

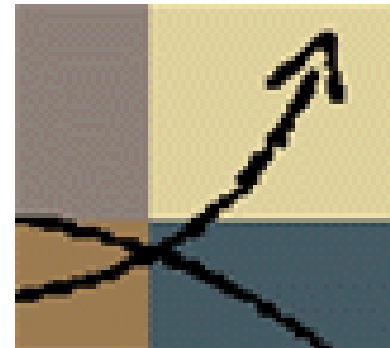
# Disruption: Are We Next?

## CUNA Mutual Growth Symposium

Austin, TX – April 14, 2015

John Lass, President  
Lass Advisory Services, LLC

John P. Lass  
Lass Advisory Services, LLC  
Seattle and Madison  
April 2015  
(608)609-9478  
johnlass108@gmail.com



# The Essence of Strategy

*“Everyone has a plan - until they get punched in the mouth.”*

*- Mike Tyson (Quoted in The History of Strategy)*

# Key Insight

*“Our real competition is convenience.”*

*Credit Union Executive, March 2015*

# Agenda

- What is Disruptive Innovation?
- Disruption in Retail Financial Services
- Potential Responses to Disruption

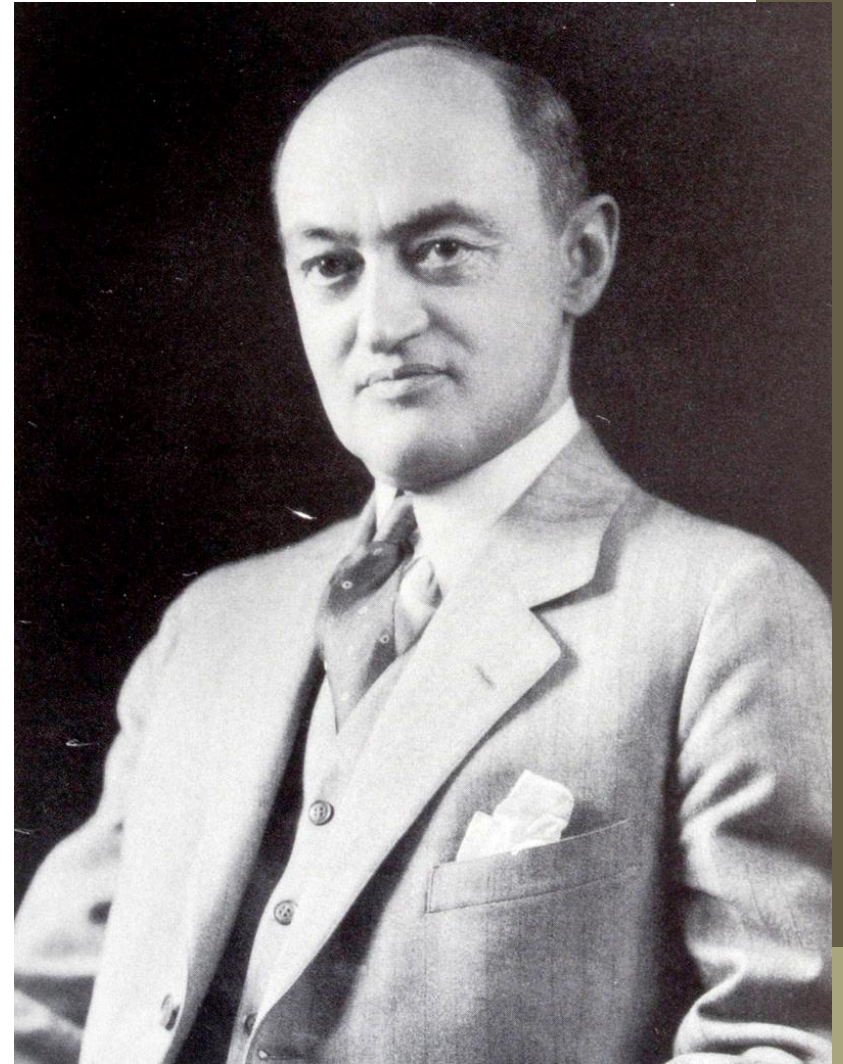
# **Section I**

## **What is Disruptive Innovation?**

# Joseph Schumpeter: Creative Destruction

*Creative destruction is the "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."*

*Joseph Schumpeter, 1942*



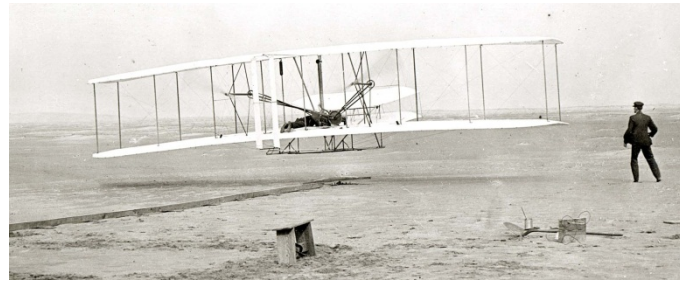
# Innovation Is Nothing New



Printing Press  
1440



Light Bulb  
1800



Airplane  
1903



Internet  
1969

Smart Phone  
1994

Wheel  
3340 BC

Two-Way  
Telephone  
1876

Antibiotics  
1928

Microwave  
Oven  
1955

Paper  
200 BC

Steam Engine  
1698

Steamboat  
1873

Radio  
1900

Television  
1925

Nuclear Power  
1954

Laser Beam  
1958

GPS  
1978

Anesthesia  
1842



Today

# Incumbents' Challenge

*"It is not the owner of stage-coaches  
who builds railways."*

*Joseph Schumpeter*





# Clayton Christensen: Disruptive Innovation

*“An innovation that is disruptive allows a whole new population of consumers at the bottom of a market access to a product or service that was historically only accessible to consumers with a lot of money or a lot of skill.”*

*Clayton Christensen, 1997*

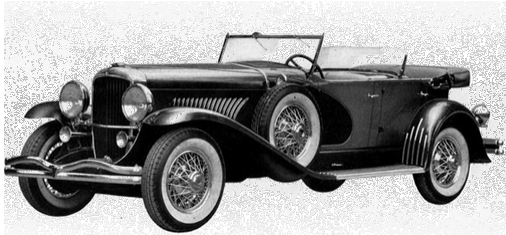


# Disruptive Innovation: Automobile Examples

Incumbents

Disruptors

Duesenberg



Ford Model T



1920's

Ford Fairmont



Honda Civic



1970's

Honda Accord



Kia Optima



Now

# Big Bang Disruption – The New Thinking

*Big Bang Disruption is “an innovation that, from the moment of its creation, is both better and cheaper than the products and services against which it competes. Using new technologies in the Internet, cloud-based computing, and increasingly powerful and ubiquitous computing devices, Big Bang Disruptors can destabilize industries in record time, leaving incumbents and their supply chain partners dazed, and, soon after, devastated.”*

