Developing a business plan for Media Benefits Corporation: First Entertainment Credit Union's credit union service organization

Anthony Christopher Cuevas

Follow this and additional works at: https://scholarworks.lib.csusb.edu/etd-project

Recommended Citation

This Project is brought to you for free and open access by the John M. Pfau Library at CSUSB ScholarWorks. It has been accepted for inclusion in Theses Digitization Project by an authorized administrator of CSUSB ScholarWorks. For more information, please contact scholarworks@csusb.edu.
DEVELOPING A BUSINESS PLAN FOR MEDIA BENEFITS CORPORATION:
FIRST ENTERTAINMENT CREDIT UNION’S
CREDIT UNION SERVICE ORGANIZATION

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Business Administration

by
Anthony Christopher Cuevas
March 2006
DEVELOPING A BUSINESS PLAN FOR MEDIA BENEFITS CORPORATION:
FIRST ENTERTAINMENT CREDIT UNION’S
CREDIT UNION SERVICE ORGANIZATION

A Project
Presented to the
Faculty of
California State University,
San Bernardino

by
Anthony Christopher Cuevas
March 2006

Approved by:

Dr. Otto Chang, Chair, Accounting & Finance
2-27-06

Dr. Sue Greenfeld, Management

Dr. Michael Clarke, Department Chair, Accounting & Finance,
ABSTRACT

Founded in 1987, Media Benefits Corporation (MBC) is a Credit Union Service Organization (CUSO) that is wholly-owned by First Entertainment Credit Union. The CUSO was established to offer value-added products and service to the credit union membership. Although a mission statement was established for MBC shortly after it was founded, a business plan was never developed. Therefore, the intent of this project is to establish a strategic direction for MBC through the development of a comprehensive business plan.

In the business plan, MBC is analyzed from a number of different perspectives: Internal Environment, External Environment, Marketing and Sales Strategy, Technology, Management, and Financial. Considerations have been made as to whether MBC will continue to exist as the same business entity. The business plan will address the recent trend to move certain services from the CUSO back to the credit union and make recommendations as to how the CUSO should continue to exist. Issues concerning liability will also be addressed in the business plan.

In conducting interviews with representatives from different credit unions’ CUSOs, this author concludes that there is no one correct way to run a successful CUSO. As
demonstrated by this project, the key ingredients to a successful CUSO are a commitment to members to offer value-added service, organized management to facilitate effective service, an awareness of technological trends that provide a competitive advantage, and effectual financial analysis.
ACKNOWLEDGMENTS

Thank you to Dr. Greenfeld, Dr. Chang, and the graduate advisory committee for their assistance in the completion and reading of this project. I would also like to thank Charles A. Bruen, the President/CEO of First Entertainment Credit Union, for giving me the opportunity to work on creating a business plan for Media Benefits Corporation, First Entertainment's Credit Union Service Organization (CUSO). In addition, I would like to thank Charles for his cooperation in providing me with access to credit union and CUSO financial and informational resources.
DEDICATION

To my parents, Nelson D. Cuevas and Anne M. Cuevas, who inspired me to pursue my MBA Degree through their own pursuit of their advanced education after already being established in their professional careers.

To my sister, Lisa A. Cuevas Shaw, who also encouraged and motivated me through her own pursuit and attainment of an MBA degree during the time I was fulfilling the coursework toward my degree.

To my sons, Nicholas and Samuel, who spent many Saturdays away from home with their mom so their dad could finish his project!

Lastly, I would like to thank my wife, Yolanda, for her unwavering support of me throughout the entire MBA program. Her care and devotion to me and our family is probably not acknowledged as much as it should be, but is much appreciated more than words can say.
TABLE OF CONTENTS

ABSTRACT ................................................................. iii
ACKNOWLEDGMENTS ....................................................... v
LIST OF TABLES ........................................................... x

CHAPTER ONE: INTRODUCTION
  Background and Purpose ............................................. 1
  Scope of the Project ................................................... 4
  Methodology .............................................................. 4
  Significance of the Project ......................................... 11
  Limitations of the Project ........................................... 12

CHAPTER TWO: LITERATURE REVIEW AND DATA COLLECTION
  Credit Union and Credit Union Service Organization Information and Data Gathering .... 14
  Ingredients that Lead to a Successful Credit Union Service Organization .................... 17
  Credit Union Service Organization Impacted by Regulations and Legislation ................ 24
  Trends That Could Impact Media Benefits Corporation’s Strategic Direction ............... 28

CHAPTER THREE: MEDIA BENEFITS CORPORATION BUSINESS PLAN
  Introduction .............................................................. 39
  Overview ................................................................. 39
    Purpose ................................................................. 39
    Milestones ............................................................. 39
    Mission Statement ................................................... 40
    Vision ................................................................. 40
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Values</td>
<td>41</td>
</tr>
<tr>
<td>Credit Union Service Organization Goals</td>
<td>42</td>
</tr>
<tr>
<td>External Environment</td>
<td>43</td>
</tr>
<tr>
<td>Competition</td>
<td>43</td>
</tr>
<tr>
<td>Economy</td>
<td>44</td>
</tr>
<tr>
<td>Credit Union Service Organization</td>
<td>45</td>
</tr>
<tr>
<td>Growth</td>
<td>45</td>
</tr>
<tr>
<td>Profitability</td>
<td>47</td>
</tr>
<tr>
<td>Value</td>
<td>48</td>
</tr>
<tr>
<td>Legislation, Regulation, Tax Implications</td>
<td>49</td>
</tr>
<tr>
<td>Strategic Alliances</td>
<td>51</td>
</tr>
<tr>
<td>Internal Environment</td>
<td>51</td>
</tr>
<tr>
<td>Professional Staff</td>
<td>51</td>
</tr>
<tr>
<td>Media Benefits Corporation's Organization</td>
<td>52</td>
</tr>
<tr>
<td>Compensation</td>
<td>52</td>
</tr>
<tr>
<td>Incentives</td>
<td>53</td>
</tr>
<tr>
<td>Products and Services</td>
<td>54</td>
</tr>
<tr>
<td>Delivery of Products and Services</td>
<td>54</td>
</tr>
<tr>
<td>Evaluation of Current Products and Services</td>
<td>55</td>
</tr>
<tr>
<td>Financial Analysis</td>
<td>65</td>
</tr>
<tr>
<td>Financial Assumptions</td>
<td>65</td>
</tr>
<tr>
<td>Financial Statements</td>
<td>67</td>
</tr>
<tr>
<td>Measures of Financial Success</td>
<td>67</td>
</tr>
</tbody>
</table>
CHAPTER FOUR: MARKETING PLAN AND TECHNOLOGY STRATEGY

Marketing Background .............................................. 69
Situation Analysis .................................................. 69
Market Summary ..................................................... 69
Market Demographics ............................................. 70
Market Needs .......................................................... 72
Market Trends ....................................................... 73
Strengths, Weaknesses, Opportunities, and Threats Analysis ................................ 74
Strengths ............................................................. 74
Weaknesses ............................................................ 75
Opportunities ........................................................ 76
Threats ................................................................. 77
Marketing and Sales Strategy ....................................... 77
Cross Sales ........................................................... 78
Product Bundling ..................................................... 78
Sales Tracking ......................................................... 79
Internet and E-Commerce ......................................... 79
Product Evaluation .................................................. 80
Technology Strategy ................................................ 80
Philosophy ............................................................. 80
Internet ................................................................. 81
Five Areas of Strategic Importance ......................... 81

