged brands and launched the online brand.

Each individual brand, while providing a full range of services, maintains a unique value proposition and is highly differentiated from the others. Some key aspects of these differences are:

- The Illawarra Credit Union brand, consisting of nine branches and approximately 35,000 members, has the largest asset base. Based in Wollongong, it is an integral part of the Illawarra community. Its emphasis is on the local community and long-term customers served through a highly focused branch delivery system.
- Unicom is a cyber brand for university staff, students, and faculty that uses the Internet as the main delivery channel for its customers. Its emphasis is on low fees with a feeling of "belonging" in a clublike atmosphere for about 8,000 members.
- The Western City brand is based in Liverpool in the Sydney market and emphasizes having local ownership, knowing its 5,000 customers by name, and fostering innovation, in contrast to

larger, chain competitors.

- Shoalhaven Community's brand is the smallest in the group. Based in Nowra, Shoalhaven has about 1,000 members and serves an aging but fiercely loyal demographic base through a single branch.
- The recently launched online brand was created to be a retention mechanism for customers whose demographics or needs change. It allows customers to move from a traditional, "old school" banking model to an electronic, Internet-based relationship without having to leave their individual credit union brand. Online customers of all brands use a common cu@home login. But they are presented with separate URLs for their unique and varied brand, accessing brand-specific products and fee structures and that brand's member experience. Thus, the online brand can both be an independent contributor as a stand-alone brand and support the growth and retention objectives of the others.

"Brand DNA" Drives Strategy

CACU's unique value proposition is driven by what it calls brand DNA. Under the basic makeup of each brand and its demographics outlined above, CACU has further segmented its brands by customer age (e.g., retired versus college), location (e.g., rural versus urban,) professional status, and life stage. Although overlap does exist, several unique differences exist among brand constituencies. These elements further inform product and service needs, including various beliefs about interest rates, product needs, levels of personal service, and fees. Other key elements include:

- Specific versus nonspecific "community" focus
- Branch versus branchless delivery
- Low versus high fees
- "Club" versus generic or nonclub membership culture

Products and services are assembled around each brand to align with target markets. These unique customer value propositions are based on a number of key attributes such as branch presence, community focus, fees and charges, and the overall club or "niche" feeling. Some examples of how these differences function in practice follow:

- Western City members, who tend to be older, visit branches and value paper-based statements, whereas generation X customers in the CU Online brand conduct business over the Internet and receive services via short message service (SMS) on their mobile devices.
- Illawarra members value access to a large number of branches throughout their region but pay higher fees and charges than Unicom members do for this more expensive delivery channel.
- Unicom members have a strong niche bond from being part of the university "club." They come together as one brand even though they make use of electronic delivery channels to gain access from universities all over Australia.

The concept of branding using a DNA descriptor is shown in graphic form in Exhibit 2.