*Big Bang Disruption, Larry Downes & Paul Nunes, 2014*

# Successful Disruption: Smartphones





# Successful Disruption: GPS Devices

**2004**

**Garmin StreetPilot 2620**



**Cost: \$1,516**

**2009**

**TomTom iPhone Navigation App**



**Cost: \$100**

**2014**

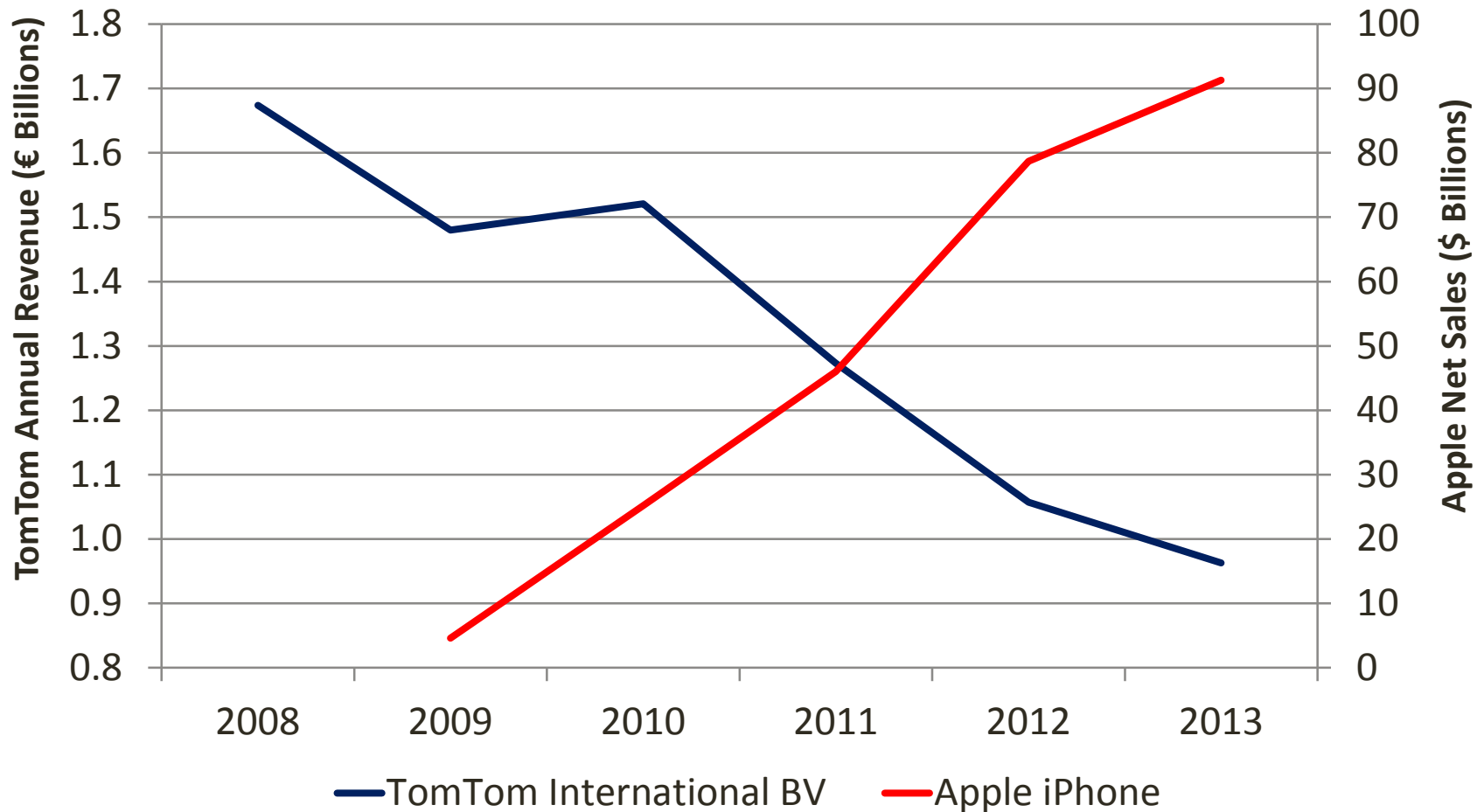
**Google Maps App**



**Cost: Free**

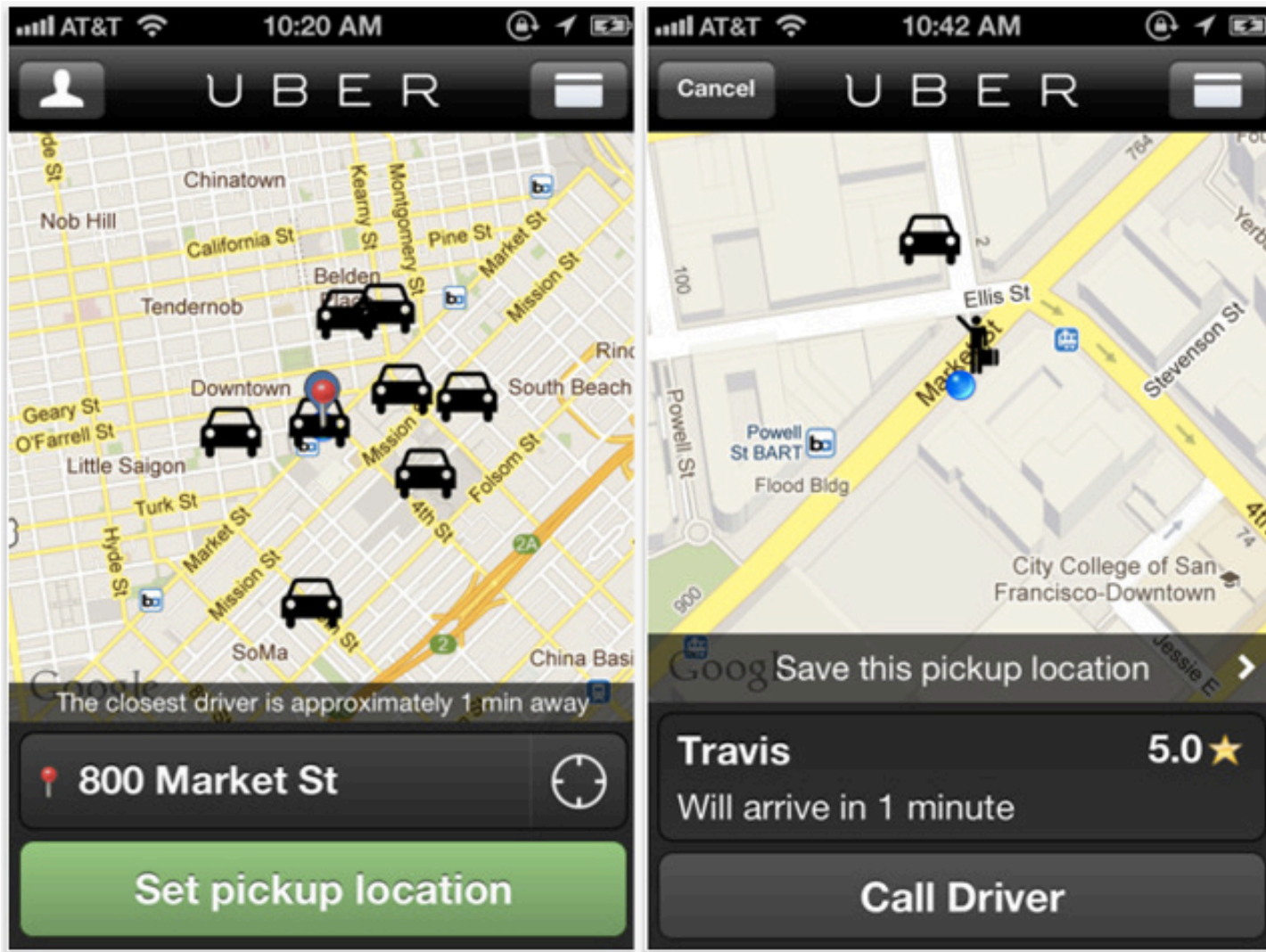
# Successful Disruption: GPS Devices

GPS Device Manufacturers Struggle; Smartphone Sales Grow



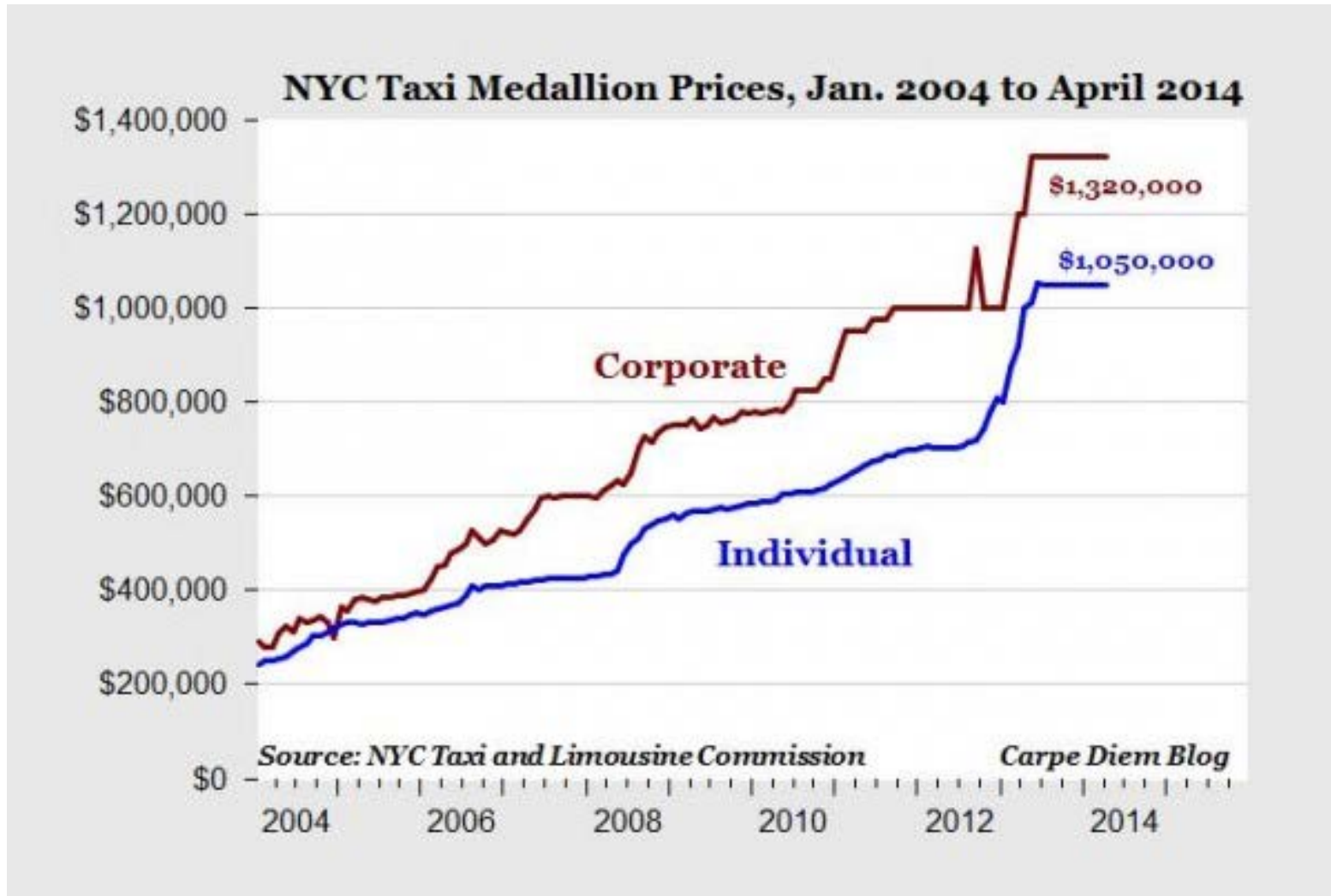
Source: TomTom International BV and Apple Inc. financial reports

# Successful Disruption: Uber



Source: "Clarifying Prices When You Hail a Cab with Uber, Other Apps", WNYC.org, 1/10/2013