CHAPTER FIVE: SPECIFIC STRATEGIC ACTIONS FOR MEDIA BENEFITS CORPORATION OVER THE NEXT TWO YEARS ......................... 84
CHAPTER SIX: CONCLUSION ........................................102

APPENDIX A: MEDIA BENEFITS CORPORATION MANAGEMENT
BIOGRAPHIES ..................................................108

APPENDIX B: MEDIA BENEFITS CORPORATION BALANCE
SCORECARD .......................................................111

APPENDIX C: MEDIA BENEFITS CORPORATION FINANCIAL
REPORTS .........................................................114

APPENDIX D: CREDIT UNION SERVICE ORGANIZATION
CONSOLIDATION CHECKLIST ...............................118

REFERENCES .....................................................122
LIST OF TABLES

Table 1. Number of Credit Union Service Organizations and Predominant Services of Credit Union Service Organizations ........ 32

Table 2. Media Benefits Corporation Total Sales Growth Chart ................................. 68
CHAPTER ONE

INTRODUCTION

Background and Purpose

Media Benefits Corporation (MBC) is a Credit Union Service Organization (CUSO) that was founded in 1987, which is wholly owned by First Entertainment Credit Union. One of the original services offered through MBC was a ticket purchasing service, known as The Square Theatre Club (TSTC). TSTC allowed credit union members and non-members to buy tickets to entertainment events in the Southern California area, such as tickets to concerts, sporting events, theme parks, movie tickets, etc. Many of these tickets were sold at a discounted rate, especially the tickets to theme parks and movie tickets. The primary objective of TSTC operation was to bring in new members and companies into the credit union, increase the use and penetration of credit union financial services, and earn sufficient income to cover all operating expenses. Unfortunately, while many credit union members enjoyed and utilized this service, TSTC was never profitable and never really could be profitable since many tickets were sold at little or no profit margin, unlike traditional ticket agencies. In early 1997, TSTC’s services were discontinued
and MBC began to place more emphasis on offering financial and insurance services.

Today, MBC offers a variety of investment and insurance services. Some of these services are available only to credit union members, such as Accidental Death and Dismemberment Insurance (AD & D), and Mechanical Breakdown Insurance. Other services are made available to both credit union members and non-members, such as insurances for life, homeowner, or automobile, and services for financial planning or investment services. All of these services involve a strategic alliance with third-party vendors that specialize in these extended services.

MBC is a profitable business as indicated by the Corporation’s Financial Statements. The corporation’s philosophy is to offer profit-making services that add value to the credit union member and this philosophy is beginning to come to fruition. The services offered through MBC are important because they are beneficial to the credit union membership and they help to enhance our relationship with credit union members. In recent years, some credit unions have also looked at the CUSO as an opportunity to earn additional non-interest income. Traditionally, credit unions have primarily relied on interest income earned through the funding of loans.
However, recent economic trends have narrowed the gross spread and ultimately impacted the "bottom-line" as reflected in credit union’s Return on Assets (ROA). As a wholly-owned subsidiary of First Entertainment Credit Union, the success of MBC benefits the credit union because the CUSO appears as an asset under the "Investments" portion of the credit union’s financial statement, and income generated by MBC appears on First Entertainment’s income statement.

In order for MBC to be a successful CUSO, a strategic direction must be established. While MBC established a mission statement shortly after its formation in 1987, no business plan has ever been written for this California Corporation since its establishment. Understanding that MBC needs a "road map" to guide the direction of the organization, the MBC Board of Directors has asked the Chief Executive Officer (CEO) of the credit union, who has been running the CUSO in recent years, to provide a business plan. Recognizing the potential of the CUSO to provide a revenue stream back to the credit union as well as personal opportunity to have an impact on the CUSO’s future, this author has offered to write a business plan for the MBC CUSO.
The intent of this project is to provide a comprehensive business plan for MBC, which will include the following: Company Overview, Analysis of Products and Services Offered by the CUSO, a Marketing Plan and Sales Strategy, a Technology Plan, Analysis of Current Staffing and Operations, Examination of External (Business) Environmental factors that can impact the CUSO (such as regulatory constraints), Management of the CUSO and Compensation, Financial Analysis, and Recommendations.

Upon completion of the business plan, both Management and the Board of Directors for the Media Benefits Corporation should have a clear understanding of the goals for this CUSO and a method for obtaining these goals. Ultimately, "a business plan allows board members to decide whether the CUSO will benefit the credit union in the long run. It also answers such questions as why the Credit Union (CU) is investing in the CUSO, what the benefits are to the credit union's members, and what the competitive realities are" (Storey, 2002).

Methodology

In order to be successful in completing a business plan for MBC, there are four major considerations that
will need to be examined as part of the methodology for this project: (1) Examine the current internal structure of MBC; (2) Interview executives from other successful CUSOs in an effort to find the common key factors that allow these CUSOs to achieve their objectives; (3) Research professional trade resources; and finally (4) Establish an appropriate format for the business plan, ensuring that objectives of the CUSO coincide with the strategies of the credit union.

As part of examining the internal structure of Media Benefits Corporation, an analysis of the products and services offered by the CUSO is necessary. All of the products and services offered through MBC involve a third-party relationship with an outside vendor. However, the extent that these vendors assist and drive the sale of these products and services varies. For example, the Accidental Death and Dismemberment (AD & D) and Long-term preferred care insurances simply involve making the credit union membership aware that these services are available through marketing. Ultimately, the third-party vendor enrolls interested members in these programs and the CUSO receives a percentage of the premium. Similarly, the online investment service, known as Sharebuilder, which allows members to make purchases of stocks and index
shares online takes minimal CUSO or credit union staff effort to facilitate the service. Other products and services MBC offers take a more concerted effort by CUSO and credit union staff to sell. For example, in order to be successful in the sale of Mechanical Breakdown Insurance (MBI) and Guaranteed Automobile Protection (GAP) MBC has to rely on Consumer Loan Counselors to effectively cross sell these products when members come into the credit union in order to sign loan documents and receive the proceeds from the funding of their automobile loans.

In this electronic age where more and more consumers are embracing the use of the Internet to conduct personal business, it makes sense to seek products that can also be sold through the Internet. Although many insurance and investment products can be successfully sold through the Internet, in-person sales will remain a reality for the foreseeable future. Consequently, it is important for MBC to align with vendors who can help facilitate sale of products through all available mediums. Therefore, an important process while evaluating the internal structure of MBC is to compare the current vendors with whom MBC is partnering to other vendors who offer the same products and services. This comparison between vendors is essential in determining if the current relationships with the
existing third-party vendors really offer the best value to the credit union membership and other consumers, seeking such services.

Another aspect to evaluating the current internal structure of MBC is considering staffing, management, and compensation issues. In terms of staffing, MBC employs only one individual who is a Financial Advisor, registered with Financial Network Investment Corporation (FNIC) to sell securities, annuities, and other insurance and investment products. Other staff support comes from the credit union employees as well as onsite representatives from the various third-party vendors. This staffing arrangement creates an interesting dynamic for the manager of the CUSO, who must coordinate the efforts of staff from the CUSO, credit union, and third-party vendors and align each group toward MBC's strategic goals and objectives.

Compensation of both management and staff is an important component in the internal analysis of MBC. For instance, considerations must be made in order to determine when incentives are appropriate for credit union staff in the sale of various insurance products as a result of regulatory constraints.