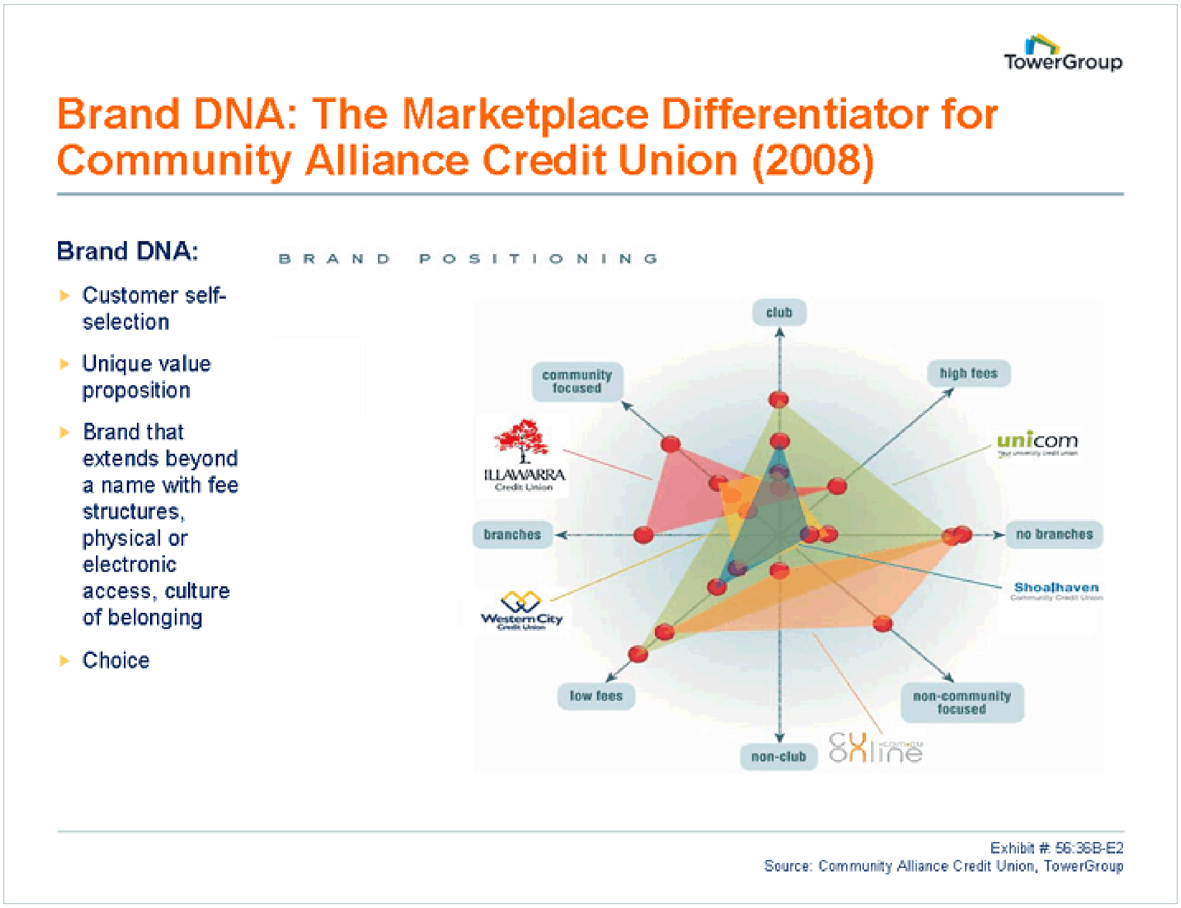

Exhibit 2
Brand DNA: The Marketplace Differentiator for Community Alliance Credit Union (2008)
Source: Community Alliance Credit Union, TowerGroup

The term DNA describes the branding strategy on which CACU's management team builds its internal brand culture, but a list of the components sounds more like a dessert menu than an FSI's structure. At its foundation, the business consists of a "factory" of IT systems, corporate attitudes, and infrastructure that, in CACU's nomenclature, represents a piece of the pie. On top of that are products and services that are differentiated by brand, not unlike various types of ice cream that could be added to the pie. Finally, a marketplace persona (its garnish) tops off the dessert through its reputation, nomenclature, collateral, customer communications, and the like.

Sensual images are core to CACU's internal culture. Repeated references are made to branding as having scent, taste, touch, sight, and sound elements. In short, consumers feel the difference in a particular brand based on sensual experience and not just through logo wear. Each brand has its own "personality," which delivers unique value propositions, innovation, and marketing that customers can sense and understand as part of the brand experience.

Service and relationship are critical to differentiating customers' experience, and there is strong evidence of brand value, unlike in CACU's legal structure. In 2008, a customer visited a branch office with CACU's annual report and asked, "Can you tell me what this Community Alliance Credit Union is about?" In other words, the customer's feelings and perceptions related to the brand, not the corporation. A more telling example came in 2008 when the Illawarra Credit Union *brand* placed third in Australia's annual Money Magazine Credit Union of the Year Award. To be clear, it was not the legal entity but the brand that won recognition.

Of course, metrics that are more traditional also define success. Following are several examples as provided by CACU and TowerGroup analysis:

- Nearly 50% of Unicom (university) brand customers are actively using the online service, whereas less than 1% of Shoalhaven (heavily retired and local customers) use it. The expansion of online usage drives average transaction cost down to 28 cents compared with the five-brand of average of 33 cents and a high of 41 cents.
- The number of products held per customer ranges from a low of 3.15 to a high of 4.29 across the brands. The overall CACU ratio is an enviable 3.78 products per customer compared with an industry average of about 2.5. The number exceeds the US-based Synovus brand family's 3.33 products per commercial customer.
- Across the CACU customer base, approximately 95% of transactions are fully electronic and outside the branch network, but 33% of Illawarra members still use traditional branches.

These are very dramatic differences in customer behavior across the brands, highlighting the value of understanding customers' needs and creating a unique value proposition to suit each brand.

Interestingly, each of the separate brands became stronger and bigger after its merger with CACU. For example, the Unicom brand had approximately $50 million in assets at the time of the merger but grew to over $70 million in two years. This change equates to a 20% compound annual growth rate (CAGR) that would be impressive in any environment but is especially significant in merger situations.