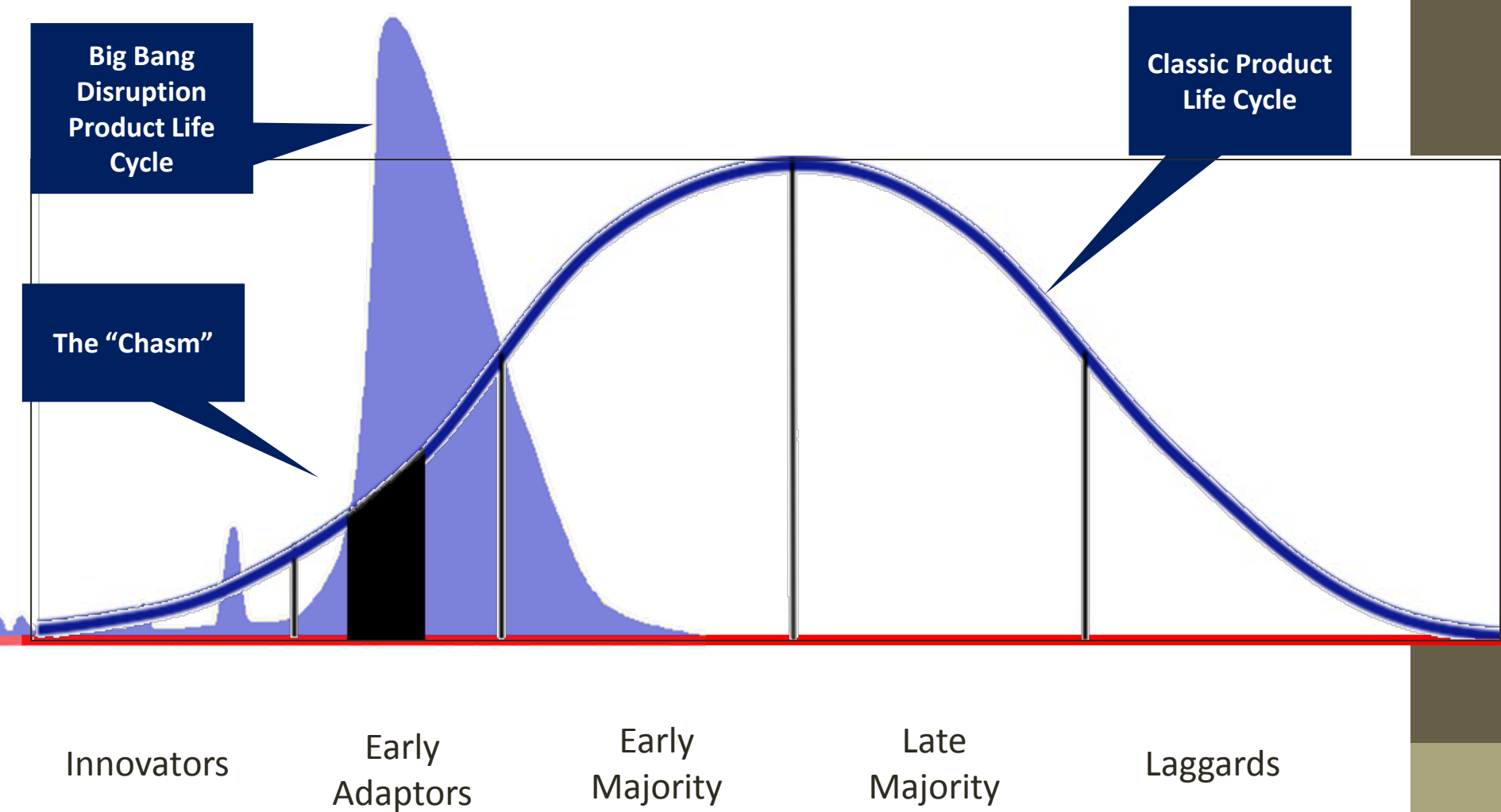
# Uber Flattens The Competition



Source: "Uber/Lyft vs. taxis: Let the market decide, not taxi cartels and their government enablers — bureaucrats and legislators", Carpe Diem Blog, 7/12/2014



# Big Bang Market Adoption



Source: [Big Bang Disruption](#), Larry Downes & Paul Nunes, 2014; [Crossing the Chasm](#), Geoffrey Moore, 1991, CUNA Mutual Group analysis

# Strategy Options: Classic Approach

## Product Innovation Leadership

We win because the market perceives our brand as having the cutting-edge (often overkill) products with superior features - justifying premium prices.

*Example: Apple Computer*

## Operational Efficiency Leadership

We win because the market perceives us as having the lowest prices. Based on cost and process efficiencies that still allow us to return profits.

*Example: Dell Computer*

## Customer Solutions Leadership

We win because we are so customer-intimate that we are already there when the customer need arises. We offer tailored solutions before the customer feels like shopping around.

*Example: IBM w/ enterprise customers.*

*To compete, a business needs to perform in all three disciplines.*

*To become a market leader, it must outperform competitors in one discipline.*

Middle ground of mediocrity:  
Trying to lead on all fronts

Source: The Discipline of Market Leaders, Michael Treacy & Fred Wiersma, 1995

# Case Study: Specialty Coffee Retailers

Product  
Innovation  
Leadership



Customer  
Solutions

Operational  
Efficiency  
Leadership

# Strategy Options: What About eBay and Google?

## Product Innovation Leadership

We win because the market perceives our brand as having the cutting-edge (often overkill) products with superior features - justifying premium prices.

*Example: Apple Computer*

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# Not All Disruptors Are Successful