Financial assumptions for the CUSO must also be taken into consideration in the development of an effective
business plan. One must investigate or at least be aware of positive or negative changes, which can have an impact on budgeting and forecasting. Other key factors and assumptions can also impact budgeting and forecasting into the future, such as the following:

- The Balance Sheet
- Improvements in the promotion of existing products
- Capital Expenditures (if any)
- Current Vendor Relationships
- Historic Benchmarks in Sales, impacting Revenue and
- Yields in Investment Portfolio

Access to this type of information is readily available and it should be helpful in the development of the MBC business plan.

There are many credit unions that have formed CUSOs, but there are only a few CUSOs that are very successful. Therefore, it is essential to identify and research the successful and innovative CUSOs in order to determine common factors, which make these business ventures successful. This author intends to establish interviews with the Directors and CEOs of these successful CUSOs in
the Southern California area in order to find out what they consider the key elements to their success. These interviews will be conducted, using one of the following three methods: (1) the in-person interview, (2) the telephone interview, and (3) through e-mail correspondence. The determining factor in the method of interview used with the various CUSO Directors will be their proximity to this author as well as convenience to the CUSO manager being interviewed. Some possible interview candidates are representatives from XCU Capital (which is Xerox Credit Union’s CUSO) and Altura Credit Union (formerly Riverside County’s Credit Union).

There are many professional trade resources, which offer guidance in the development of a CUSO through articles that are available on the Internet. There are two sources, in particular, that contain countless articles on the formation, development, and innovation found in today’s CUSOs. One source is the Credit Union Executive Society (CUES), which can be found online at http://www.cues.org. CUES touts itself as a “professional development resource.” The second source is the National Association of Credit Union Service (NACUSO). “Founded in 1985, [NACUSO’s] mission is to enhance the ability of credit unions to serve their members through the services
provided by CUSOs” (Dorsa, 2002). These sources are especially helpful in identifying the key components to a successful CUSO. In addition, these two sources as well as other professional trade sources help to provide insight into the regulatory issues that face credit unions and CUSOs today.

While developing a business plan for MBC, this author has to reflect on aligning the strategies of the Media Benefits Corporation with the objectives of First Entertainment Credit Union. A review of First Entertainment’s strategic plan is necessary to aid in this effort. The credit union’s business model is to strive toward having operations that are streamlined, simplified, tightly controlled, and centrally planned. Technology plays an integral role in establishing streamlined, efficient operations. Similarly, the CUSO must seek technological efficiencies as a means to offer value-added service to the credit union member. Ultimately, MBC exists to offer value-added products and services to credit union members in order to enhance this relationship. The business plan outlined in the Chapter Three will illustrate how the CUSO’s existence serves as a means to enhance the relationship between the credit union and member.
Significance of the Project

Media Benefits Corporation has been in existence for eighteen years without a formalized business and marketing plan. The CUSO has been led for much of these eighteen years by the President/CEO of First Entertainment Credit Union, who has established a clear direction for the credit union. While the President/CEO has informally tried to align the goals of the credit union and CUSO, the creation of a business plan helps to solidify the role of this credit union subsidiary, which is to offer profitable products and services that add value to the credit union membership.

Furthermore, the creation of a business plan establishes a framework for considering the future viability of MBC as a business through the periodic review of the following: (1) external forces that can have an impact on the business; (2) the internal structure of the CUSO, which needs to be periodically evaluated in order to adapt to changes in the industry; (3) financial measures of success; (4) sales and marketing strategies; (5) a technology strategy; and (6) overall strategic initiatives for the CUSO Manager to address in the next 12 to 24 months.
Limitations of the Project

Research for this project was limited to five major areas: (1) a review of First Entertainment Credit Union’s strategic plan was performed in order to offer some guidance and direction in the approach which should be taken with the business plan for MBC; (2) gathering of credit union and CUSO statistics in sales and performance of various current products and services; (3) efforts were made to review articles that described qualities of successful CUSOs as well as interviews of managers from these CUSOs; (4) research was conducted to learn more about regulations and legislation that could have an impact on how CUSOs will exist in the future; and (5) an examination of business trends in the industry was performed in an effort to see what external influences could have an impact on the strategic direction of the MBC.

Originally, when the author began this project, he was employed by First Entertainment Credit Union. During the course of this project, the author left First Entertainment Credit Union for another opportunity at another credit union. While the author remained committed to the completion of this project for First Entertainment and MBC, demands and priorities from the author’s new job
(as Vice President/Chief Operating Officer of a different credit union) made completion of the project more lengthy than anticipated. Nevertheless, completion of the project was attained through the continuing cooperation and access to information from the author's former employer, First Entertainment Credit Union.

The next chapter represents the more relevant information that was gathered as research for this project. This research represents the foundation from which the MBC business plan was created.
CHAPTER TWO

LITERATURE REVIEW AND DATA COLLECTION

This chapter reviews information gathered from First Entertainment Credit Union and Media Benefits Corporation in order to make an internal assessment of MBC’s current business activities. In addition, this section also reviews trade industry articles which highlight common qualities found in successful CUSOs. A review of regulations that have an impact on the future of the CUSO business is also collected. Finally, various articles showing trends that could impact the business direction of MBC will also be discussed.

Credit Union and Credit Union Service Organization Information and Data Gathering

Since MBC primarily exists to offer added value to First Entertainment Credit Union’s members, it was important to review the credit union’s strategic plan to align CUSO goals with the overall goals of the credit union.

From the time that the credit union decided to change its name in 1984 to First Entertainment, it has been consistent in its mission. The credit union’s mission statement is to “provide premium financial services to the
employees of the entertainment industry and related businesses" (First Entertainment Strategic Plan, 2005). Within the past decade, the credit union has changed its charter from a federal to state charter. In addition, within the past five years, the credit union attained a community charter to serve members who live within the greater Los Angeles area. However, while the charter allows the credit union to serve anyone in the community who is part of the greater Los Angeles area, the credit union remains dedicated to serving employees and family members of the entertainment industry and related businesses just as it states in the credit union’s mission statement. The community charter just gave the credit union the freedom to market to employees of the entertainment industry through trade publications like “The Hollywood Report” and “Variety” as well as other marketing media like billboards around major studios in the Los Angeles area.

It is important to understand the credit union’s mission and strategic focus because MBC relies on the credit union for the marketing of its services. Therefore, the CUSO needs to support First Entertainment’s mission through the financial and insurance product and services it offers as well.
Just as it is essential to understand the credit union’s mission, it is equally essential to understand First Entertainment’s strategic goals in order to identify how the CUSO can play a role in meeting the credit union’s strategic imperatives. First Entertainment identifies ten strategic imperatives in its business plan as follows:

1. Increasing Member Profitability
2. Continual Evaluation of Products and Services
3. Membership Expansion
4. Knowledge of Member
5. Attain Operational Efficiencies through Technology and the Customization of Products and Services
6. Improve Existing Delivery Systems and Planning for New Delivery Systems
7. E-Commerce
8. Disaster Recovery and Security
9. Technology
10. Organizational Development

(First Entertainment Strategic Plan, 2005)

In reviewing the credit union’s strategic goals, it is apparent that the CUSO can support and incorporate some of the credit union’s strategic imperatives, especially as it relates to increasing member profitability, evaluation
of products and services, seeking operational efficiencies, considering E-Commerce (as a means to deliver products and services), and assisting the credit union in the area of Organizational Development (through the development of sales and service skills, establishing a balanced scorecard, etc). These areas will be particularly focused on in the CUSO business plan.