Multibranding on a Single Platform: Overcoming the Challenges

Complexity is the hallmark of a multibranding strategy. However, CACU's unique delivery is possible because of the effort that went into thinking through and deploying the IT architecture. Numerous versions of product combinations are needed and must be delivered through multiple channels. Although such complexity could easily challenge both the channels and the staff in the effective delivery of services, CACU has broken the "one-to-many" barrier through focusing on simplicity. It was able to use a single system to provide multiple products to multiple brands through multiple channels by deploying a configurable system from TCS Financial Solutions. CACU implemented this solution, TCS BaNCS Core Banking, as a single instance running on a single IT infrastructure. As a result, it creates efficiency, saves operational costs, eases business continuity planning, and reduces maintenance and staff overhead. These elements ultimately converge to provide a lower total cost of ownership (TCO.)

Because of the system's configurability, CACU is able to get products to market quickly. Work that used to take many weeks of programming in an old legacy system can now be completed in days. CACU maintains all product development and delivery responsibility using system parameters managed by CACU's own expert personnel. TCS Financial Solutions maintains the source code for the system and delivers code changes only when needed. The user-friendly front-end delivery system, TCS BaNCS Link, is maintained by CACU as an enterprise data warehouse.

Exhibit 3 outlines the TCS application ecosystem within a single technology platform.

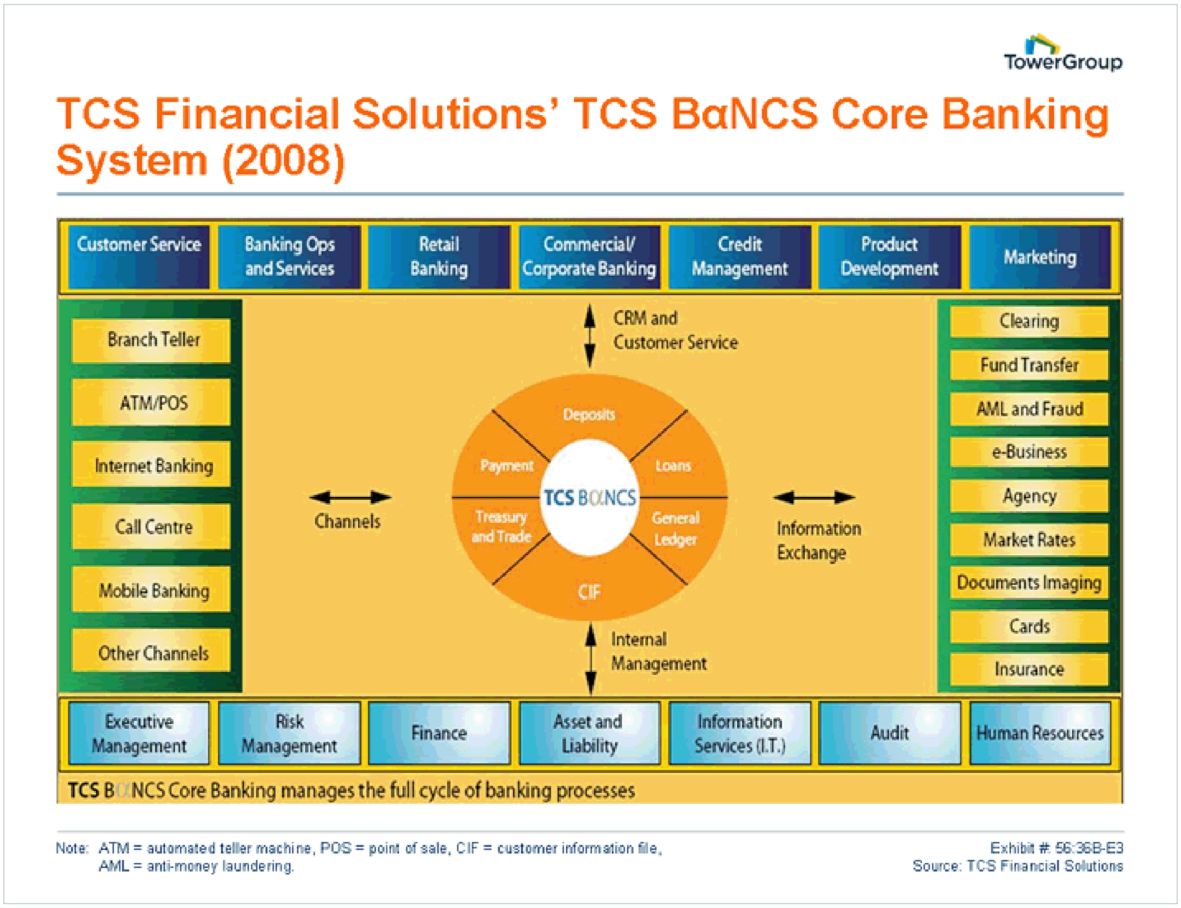

Exhibit 3
TCS Financial Solutions' TCS BaNCS Core Banking System (2008)
Source: TCS Financial Solutions