Microsoft



Laserdisc



Segway



Mobile RFID  
Payment Fob



Oakley Thump Sunglasses



Sony Betamax



Source: CUNA Mutual Group Analysis

# Some Disruptors Were Ahead Of Their Time

## MP3 Players

1998  
Diamond Rio



2000 Archos  
Jukebox



2000 Creative  
Nomad Jukebox



2001 Apple iPod



## Tablets

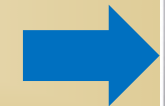
2001 Compaq  
Tablet PC



2006 Toshiba Portege



2009 Archos 9 PC Tablet



2010 Apple iPad

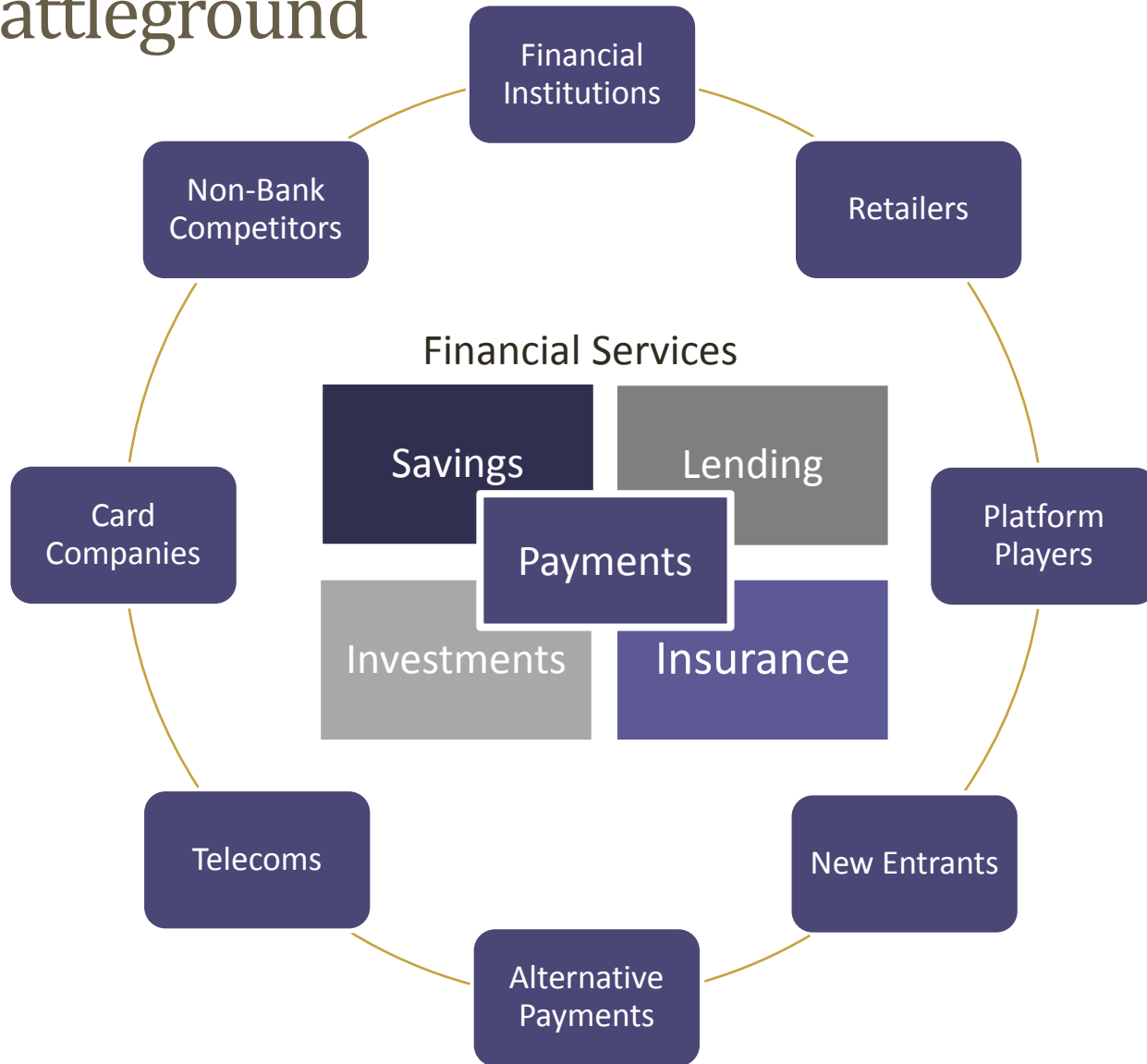


Source: CUNA Mutual Group Analysis

# **Section II**

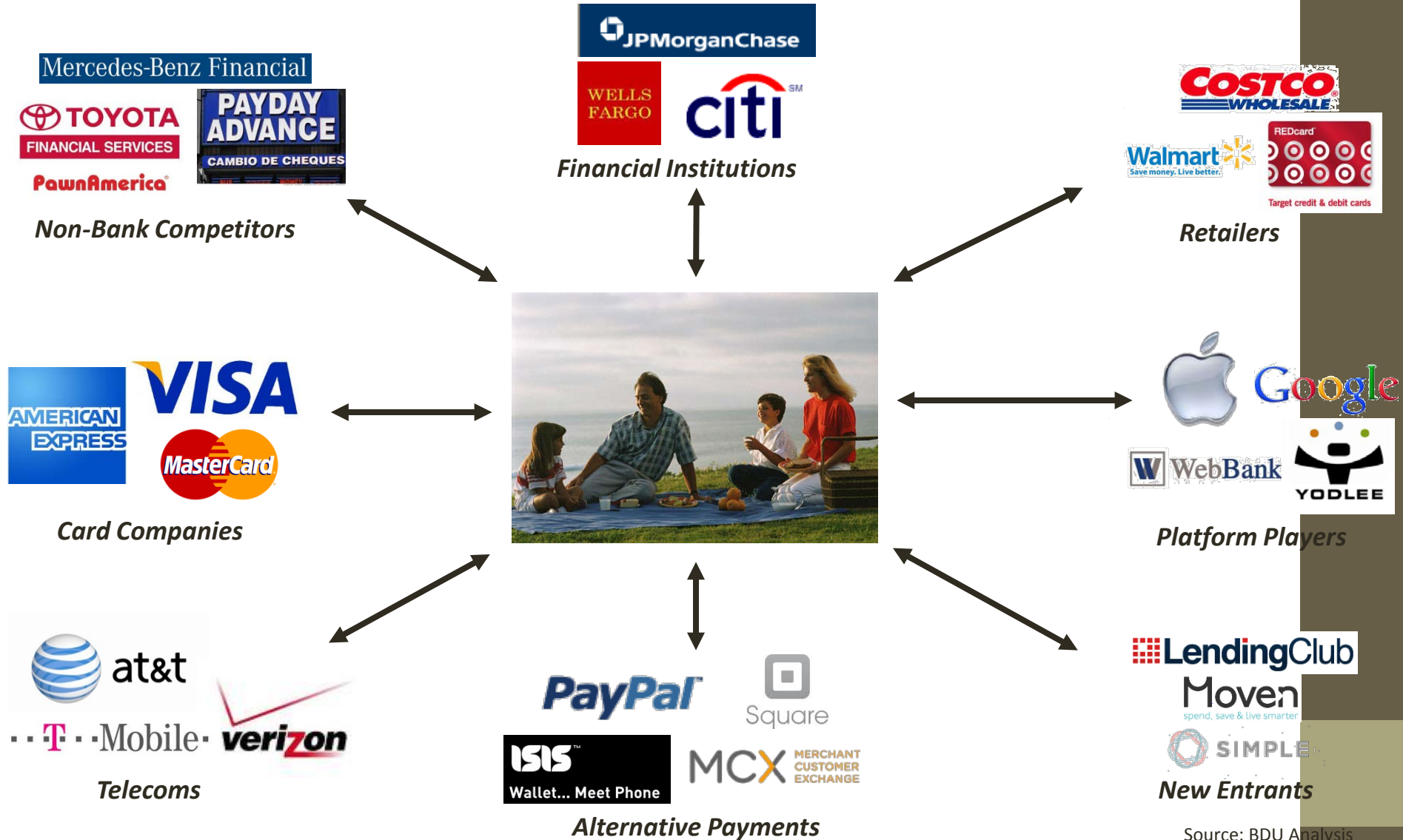
## **Disruption in Retail Financial Services**

# The Battleground



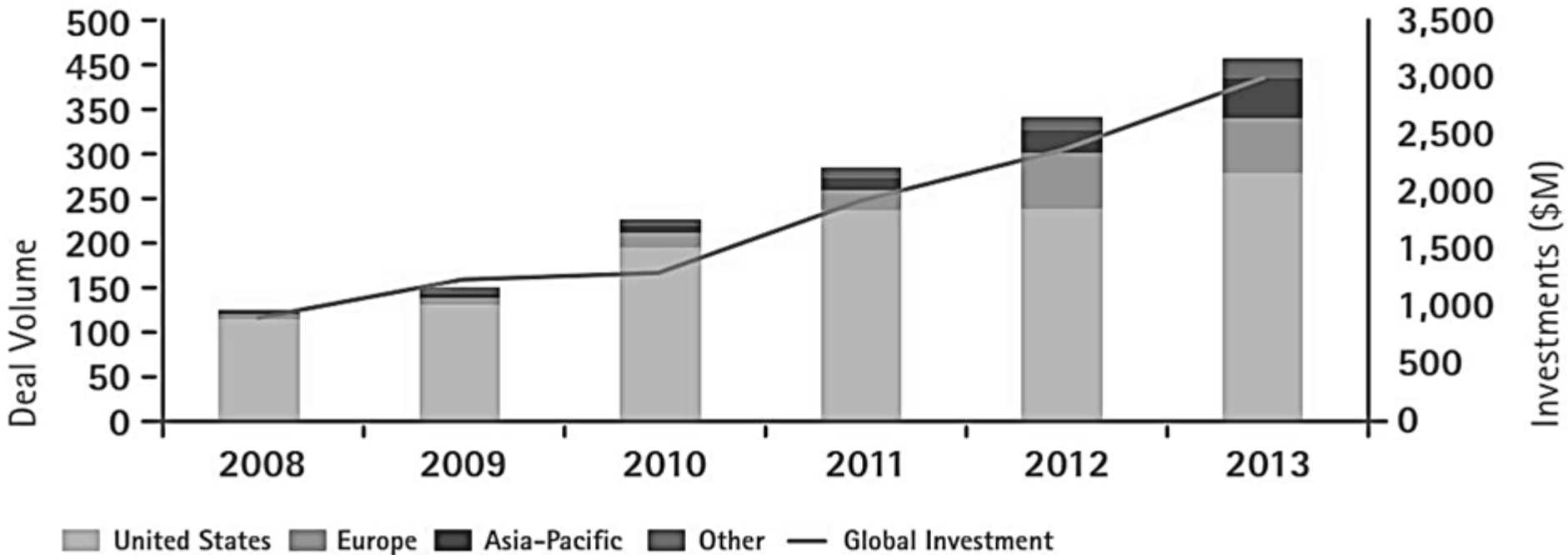


# Key Competitors - 2014



# FinTech Investments Have Tripled In Five Years

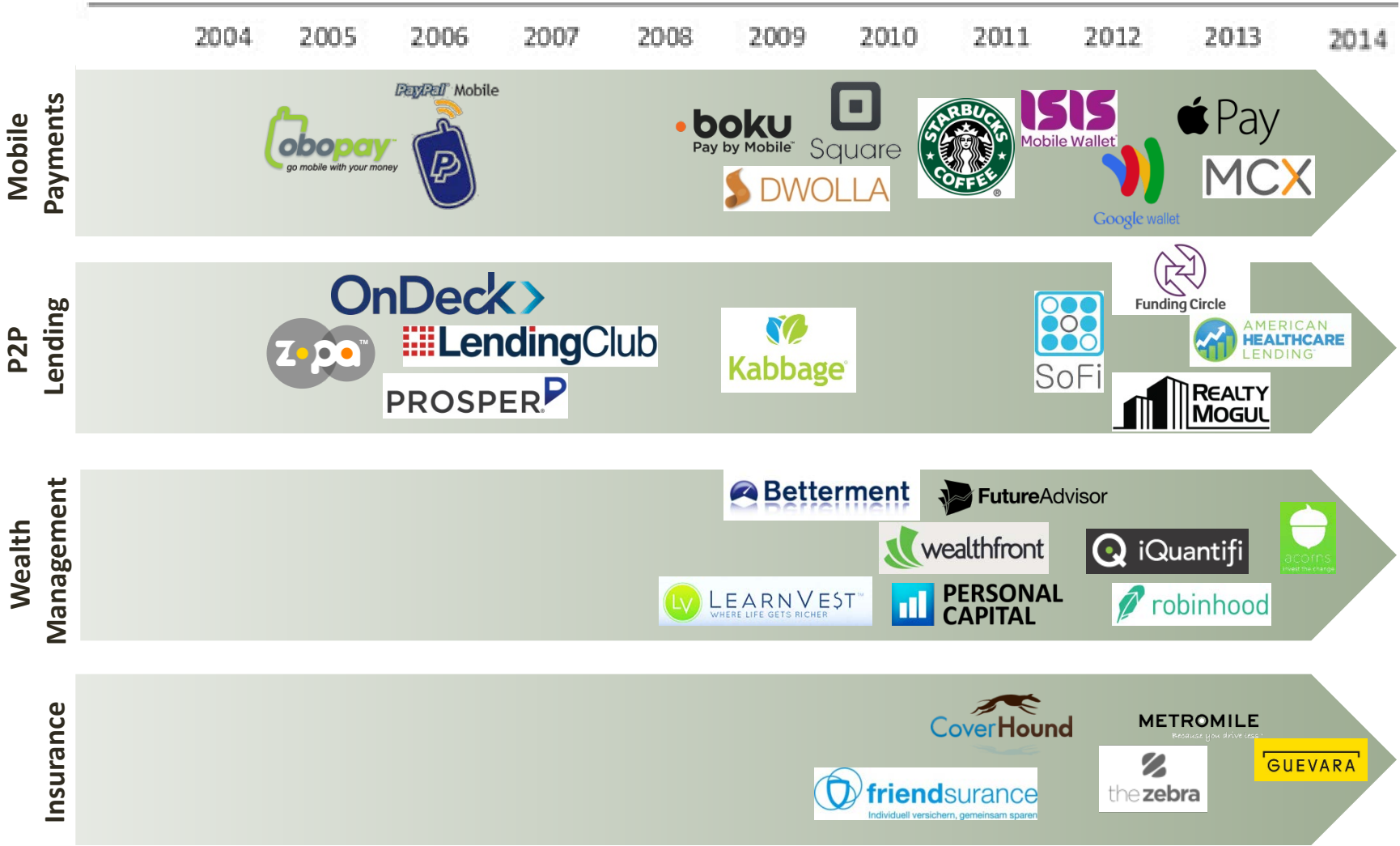
Global financial technology investments hit \$3B in 2013