Ingredients that Lead to a Successful Credit Union Service Organization

Examining the credit union’s strategic goals is an appropriate first step toward the establishment of a successful CUSO. In his article called “Best-of-Breed CUSOs,” Bill Merrick suggests that “CUSOs get to the top with [credit union] integration, dedicated employees, and positive word of mouth” (Merrick, 2002). Merrick is a writer for Credit Union Magazine and he interviewed top CUSO executives in this article. One of the executives interviewed was Mark Allen of XCU Capital, which provides investment advisor and broker/dealer services for Xerox Federal Credit Union and other partner credit unions. First Entertainment Credit Union is migrating to XCU Capital’s advisor and broker dealer services. So, the author took the opportunity to talk with Mark Allen about what makes XCU Capital so successful. In my discussion
with Allen, he reiterated the quote he gave in Merrick’s article: that success “starts with a big, hairy, audacious goal of achieving a certain level of joint credit union/CUSO assets under management and rewarding employees for meeting that goal. That means the member assets that go into the CUSO are just as important as the assets that go into the credit union, so there’s no bias among employees as to where the assets go. Assets simply go to where they’ll serve members best” (Merrick, 2002).

Similarly, in an October 2004 meeting with David Constantino, who is the President/COO of Patrion Mortgage, LLC, which is the CUSO for Altura Credit Union, David suggested that the CUSO has tremendous support from the credit union. In fact, the credit union board made a strategic decision to form the CUSO in order to process and service Altura Credit Union’s mortgage loans. Once the CUSO became proficient in processing mortgage loans and expanding its breadth of product, Patrion Mortgage began to offer its services to other credit union clients. This CUSO is a working example of Merrick’s notion that CUSO success “requires significant integration between the credit union and CUSO, starting at the board level and including everyone in senior management to part-time employees” (Merrick, 2002). Both XCU Capital and Patrion
Mortgage, LLC have achieved this integration through the alignment of "goals, objectives, mission and staff recognition (including incentive plans) to review employees for the success at both the credit union and CUSO" (Merrick, 2002).

In her article "The Other Side of the Coin," Lisa Hochgraf also suggests that "while legally separate, the most successful CUSO is practically its parent credit union's second self" (Hochgraf, 1999). In addition, "as their parent credit unions' closest allies, highly successful CUSOs take part in strategic planning, do careful accounting, track their efforts, and work to ensure a steady flow of quality information between the two organizations" (Hochgraf, 1999).

Similarly, Guy Messick who is an attorney and General Council for National Association of Credit Union Service Organizations (NACUSO) lists the following "success indicators" for CUSOs that he has observed on his website:

1. "Full support of credit union board and staff. CUSOs need to have the full support for their products and services from the credit union. This support must be from the board of directors to the member service representatives. The credit union must see the CUSO products as core
credit union and CUSO staff should be reviewed on their direct or indirect contribution to the combined success of the credit union and CUSO. Key credit union people will buy into the success of the CUSO if they have some personal stake in the CUSO's success. It is human nature, plain and simple.

3. Good Business Plan. As with every well thought out business venture, a good business plan is essential. A good business plan will identify the people, resources and actions necessary to implement the strategic goals. A plan will indicate when the CUSO can expect to achieve profitability and benchmarks along the way that can be used to measure and indicate the progress to the CUSO, the credit union investor and regulators.

4. Well Capitalized. Successful CUSOs are given sufficient capital to be successful, not just enough to get by. Adequate capitalization is also essential to protect the credit union from liability and the "piercing of the corporate veil." The adequacy of a subsidiary's capitalization by the parent organization is one
of the factors that a court examines to determine if there is sufficient separateness to protect the parent organization from the liability caused by the subsidiary. If the credit union has invested enough capital for the CUSO to stand on its own over time, the likelihood that a court will respect the separateness of the CUSO and insulate the credit union from liability for acts of the CUSO will be greatly enhanced.

5. Dedicated and Qualified CUSO Management. One would not expect a credit union to be successful if a part-time president ran it. Likewise, the more successful CUSOs have full-time presidents that run the business and take responsibility to manage the business, including the identification of new business opportunities. There is a trend for credit unions to combine their efforts in a cooperative CUSO in order to have sufficient income to hire a president” (______, 2005).

In reviewing the various trade articles, CUSO experts generally agree that a successful CUSO is established through support, integration, alignment with credit union
strategic goals, business plan, capital, and experienced management staff. As the parent of MBC subsidiary, First Entertainment Credit Union is willing to support the CUSO, but still needs to establish a shared vision of success. Integration between the organizations can be improved so that CUSO products are seamlessly sold side-by-side with core credit union products and services. The credit union is also well capitalized and can infuse MBC with cash if a business venture requires it. Lastly, the credit union has experienced management staff who can identify new business opportunities. The question becomes whether or not the credit union is committed to the hiring of full-time staff to manage the CUSO. This question of commitment seems to bring up the proverbial question of what comes first, "the chicken or the egg." Typically, credit unions recognize the importance in having dedicated staff who will work toward the attainment of established CUSO goals. However, most credit unions are unwilling to hire staff for the CUSO until the business can pay for staff that exclusively runs the CUSO. Ultimately, the credit union has someone from the credit union manage the CUSO on a part-time basis in addition to the person's credit union responsibilities. This quandary seems to be one of the barriers that keep
many CUSOs in the credit union industry from being very successful.

Credit Union Service Organization Impacted by Regulations and Legislation

The degree to which a CUSO can be successful may also be impacted by Regulations and Legislation. As a financial institution provider, the credit union is subject to more and more regulations and legislation with every passing year. While the author could probably dedicate an entire project to the various regulations and legislation that impacts credit unions and CUSO, the author will limit the literature review of this area into three important topics of discussion: (1) Incidental powers; (2) Security and Exchange Commission’s impending no-action letter, and (3) Senate Bill 1 (SB 1) in California which addresses consumer privacy.

In September 2001, the National Credit Union Administration (NCUA) issued its final rule, granting federal credit unions the power to purchase property, loans to members, investments, and more. The establishment of the Incidental Powers regulation was intended to give credit unions flexibility to provide services that benefit credit union members. The regulation allows federal credit unions to engage in businesses that fit into any of the
following eleven categories: Certification Services, Correspondent Services, Electronic Financial Services, Excess Capacity, Financial Counseling Services, Finder Activities, Marketing Activities, Monetary Instrument Services, Operational Programs, Stored Value Products, and Trustee/Custodial Services (NCUA, 2001). On the surface, this would not appear to impact First Entertainment Credit Union because it is a state chartered credit union. However, whenever a federal regulator such as the NCUA takes a position like it has with its incidental powers regulation, many times the State regulators will follow suit.

The incidental powers regulation impacts both First Entertainment and MBC in another way. The Security and Exchange Commission (SEC) is expected to issue a no-action letter that will establish the rules for sharing security commissions with broker/dealers in networking arrangements. In the past, the SEC permitted financial institutions that were not allowed to directly receive commission income from broker/dealers in networking arrangements to do so through a subsidiary. Credit unions formed CUSO subsidiaries to offer these services and share commissions since the NCUA regulations would not accept
revenue over and above expenses in networking arrangements.

In 2001, the NCUA passed its Incidental Powers Regulation, which allows credit unions to receive revenue from third parties, such as broker/dealers, without an expense limitation. Since CUSOs are no longer required to receive revenue in networking arrangements, the SEC’s preliminary position is that these arrangements have to be with credit unions and not CUSOs (Messick, 2005). Consequently, part of the MBC business plan will need to address current strategy and future strategy with regard to the receiving of commissions through the sale of securities.