Several key features of CACU's implementation have enabled this single platform to serve multiple and differentiated brands, with some interesting paradoxes:

- All products are white-labeled, meaning that a highly standardized master product set is leveraged differently by different brands. All marketing materials are brand specific, and any needed systemic labeling is done at the time and point of delivery, leaving the back-end system to function as a generic production "factory." This technology approach delivers a "one-to-many" platform on which a single IT infrastructure serves multiple brands. In direct contrast, many traditional mergers result in several back-end systems, which, over time, potentially serve a single customer in a "many-to-one" spaghetti nightmare. Recent product releases include a business banking package, tailored mortgage products, and new savings products, one of which is built around wildlife preservation in recognition of growing interest in "green" initiatives and environmentalism.
- Core processing is completed under the single legal entity, as are reporting and regulatory compliance. Members receive an annual report that features each of the brands prominently while explaining CACU only as its legal role requires. In addition to core customer information files (CIFs), each brand has its own appended and unique number added to the CIF for identification purposes.
- Each brand has its own URL and unique toll-free number. However, services are delivered though a single online platform and a single call center where the representative knows the brand the

member is calling under to provide individualized service.

- Internal financial processes are standardized. Electronic settlements, checking, payments, and transaction interchange are processed through Australia's centralized credit union clearing house (CUSCAL). By using the unique credit union brand identifier (known as an Australian BSB number), TCS BaNCS Core Banking is able to maintain all the unique legacy credit union "member" numbers, despite numerous duplications. Therefore, customers can retain their identity, all their *original* card numbers, checkbooks, and banking details even though their credit union has merged with CACU. On the IT front, processing costs are standardized, streamlining the credit unions' operations.
- Maintaining brands increases the chance that a customer will stay on after a merger. It also strengthens the overall operations of the combined business. If one brand that serves a certain geographic area or niche demographic has a growing deposit base, CACU can lend that brand money in a different area or market segment. This capability essentially allows brands to leverage each other rather than to compete, making CACU itself a stronger credit union.

CACU has successfully outsourced the physical IT operations to Sydney-based IT infrastructure outsourcer Datacom Systems. Thus, TCS BaNCS Core Banking and Datacom are responsible for the deeper technology operations, while CACU remains focused on its customers, markets, and branding strategy. TCS BaNCS Core Banking and the IT infrastructure at CACU are depicted "in action" in Exhibit 4.