Source: Accenture and CB insights

Source: "The Boom in Global Fin Tech Investment: Fin Tech Grabs \$3 Billion in 2013",  
CB Investments, 3/27/2014

# FinTech Investment: Moving Beyond Payments

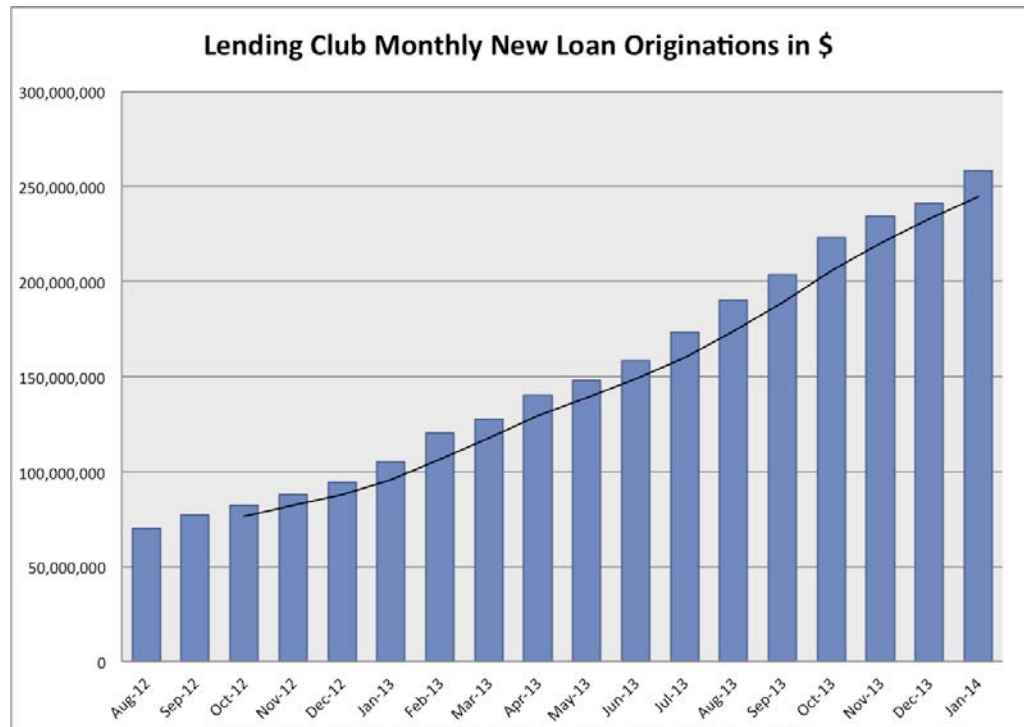


Source: CUNA Mutual Group Analysis

# Case Study: New Entrants

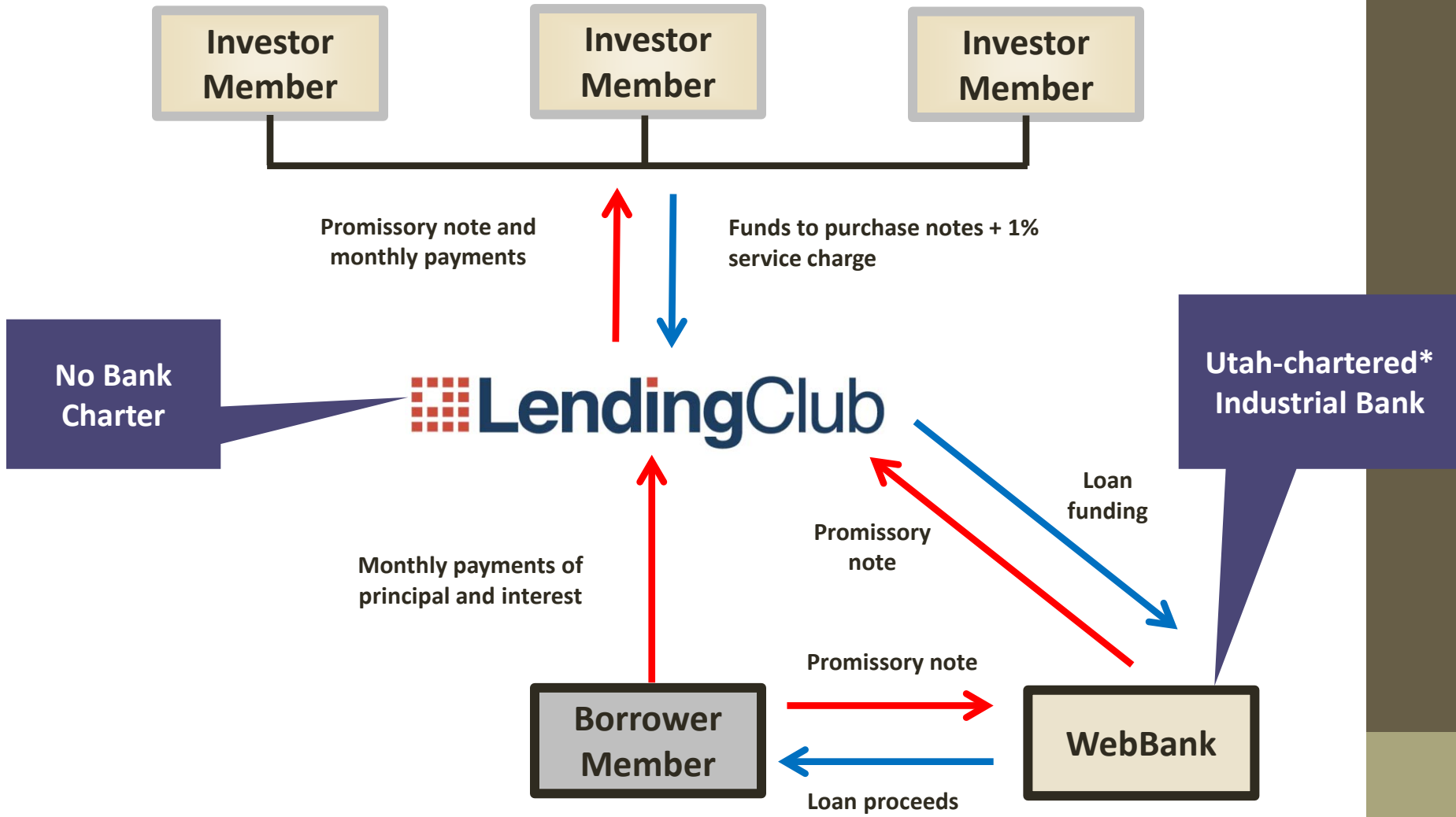


- Leading P2P lender
  - Provides loans to prime\* consumers that are funded by investors at the time of origination
  - Loans originated by WebBank, a Utah-based ILC
- Google took a \$125M stake in the company in May 2013
- Majority (82%) of borrowers using their loans to consolidate debt / pay off credit cards
- Facilitated \$258M of new loans in January 2014



\*FICO score of 660+

# Lending Club Leverages WebBank's Bank Charter



\* Utah has no usury laws

Source: Lending Club; CUNA Mutual Group analysis

# Case Study: Retailers

## Ambitious Plans

**MCX** MERCHANT  
CUSTOMER  
EXCHANGE



## Speed Bumps or Deal Breakers?

THE WALL STREET JOURNAL. ≡ MARKETS

HEARD ON THE STREET

### Trust Disappears From Retailers' Shelves



about Target | careers | corporate responsibility | investors | press

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### Target Confirms Unauthorized Access to Payment Card Data in U.S. Stores

THE WALL STREET JOURNAL. ≡ BUSINESS

BUSINESS

### Michaels Warns of Possible Data Breach

Crafts-Store Chain Says It May Have Been Victim of Attack

HOME

SEARCH

The New York Times

BUSINESS DAY

### Neiman Marcus Data Breach Worse Than First Said

By ELIZABETH A. HARRIS, NICOLE PERLROTH and NATHANIEL POPPER JAN. 23, 2014

Source: MCX, BDU Analysis

# Case Study: Alternative Payments



*"We challenged ourselves to find a better experience than swiping a credit card. We figured the only better way to pay would be to do nothing. Just walk in a store, and, like magic, when you're ready to pay, money is transferred securely. No wallet. No card. Not even touching your phone."*

*- David Marcus, President, PayPal*



# Kabbage Tries To Disrupt Small Business Lending



How It Works

Why Kabbage

Community

Company



Sign In

Apply

## Get the funds you need to grow your business in minutes!

The world's fastest and easiest way to get a line of credit.

**Apply Now**

See how much you qualify for today



Learn how Kabbage works in 60 seconds



You could have \$500 - \$100,000 in your account by **9:04 am.**



Kabbage Home: Busi...



**8:57 AM**

**7 Minutes**

Site: Kabbage.com



# SoFi: Expands Beyond Student Loan Consolidation



SoFi

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## Cut the cost of your student loan debt

Members average \$11,783<sup>2</sup> in savings

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### UNPARALLELED SAVINGS

Our members save \$11,783<sup>2</sup>, on average. **Variable rates** starting at 2.66% APR (w/Autopay)<sup>1</sup>



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Refinance and consolidate federal and private loans. Easily.



### UNEMPLOYMENT PROTECTION<sup>3</sup>

If you lose your job, we'll pause your loan payments and help you find a new job.