Just as Regulations are having an impact on the CUSO business, legislation also has an impact on the way in which both First Entertainment and MBC continue to do business. An example of this can be seen in the California Financial Privacy Act (SB 1) which was enacted in August 2003. “SB 1 expands the financial privacy rights provided to consumers under the federal Gramm-Leach-Bliley Act (Gramm-Leach-Bliley, 1999). Under Gramm-Leach-Bliley, financial institutions currently have an obligation to provide notice to consumers regarding the institution's use of consumers' nonpublic financial information, and
consumers have the right to request their information not be shared with unaffiliated third parties. California SB 1 sets more rigorous standards in regard to both the disclosure obligations of financial institutions and the ability of consumers to prevent their information from being shared with affiliates and third parties.

SB 1 creates a three-tier system where the conditions that must be met for financial institutions to lawfully share "nonpublic personal information" about consumers depends upon the relationship between the institutions. First, the law does not create any restrictions on the ability of financial institutions to exchange information with their wholly-owned subsidiaries or on the exchange of information between entities wholly owned by the same parent as long as those entities are (i) regulated by the same functional regulator, and (ii) are engaged in the same line of business. Second, for a financial institution to share information with an affiliate, that is, "any entity that controls, is controlled by, or is under common control with" the institution, it must provide consumers with an annual notification that such information may be disclosed to affiliates and it must provide consumers an opportunity to opt out of the sharing arrangement. Finally, financial institutions will not be allowed to
share nonpublic personal information about their clients with nonaffiliated third parties without the written consent of the client authorizing release of his or her information, thus creating a mandatory opt-in system for the release of information to third parties" (Brelsford, 2003). While this senate bill is ultimately intended to protect California consumers' privacy rights, it also has created unique challenges for California credit unions and CUSOs that are trying to serve their members, making it even more important to be aware of trends in terms of how the CUSO is evolving as well as business opportunities that are in-tune with MBCs strategic focus.

Trends That Could Impact Media Benefits Corporation's Strategic Direction

A growing trend with CUSOs in recent years is ownership by more than one credit union and multiple ownership across state lines has become more common place. "A key idea behind the trend toward more multiple CUSO ownership is that credit unions can achieve greater efficiencies, economies of scale and revenue streams through cooperation, not just mergers," says Callahan & Associates President Charles A. "Chip" Filson. "With geographically disbursed operations and diverse membership bases, a combination of credit unions lessens the risk of
a downturn in a specific industry or area of the country that could slow a CUSO's growth (Callahan & Associates, 2002)." The CEO of Xerox FCU, Bill Cheney, also agrees that multiple-ownership of CUSOs is the key to its long-term success and that CUSOs offer a "corporate veil, if structured and governed properly that is not provided when services are provided directly from the credit union" (Corrigan, 2003). Xerox FCU has two CUSOs, one of which is XCU Capital, offering investments services and owned by Xerox FCU and 11 other credit unions. The CUSO has seen the benefits of making the CUSO available to other credit union owners in the form of issuing common stock as it now has 1.5 billion in assets under management.

Some of the other trends in CUSO development in recent years include:

1. Single state to multi-state organizations: The largest credit union-owned ATM network was enhanced through the combination of CO-OP Network and Service Centers Corporation, which had each evolved from a small group of credit unions in a single state into nationwide cooperatives. The new combination creates a network that will serve 1,150 credit unions and
10 million credit union members with other 12,000 ATMs.

2. Cross-state ownership: Altura Credit Union in California is teaming with two Michigan-based credit unions, First Resource FCU and United FCU, to form a CUSO focused on building greater scale in areas such as auto brokerage, insurance and mortgage services.

3. New product offerings: Member Gateways, a multi-owned CUSO, is providing a debt cancellation product for a number of its credit union partners to offer their members. (Callahan & Associates, 2002)

"These trends are all in the right direction," Filson says. "We know that for credit unions to expand their four percent share of the U.S. financial services market, the cooperative structure must be extended beyond member-owned cooperatives to credit union-owned, business-to-business cooperatives such as these innovative CUSOs" (Callahan & Associates, 2002).

In addition to the growth in multi-owned CUSOs, another trend in recent years is the changing of the CUSO structure to a Limited Liability Company (LLC). For many years, "most credit unions have incorporated their CUSOs.
In incorporation, the credit union is a shareholder—the only one or one of several—and the CUSO’s profit or loss is allocated by share of ownership. The corporation is taxed at the corporate rate. If a dividend is declared, that may be taxable to the credit union” (Storey, 2001). More recently, credit unions that have formed CUSOs or simply re-evaluated their existing structure have opted for the Limited Liability Company (LLC) structure. “Guy Messick, general counsel to the National Association of Credit Union Service Organizations reports that a whopping 90 percent of CUSOs he sees being established are LLCs (Storey, 2001).” However, LLCs appear to be especially preferred by Federally Chartered Credit Unions more so than State Chartered Credit Unions because a federally-chartered credit union is not subject to unrelated income taxes (UBIT) like a state-chartered credit union. Still, the flexibility of an LLC might be attractive to a state-chartered credit unions that face unrelated income taxes and to those whose CUSOs are noted expected to make money (Storey, 2001). In a discussion with First Entertainment’s President/CEO, this author asked if he and the MBC Board of Directors considered changing the company’s structure from corporation to LLC. The President/CEO did address the issue with the CUSO
board and they decided at the time to leave MBC as a corporation. Nevertheless, MBC should periodically make an assessment of their current situation and evaluate MBC’s business structure on a periodic basis.

Another trend to consider when evaluating a credit union’s CUSO are the services being offered by other credit unions’ CUSOs. The following graph represents the products and services offered by federally insured credit unions:

Table 1. Number of Credit Union Service Organizations and Predominant Services of Credit Union Service Organizations

<table>
<thead>
<tr>
<th>CUSO Statistics in the United States - 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of CUSOs</td>
</tr>
<tr>
<td>Number of CUSOs Wholly Owned</td>
</tr>
<tr>
<td>Predominant Services of CUSOs:</td>
</tr>
<tr>
<td>Predominant Service</td>
</tr>
<tr>
<td>Shared Branching</td>
</tr>
<tr>
<td>Investment Services</td>
</tr>
<tr>
<td>Credit Cards</td>
</tr>
<tr>
<td>EDP Processing</td>
</tr>
<tr>
<td>Mortgage Processing</td>
</tr>
<tr>
<td>Item Processing</td>
</tr>
<tr>
<td>Auto Buying, Leasing, Indirect Lending</td>
</tr>
<tr>
<td>Insurance Services</td>
</tr>
<tr>
<td>Trust Services</td>
</tr>
<tr>
<td>Tax Preparation</td>
</tr>
<tr>
<td>Travel</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

(Fischer, 2003)
In reviewing the Table 1, it is apparent that CUSOs business focuses two specific areas. A CUSO can provide operational and management services such as shared branching, credit card processing, electronic data processing (EDP), item processing, loan servicing, etc. A CUSO can offer services to members such as “financial planning and counseling, retirement counseling, investment counseling, discount brokerage, estate planning, income tax preparation, developing and administering individual retirement accounts (IRA), Keogh, deferred compensation and other personnel benefit plans; trust; acting as trustee, guardian, conservator, estate administrator, or in any other fiduciary capacity; real estate agency; agent for sale of insurance; personal property leasing; and provision of vehicle warranty programs” (Fischer, 2003). At this time MBC focuses on the latter in two specific areas: financial planning (investment) services and insurance products. However, there are other similar products and services that are not being offered today by the CUSO that could be offered, expanding the CUSO’s breadth of product-line.