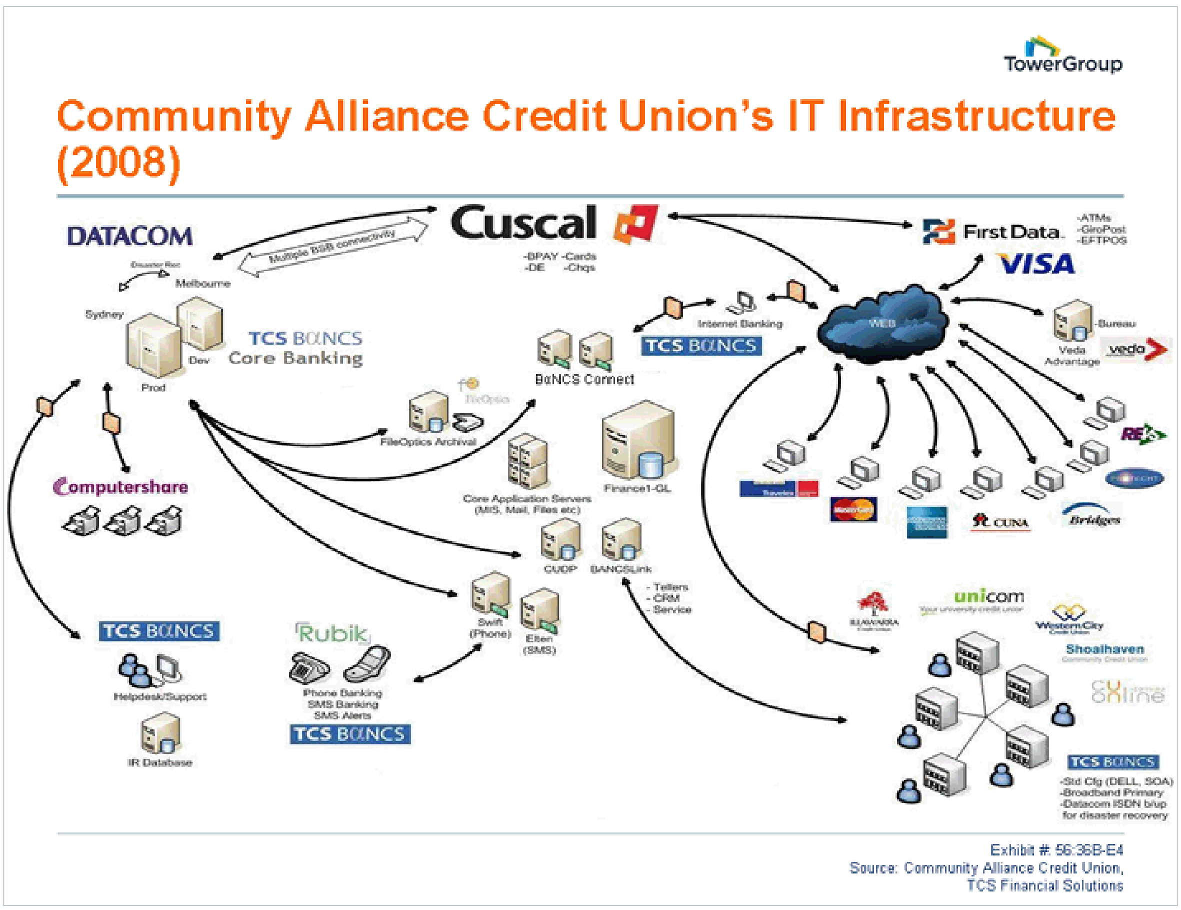

Exhibit 4
Community Alliance Credit Union's IT Infrastructure (2008)
Source: Community Alliance Credit Union, TCS Financial Solutions

The right technology enables business differentiation, which required significant forethought and planning, system flexibility, and configurability for CACU. Various TCS BaNCS solutions are woven throughout the enterprise architecture, as shown in Exhibit 4. This successful design demonstrates three key points:

- **IT architecture matters to business success.** CACU has taken advantage of the scalability and openness of TCS BaNCS Core Banking to seamlessly overlay its multibranded organization and create a cost-effective environment. For the hardware, CACU makes use of HP Itanium 2-based servers running an enterprise version of Oracle.
- **Unique IT doesn't come at the cost of mission-critical functions.** Disaster recovery and business continuity are addressed with a full replication of the system based hundreds of miles away, but it is frequently and electronically updated for redundancy.
- **Attaining superior results means more than IT alignment.** By carefully selecting good strategic partners and outsourced suppliers that understood and shared its vision, CACU was able to lower cost while providing robust functionality and the risk-mitigation tools that FSIs require.

CACU's culture and beliefs also apply to its sourcing strategy. The infrastructure outsourcer, Datacom Systems, is measured on service-level agreements (SLAs) tied to transactional performance, much like a transaction-oriented customer of the Unicom brand. However, the relationship with TCS Financial Solutions is based on a close-knit partnership developed from a shared and common understanding of and belief in the goals of the business. The teams worked closely in all planning stages to ensure alignment of TCS BaNCS Core Banking's functionality, TCS Financial Solutions' implementation capability, and CACU's IT and business requirements. This high-touch relationship mirrors that of the Shoalhaven brand. Thus, the brand culture in CACU is woven throughout both customer-facing and internal operations.

Summary

Mergers and acquisitions often fall short of their promised results. Customers become dissatisfied or otherwise disillusioned as specific and unique brand value is lost through consolidation. Thus, the operational savings achieved often comes at the expense of a financial services institution's (FSI's) asset base. Australia's Community Alliance Credit Union (CACU) has been able to create the efficiencies touted by merged operations and greater scale while still maintaining brand loyalty and continuing organic growth.

For global FSIs and small community-based institutions alike, the lessons from CACU's multibranding strategy demonstrate the importance of strategic thinking, followed by creative yet sound and competent planning, all in conjunction with service providers that share a common vision.