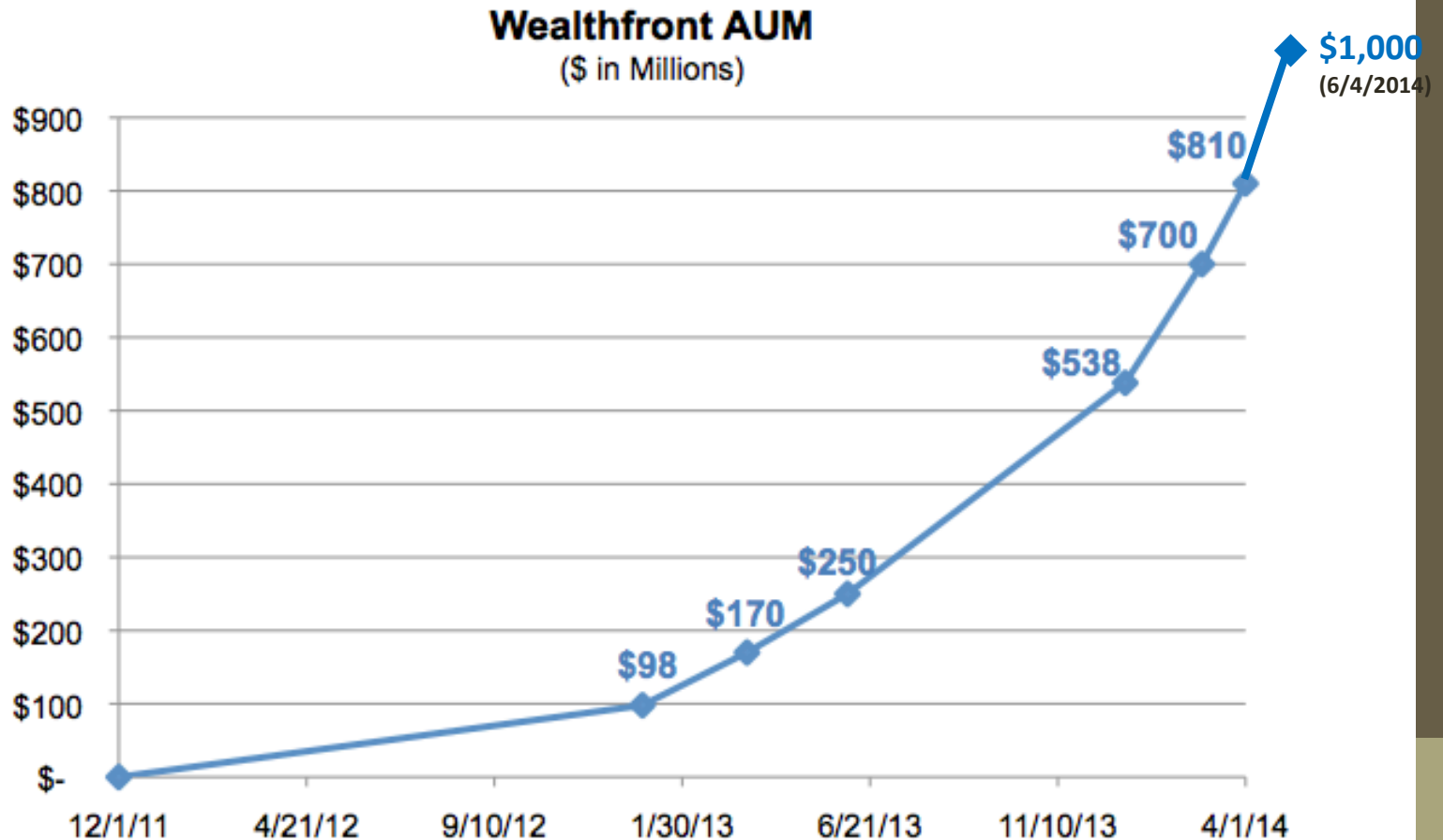


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# Wealthfront: Small But Growing Quickly

*It took Schwab six years to reach its first \$1 billion in client assets. It took Wealthfront less than 2.5 years.*



# Acorns: Start Investing A Penny At A Time



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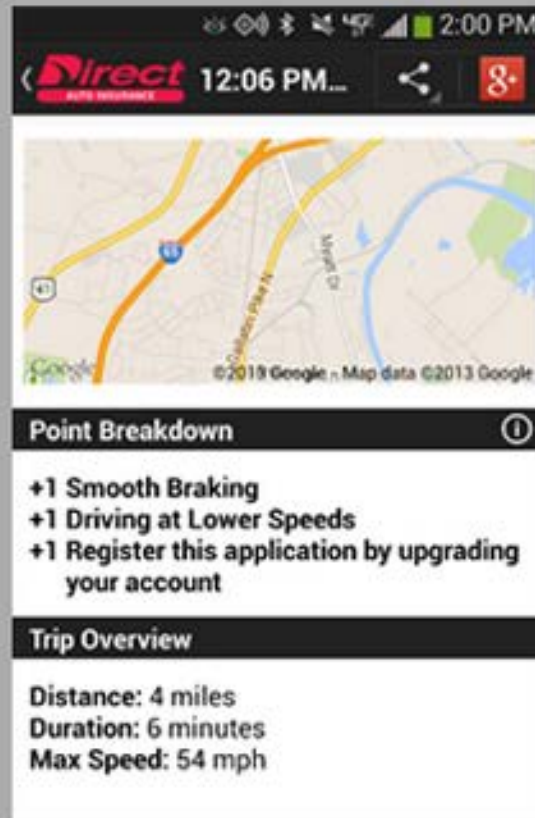
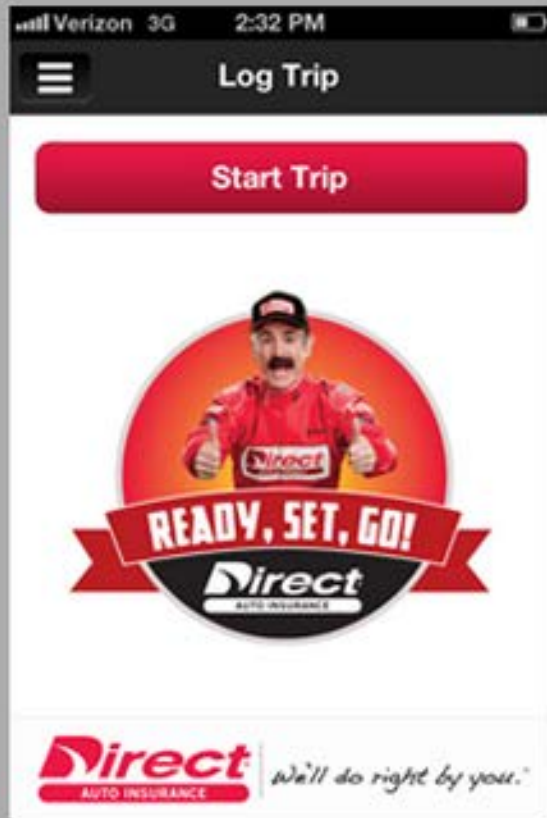
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# Direct Auto: Leaderboards For Safe Driving



Be Direct™







# Themes In Retail Financial Services Disruption

Disruptors seek to:

- Use technology-driven business models, e.g., platform strategies
- Have a lower cost structure
- Find ways to bypass relevant laws and regulations
- Utilize low cost ways of moving money
- Aggregate customer data and monetize it
- Enter a single financial service before moving to other categories

# **Section III**

## **Potential Responses to Disruption**



# How To Fight Disruption

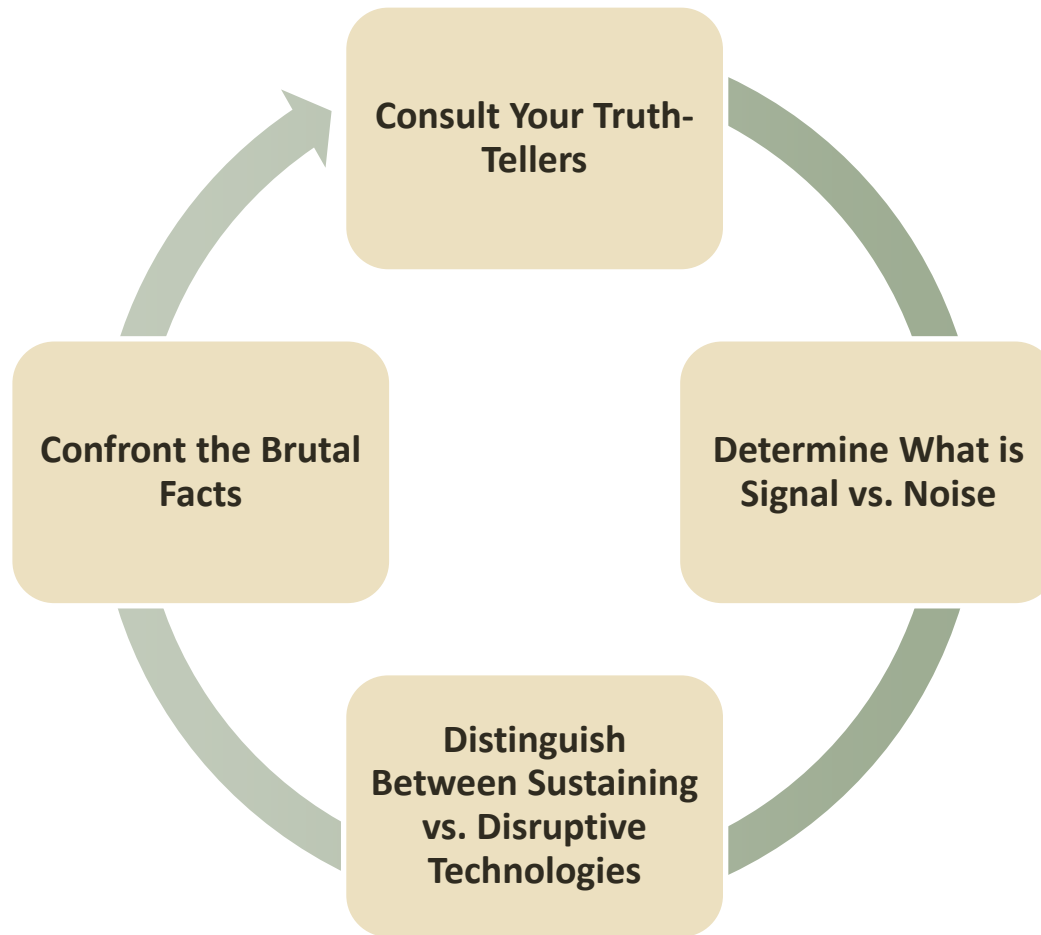
**Rule 1:  
Be Alert**

**Rule 2:  
Pay Attention to the  
Clock**

**Rule 3:  
Use Defensive Strategies  
to Buy Time**

**Rule 4:  
Build an  
Offensive Strategy**

# Be Alert



# Re-examine Your Priorities

*“Most successful companies are so focused on maintaining their core business that when push comes to shove, the core will almost always kill off the disruptive innovation - the new thing.”*