Today, First Entertainment Credit Union offers its members financial planning services in order to expand its breadth of investment options as well as help members who
are intimidated by the complexity that can be associated with security investment. The credit union might take a similar strategic position in offering members estate planning and trust services, which many consumers probably view as important, but seek a provider that they trust. Members have a high degree of trust in their credit union and First Entertainment could leverage this trust by offering estate and trust planning services through the CUSO. However, there are some considerations that should be made if MBC decided it wanted to offer this type of service according to Jim Devine, author of "Members Trust: A Guide to Building Trust Services":

1. Educating members and other potential clients about estate planning and personal trust services is an essential task in marketing to prospects and serving existing clients. Once considered a concern only for the very rich, estate planning has become an important responsibility for anyone who owns property.

2. Providing personal trust services is a long-term, "high-touch" endeavor that requires expertise in the delivery of financial management in many forms of trusts. By some estimates, it takes months of personal contacts
to establish a relationship with clients in the trust business and ongoing interactions once those relationships are formed. Income is usually far in the future.

3. As [the] credit union plans its trust operations, you must adhere to a variety of regulations that, in addition to protecting clients' assets and income, seek to prevent money laundering and enforce provisions for keeping clients informed about their accounts. Regular internal and external audits are necessary to ensure that trusts are properly managed and records are maintained. In addition, a trust operation's investment policies must ensure prudent investment and management of all assets, including cash, equity and debt securities, real estate, notes and mortgages, even valuable collectibles (Devine, 2005).

Another area of consideration for MBC is expanding its insurance product line, especially insurance products that might appeal to the "baby boom" generation (born between 1946 and 1964 who are between the ages of 41 and 59 today). There are about 75 million boomers in the U.S., representing about 29% of the U.S. population according to
Baby Boomers Headquarters website (BBHQ, 2005). First Entertainment has an even higher percentage of baby boomer members who represent over 35% of its membership.

"As much as they don't want to admit it, baby boomers are getting older, many caring for an elderly parent and making the tough decision of a nursing home. They've watched parents' finances drained from the high cost of long-term care. So, as they reach 50, 55 and 60, many boomers will create new financial plans. A few years ago, long-term care (LTC) insurance was largely unheard of. But today, many boomers--and younger generations--will consider it as they plan for retirement and beyond. Helping members create a financial plan--that includes LTC insurance--is a valuable service credit unions can provide. It'll also reinforce the credit union's identity as the place members turn for all financial services" (Sweeney, 2000).

What is Long-Term Care (LTC) insurance? Long-term care refers to care needed over an extended period of time due to a chronic illness or disability. It doesn't cover a short-term hospital stay or severe illness. LTC insurance covers medical services, such as nursing care or therapies, and daily living activities, such as help with bathing, dressing, cooking and getting around, in a
nursing home or an individual's own home. Cost of this insurance increases with age. For example, premiums are cheaper for someone who's 55 than 75. At any age, it can be expensive. Most often costs come out of the individual's own pocket. Medicare does not cover long-term care services for extended periods. As for Medicaid, an individual does not qualify until most assets are depleted, then is limited to Medicaid-approved facilities. Because of high costs and many variables, deciding whether long-term care is a wise option can be confusing. Credit unions can help (Sweeney, 2000).

While Long-Term Care (LTC) is insurance, First Entertainment Credit Union can offer LTC to its membership as part of the financial planning process. As the MBC and the credit union look to convert its financial planning services to XCU Capital, Inc., the CUSO should investigate whether LTC options are offered as part of XCU Capital's suite of products. If LTC is not a part of their product line, other insurance carriers should be considered.

After careful consideration of the information and data gathered in this chapter, the author has made a conscious decision to make the business plan in the next chapter fairly broad in scope to allow for flexibility in
the plan for both the board of directors and management staff.
CHAPTER THREE
MEDIA BENEFITS CORPORATION BUSINESS PLAN

Introduction

Media Benefits Corporation (MBC) is a Credit Union Service Organization (CUSO) that was founded in 1987, which is wholly owned by First Entertainment Credit Union. Currently, MBC offers a variety of financial and insurance services to add value to the credit union member relationship. Some of the current products and services offered include: Financial Planning, ShareBuilder, Auto and Homeowner’s insurance services, Mechanical Breakdown Insurance (MBI), Guaranteed Automobile Protection (GAP), and Accidental Death & Dismemberment (AD & D) insurance. The corporation’s philosophy is to offer profit-making services that add value to the credit union member.

Overview

Purpose

The purpose of this business plan is to develop the long-term objectives of the CUSO and the strategy for achieving them.

Milestones

1992 - Financial Planning

1993 - Mechanical Breakdown Insurance (Autoland)
1995 - Automobile & Homeowner's Insurance (Apollo Insurance)
1999 - Guaranteed Automobile Protection (QSO)
2002 - ShareBuilder
2003 - LoJack (LSC Motors, LLC - Service Discontinued in 2004)

Mission Statement

Media Benefits Corporation (MBC) will offer convenient products and services that primarily serve and add value to First Entertainment Credit Union members.

Vision

MBC will provide First Entertainment Credit Union and its members, as well as other affiliated Credit Unions and their members, in an equitable and profitable manner with useful, competitively-priced, and efficiently delivered services.

MBC will be a well-managed, respected Credit Union Service Organization (CUSO) meeting the changing social, economic, and cultural needs of its members with integrity, prudence, intelligence, care, skill, and diligence.

The CUSO will support credit union philosophy that includes its special democratic character, providing
opportunities for self-help, mutual understanding, caring and encouragement within the membership.

Core Values

1) Image - Recently, First Entertainment Credit Union has embarked on a branding campaign to position the organization as "the credit union for the entertainment industry." The intent is to convey to existing and potential members that the credit union offers enhanced products and services with a more personalized and compassionate approach, which outperforms traditional banking services from the competition. Media Benefits Corporation exists as a means to offer more products and services to support and enhance the image of First Entertainment Credit Union.

2) Personal Service - Every interaction should be conducted with the intent to please the member being served by anticipating, listening and following through with better than expected service.

3) Convenience - The business strategy is to provide products and services at a fair price with the most convenience that we can deliver to our members and other customers served.
4) Cooperation - MBC will be supportive of the democratic philosophy and cooperative movement of the credit union industry and it will strive to uphold these principles as part of its core values.

5) Sound Business and Financial Practices - MBC utilizes operational and financial services provided by the credit union. As a result of the relationship, MBC and First Entertainment Credit Union have entered into a Management Services Agreement, and pledge to comply with this agreement.

In an era where there have been corporate scandals as we have seen with Enron, WorldCom and other large corporations, MBC intends to maintain the utmost integrity in operating as a sound business, using ethical financial practices.

Credit Union Service Organization Goals

A. External Goals - MBC primarily exists to support the Credit Union’s external goal of maintaining and enhancing its public image as a high-quality credit union. The CUSO will strive to project this image by offering valued products and services in a professional and ethical manner.
B. Internal Goals - MBC will continue to create and search for ways to be more efficient in order to minimize the need for staff support.