*David Duncan, Innosight, Harvard Magazine, Aug. 2014*

# Kodak Could Have Been The Disruptor

George Eastman with an early Kodak camera model



First digital camera developed by Kodak in 1974



Source: "20 Years Ago, Apple and Kodak Launched the Digital Camera Revolution", Mashable.com, 6/21/2014; "Profiles in Greatness: George Eastman", Success.com, 6/23/2011

# But Fear Got In The Way

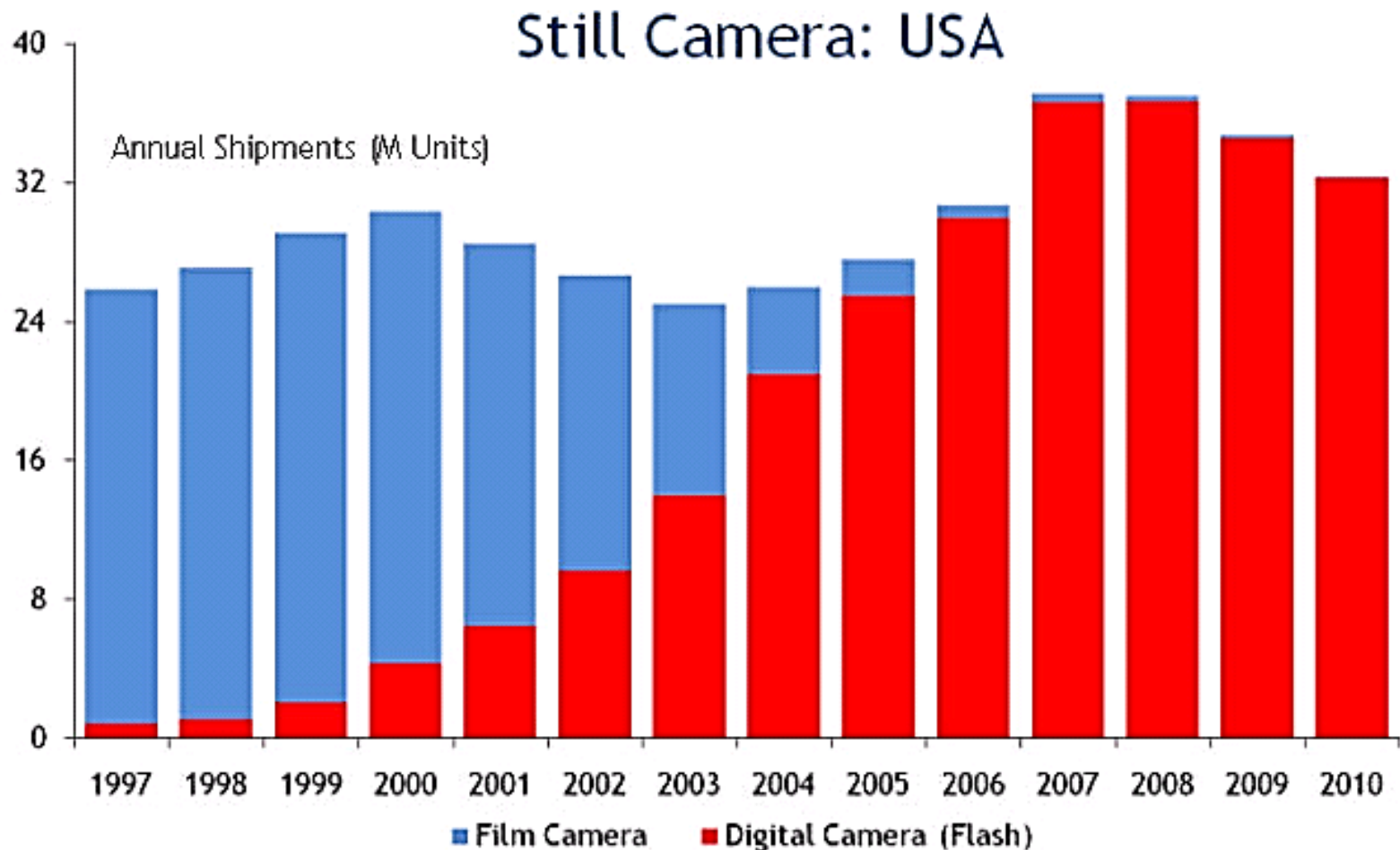
*Kodak “was afraid the new invention would cannibalize its foundational film business — and they were right. But instead of controlling the cannibalization, Kodak allowed other manufacturers to steal its thunder.”*

*“20 Years Ago, Apple and Kodak Launched the Digital Camera Revolution”, Mashable.com, 6/21/2014*

Kodak’s 1994-97 partnership with Apple



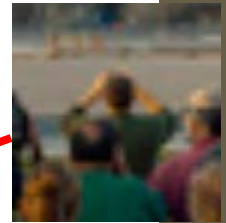
# Pay Attention To The Clock





# Demise Of Kodak

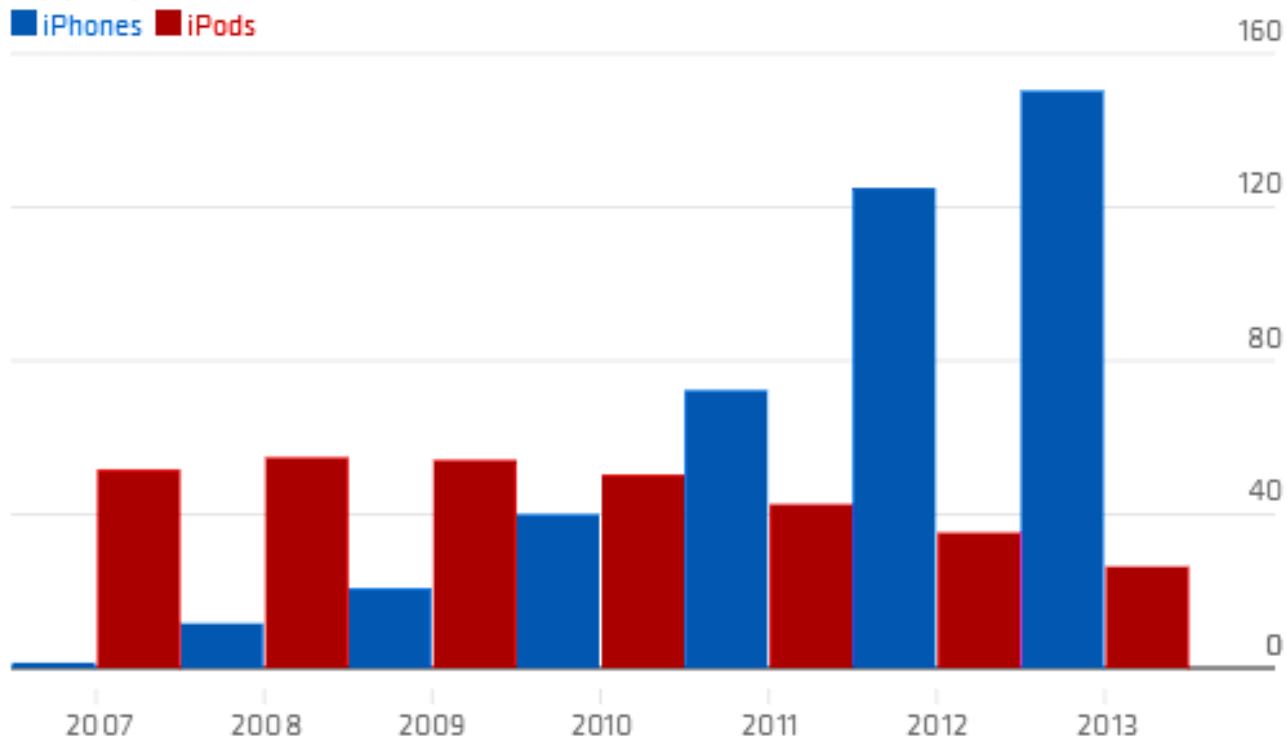
Demolition of Eastman Kodak's Buildings 65 & 69



# Cannibalize Your Own Business

*“If you don’t cannibalize yourself, someone else will.” Steve Jobs*

Apple product unit sales (in millions)