External Environment

Competition

MBC recognizes that consumers have a choice in where they do their business. For example, in recent years the Internet has raised the level of competition in the business world "playing field" to the point where consumers not only can move their business to the next local financial institution if they are unsatisfied with the current financial services offered, but consumers can now gain access to thousands of choices for their financial needs through the world wide web. Consumers have easier access to purchasing stocks and mutual funds through Internet-based companies like E-trade and Ameritrade. In addition, traditional brokerage firms such as Salomon Smith Barney and Morgan Stanley Dean Witter & Company complement their brokerage services by offering online trading through their web sites as well. There are also financial institutions, insurance companies and other business entities with a strong Internet presence that offer financial and insurance services "online," making it
easier for consumers to apply and purchase various products and services. In order for MBC to compete with this threat, it recognizes that it has to continue to invest in technologies that offer comparable functionality for credit union members as well as others who seek MBC services.

MBC will also stay focused and "in-tune" with what credit union members want in terms of products and services as well as how quickly we can deliver these products and services. If MBC observes a new product or service that offers value to the credit union membership or observes a business opportunity that can provide revenue flow back to the credit union, there will be no hesitation to add this valued service.

Economy

Both the national and state economies are critically important to the MBC business plan as well as First Entertainment Credit Union’s strategic plan. The CUNA Environmental Scan and the California Credit Union League’s West Scan are used as references each year as part of our planning process.

In recent years, the drivers influencing growth for the banking industry and credit unions have been mortgages, home equity loans, auto loans, increased
deposits and low interest rates. "As business activity continues to improve, there will be an increase demand for credit" by businesses and there will be an increase in the following product lines: commercial and industrial lending, investment banking and investment management (Boyce, 2003).

These economic observations are significant to both the credit union and the CUSO. For First Entertainment, real estate lending and auto loans represent the majority of loan activity performed by the credit union. Much of MBC's business success, especially as it pertains to the various insurance services offered is a function of the success the credit union has with mortgage and consumer lending. If these lending areas "cool down," other business opportunities need to be sought by MBC.

On the whole, the entertainment industry remains strong and since the vast majority of CUSO business comes from members who work in the entertainment industry, this bodes well for Media Benefits Corporation.

Credit Union Service Organization Growth

MBC believes that future growth will come from the following areas:

1) Increased penetration in sales to existing credit union members. MBC sales are almost
entirely the result of business from First Entertainment Credit Union members. However, these sales represent a very small percentage of members who conduct business with the credit union. For example, monthly sales of GAP and MBI represent approximately 3% and 13% of auto loans funded on a monthly basis. Providing sales training and other marketing and technology strategies could improve this penetration and increase MBC’s net income.

2) Sale of Products to New Members: Just as new members are cross-sold on the loan and savings products and services the credit union has to offer, they should also be told about the services offered through MBC.

3) Sale of Products to Non-Members and other business entities: Insurance and Financial Planning services could be offered to non-members as a “backdoor” way to make them credit union members. Other business opportunities may exist to process and sell (participations) in business loans. The credit union has just begun to offer business loans, but is only allowed to keep 12.25% of its Asset
size for these types of loans. The CUSO offers the opportunity to fund more loans beyond this regulatory cap.

4) Other Business Opportunities: MBC remains dedicated to being aware of other business opportunities that may be beneficial to both the CUSO and the credit union. One such opportunity might be to use the excess capacity in the credit union’s own disaster recovery (data) center in Las Vegas, allowing other credit unions to use this data center as a backup to its core data processing system for an annual fee. Potential credit union clients benefit by being able to establish a business resumption plan at a reasonable price (as compared to other companies that charge quite a bit more for such services). Meanwhile, revenues from such a service help First Entertainment Credit Union offset its expenses incurred through the building and ongoing maintenance of the center.

Profitability

MBC exists to provide credit union members with enhanced services, but also exists to serve the credit union by providing a source of non-interest income.
Generally, the CUSO is profitable but it can do much better. While the various insurance products are profitable, financial planning services are not profitable. Based on the size of First Entertainment Credit Union and comparisons to the credit union's peers, Financial Planning should be able to support two or three Financial Advisors, which could bring in revenue that supports the service and provides a substantial flow of net income to the CUSO and back to the credit union. Part of the problem with Financial Planning may be the relationship with the current broker/dealer, Financial Network Investment Corporation (FNIC). This relationship will be examined further as part of the "Evaluation of Current Products and Services."

Value

MBC is in business to provide added value to the credit union by offering products and services that serve to enhance the existing traditional products and services, which First Entertainment offers its members. The CUSO is also in business to provide value to the credit union in the form of non-interest income. This means MBC must operate as efficiently as possible. Efficient operations and quality products and services are key elements to
providing value to both the credit union and, ultimately, the customers served.

Legislation, Regulation, Tax Implications


   **Issue:** The SEC is expected to issue a no-action letter that will establish the rules for sharing security commissions with broker/dealers in networking arrangements.

   **Current Strategy:** The SEC is not currently pushing for credit unions to move their investment programs from their CUSOs until it issues its no-action letter on the topic. Therefore, our current strategy will be to make no changes to the basic financial planning operation.

   **Future Strategy:** If and when the SEC finally issues its no-action letter, the financial planning operation may eventually have to move into the credit union. In order to facilitate a smooth transition from MBC to the credit union, the agreement will be made between XCU Capital and First Entertainment Credit Union. The income and accounting for financial planning will continue to flow through MBC, until the SEC issues the no-action letter. Other considerations will need to be taken into account upon conversion of
financial planning to the credit union, such as: unrelated business income tax (UBIT), and member vs. non-member business.

2. NCUA's Incidental Powers Regulation:

Many federally chartered credit unions are in the process or they have already decided to move financial planning and insurance services back over to the credit union, especially since there are not any tax implications. For state chartered credit unions, there is the issue of the UBIT. UBIT was established to tax non-profits and not-for-profits on business that is substantially unrelated to the non-profit's primary purposes. If the Internal Revenue Service (IRS) has a narrow interpretation of UBIT, the credit union could pay taxes on investment and insurance service income if it were moved out of the CUSO to the credit union. At this time, Media Benefits Corporation contends that it is in the best interest of both the CUSO and the credit union to keep these services within the CUSO in terms of risk and tax implications, until such time that a regulation or ruling requires that these services be moved over to the credit union.
Strategic Alliances

MBC is dependent upon its relationship with third-party vendors in order to offer many of its products and services. The CUSO is committed to evaluating its current third-party relationships on a periodic basis to ensure that MBC is offering products and services that serve its value proposition.

Strategic alliances will also be sought with other business entities where appropriate when a business opportunity presents itself.

Internal Environment

Professional Staff

Our goal is to achieve a reputation as a corporation that promotes professionalism, fosters teamwork, and rewards superior performance. Particular emphasis will be placed on attracting and retaining professional, trained staff. Many of the professional staff MBC uses to offer its products and services come from the credit union. MBC supports the credit union’s commitment to improve the professional development of its employees through increased emphasis on, and the delivery of management, sales, and technical training. The other professional staff resource is derived from our vendor relationships.
Management will periodically monitor these vendor relationships and the professional staff provided through these relationships to ensure CUSO and credit union goals are being met.

Media Benefits Corporation’s Organization

The executive officer of the CUSO is also the CEO of the First Entertainment Credit Union. The Director of CUSO Operations manages the operations of the CUSO. The biographies for both officers are provided in Appendix A.

The organization is also supported through a Management Services Agreement (MSA) with the credit union. The MSA takes into consideration the time and service provided by the Credit Union’s President, Marketing, Operations and Accounting functions. The only staff member employed directly by MBC is the Financial Advisor, which will change as described in the next section entitled “Compensation.”