Source: SEC filings

Source: “Chart of the Day: Tracking iPhone, iPod sales”, CNBC.com, 1/4/2014

# Use Defensive Strategies to Buy Time

## Possible Defensive Strategies

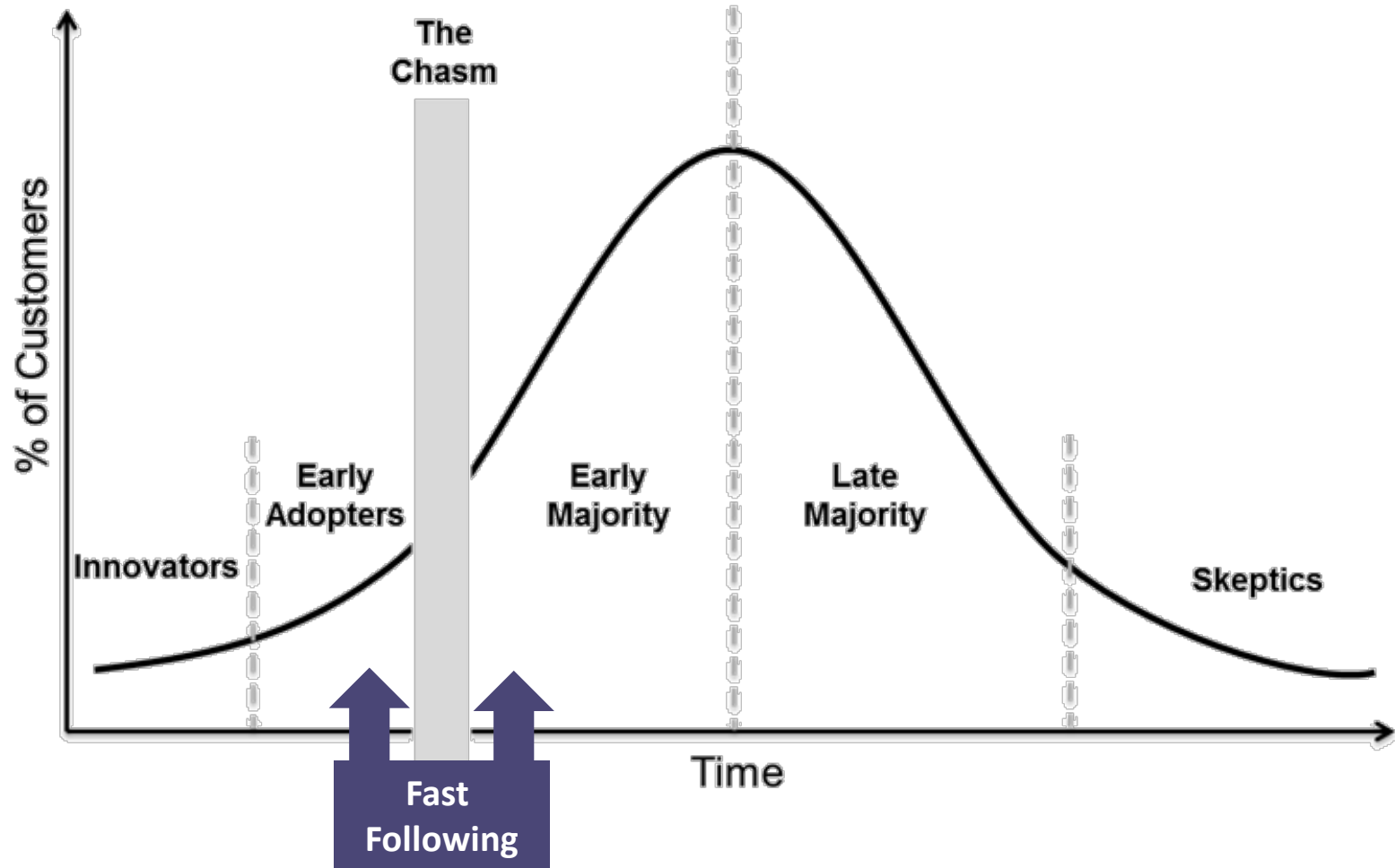
**Mount Blocking Challenges**

**Be a Fast Follower**

**Acquire the Disruptor**

**Know When to Exit a Business**

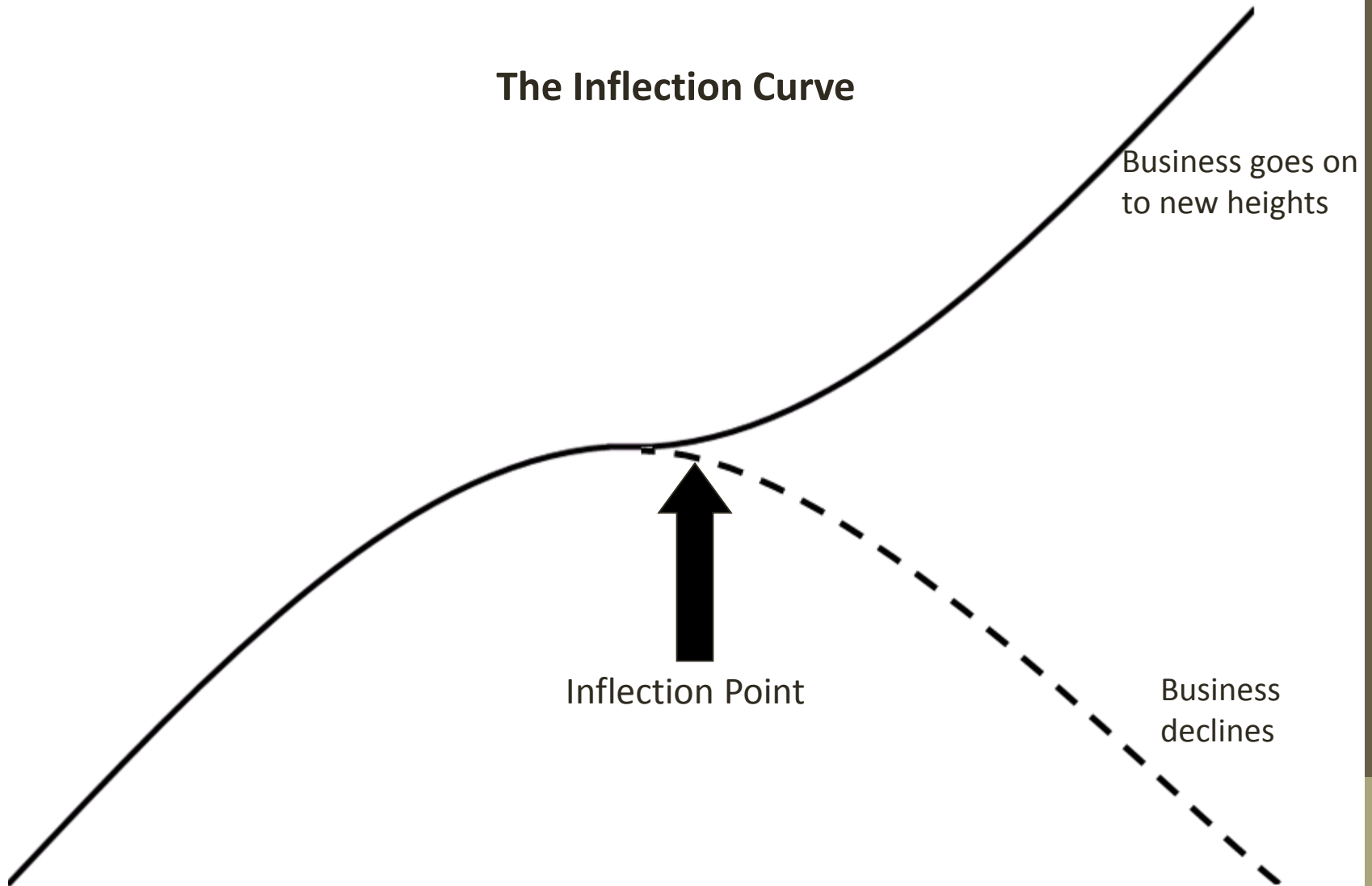
# Position Yourself Carefully on the Adoption Curve



Source: [Crossing the Chasm](#), Geoffrey Moore, 1991, CUNA Mutual Group analysis

# Know When To Exit The Business


## The Inflection Curve



# Look for Platform Solutions: Crédit Agricole


## Applications

Latest | **The most used** | Top rated | Most Discussed | The Crédit Agricole applications




### Account Info

Are you "in the green" or "in the red"? With account information, immediately see the status of your ...




★★★★★ 21 33




### My overdraft

What surprised you reserve your balance at the end of the month? ... With My Discovered, v ...




★★★★★ 4 7




### Bankly

With Bankly, view your billing information in a clear, fast ... and aesthetic! The design ...




★★★★★ 10 5



### I was where?

The application will automatically locates and presents a record of your expenses, enriched quotidienne ...



★★★★★ 7 7




### GeoFacto

A question about your last transaction? With GeoFacto, geotag your invoice slips!




★★★★★ 10 5



### Expenditure analysis ...

With expenditure analysis, cost savings has never been easier! Fon ...



★★★★★ 6 1

**NOUVEAU**  
Le CA Store est 100%  
**GRATUIT !**  




[> SEE ALL CATALOG](#)

Source: Credit Agricole



# Final thoughts

*“I am dying to fund a disruptive bank.”*

*- Marc Andreessen, 2/9/2014*

# Discussion Points

- Are we prepared to defend our market position versus a truly disruptive bank?
- Will our current value proposition still resonate with our members ten years from now?
- Do we have a clear vision of what retail financial services will look like in ten years?
- What can we do to remain relevant to Millennials?
- Where should we position ourselves on the technology adoption curve?

# Be Alert: Confront The Brutal Facts

*“You must maintain unwavering faith that you can and will prevail in the end, regardless of the difficulties, AND at the same time have the discipline to confront the most brutal facts of your current reality, whatever they might be.”*

*-Good to Great, Jim Collins, 2001*

# Channel Efficiency

## Cost Per Transaction