Compensation

As stated, MBC only employs one individual, who is the Financial Planner. However, this arrangement will change with our conversion to a new broker/dealer, called XCU Capital. Upon conversion to XCU Capital, MBC will switch to a managed investment services program where the current MBC employee will become an independent contractor.
of XCU Capital. This arrangement allows XCU Capital to provide MBC with multiple financial planners as needs and investments by members grow.

Incentives

Today, credit union employees who sell CUSO products, such as GAP, receive incentive pay based on sales. Incentives are also offered directly by the vendors who do business with MBC as a way to encourage sales on other insurance products, such as MBI, Homeowner’s insurance and automobile insurance.

In the long term, a more comprehensive incentive program must be examined, which coincides with future sales goals. Moreover, incentives must be offered to encourage the retention of credit union employees as well as the ultimate objective, which is to achieve an alignment between sales practices and desired corporate goals.

The most effective way to align corporate goals and employee accomplishments is to establish a Balanced Scorecard. A Balanced Scorecard looks at accomplishments from four perspectives: Customer (Member), Financial Success, Internal Business Processes, and Learning and Education (Blumenfeld, 2005). The balanced scorecard builds on other business development ideas, such as Total
Quality Management (TQM), Continuous Improvement, and Employee Empowerment. Implementation of such a program requires commitment and coordination with credit union staff and management who must see the CUSO’s success as a viable way to serve the membership and improve the credit union’s bottom-line. Appendix B shows the MBC Balanced Scorecard and how the CUSO’s vision is converted to goals and aligned with the four balanced scorecard perspectives, moving toward appropriate metrics.

Products and Services

MBC has developed and/or created relationships with vendors in order to provide investment and insurance services that complement the credit union’s full array of products and services. Since the CUSO primarily exists to enhance members’ relationship to the credit union, MBC is committed to implementing other products and services that enhance this relationship. One such opportunity might be with Long-Term Care Insurance.

Delivery of Products and Services

MBC’s products and services are sold and delivered in several ways: In-Branch, Telephone, Mail Solicitations, and Online Transactions. While the majority of these products and services are more successfully sold in person, MBC recognizes that a growing number of consumers
seek the convenience of conducting their business online and it will continue to strive to meet this growing need. As MBC evaluates its existing products and it seeks to implement new services, the CUSO will look to offer value and convenience. MBC views the Internet as an efficient means to deliver this added value and convenience. Products and services offered through the CUSO should have the flexibility to be delivered to members through multiple delivery channels.

**Evaluation of Current Products and Services**

Listed below are the services that Media Benefits provides to First Entertainment Credit Union members as well as an evaluation for each service:

1. **Mechanical Breakdown Insurance**
   
   A. **Service Description** - this service is intended to provide an alternative for members who might otherwise purchase an extended warranty. The breakdown protection is very competitive with the dealer's extended warranties.

   B. **Vendor Relationship** - Autoland is the vendor who MBC uses to provide this insurance service. Autoland is a car buying service that has worked with First Entertainment for many years. Through their Advocar services, Autoland offers other
services including MBI. Both the credit union and CUSO maintain a good relationship with this vendor.

C. Insurance Company - Westchester Fire Insurance Company used by Autoland is "A" Rated. The process to sign members up and submit the premium is easy and members have not had any difficulties filing claims through the Administrator, Financial Protection Corporation.

D. Technology - Autoland offers an online quoting tool, which can be used by members to get an idea of pricing and warranty coverage as well as a separate online site for employees to quote and perfect these policies.

E. Challenges - Policies are typical sold during the funding of the loan, which may be too late when competing against automobile dealerships that can sell an extended warranty at the point of purchase. Sales could be improved by adding the premium into the financing of the loan and quoting a monthly payment to the member instead of the entire premium.
2. Guaranteed Automobile Protection (GAP)

A. Service Description - Many times the value of an automobile depreciates faster than the principle balance of the loan. GAP covers difference between the value of the vehicle and loan balance in the event of theft or total loss.

B. Vendor Relationship - Quality Service Organization (QSO) is the vendor who provides this service. QSO is also used for Accidental Death and Dismemberment insurance. The company provides various insurance options including Group Life Insurance and Long-Term Care, which may be some products MBC considers in the future.

C. Insurance Company - GAP policies are underwritten by Arch Insurance Company. The credit union’s Collection Department has worked directly with this insurer and it has had no issues when seeking to be paid on claims.

D. Strength of Product - GAP is relatively inexpensive and, therefore, it is easier to sell than MBI. It also has a high profit margin since most of the premium (63%) the member pays is retained by the CUSO and only a smaller portion
(37%) is remitted to QSO. This product is also beneficial to the credit union in reducing losses on defaulted loan balances because a vehicle is stolen or a total loss.

E. Challenges and Opportunities - Technology could be used to improve penetration on the sale of this product. A program has been developed by the credit union to build a payment calculator, which can include the financing of this premium into the loan balance (as well as MBI). Perhaps the credit union might consider automatically purchasing GAP on risk-based auto loans and pricing these risk-based loans to pay for this protection since it is in the credit union's best interest.

3. Auto, Home, and Personal Insurance Services

A. Service Description - Apollo Insurance provides competitive and comprehensive insurance services for automobiles, motorcycles, boats, watercrafts, homeowner’s, earthquake, etc. This insurance service has access to compare rates from more than 30 insurance companies that offer reasonably low rates. The credit union maintains
a representative onsite at the Main Branch in Hollywood.

B. Vendor Relationship - The CUSO and credit union worked with Apollo Insurance Services for almost a decade. An insurance representative has been onsite for most of this time. Income from this service is consistently among the top sources of revenue for the CUSO.

C. Insurance Companies Used - Apollo has access to a number of insurance companies to meet client needs although Apollo typically does a lot of business through Mercury Insurance for both automobile and homeowner's insurance.

D. Strength of Service - Having a representative onsite is a huge asset for members who like the idea of "one stop shopping" while satisfying their other personal banking needs. An online referral service has also been integrated into the credit union's web site.

E. Challenges - Apollo could do more in terms of its Internet presence by offering online quoting tools and the ability to purchase insurance policies online for the technically savvy, which is non-existent today. Other improvements can be
made in terms of cross sales on vehicle loans where Collateral Protection Insurance (CPI) has dropped off automobiles loans. MBC and the credit union intend to work with Apollo insurance on improving cross sales opportunities.

4. Accidental Death & Dismemberment Insurance (AD & D)

A. Service Description - AD & D is a standard insurance program offered by most credit unions and CUSOs who offer any type of insurance service. Members are offered $2,000 coverage for free by mail and they can elect to purchase extended coverage for an additional premium.

B. Vendor Relationship - QSO Insurance Services is the vendor whom MBC works with to offer this service. MBC and the credit union have a long standing relationship with QSO and the insurance broker Benefits Consultants.

C. Strength of Program - It is a low maintenance service that brings in significant portion of revenue for CUSO.

D. Challenges - Revenues seem to spike shortly after a mail solicitation and decline over time until the next marketing piece is sent to
solicitations again. Over the years, solicitations have been every 18 months. However, solicitations will be reduced to 12 months in an effort to keep revenue stream more consistent.

5. Financial Planning Services

A. Service Description - In an effort to satisfy members' needs in terms of financial planning, investments and insurance (annuities), the credit union established a relationship with Financial Network Investment Corporation (FNIC), a broker/dealer, in 1992. A registered Financial Advisor is on-site at the corporate office in Hollywood. Revenue from this service appears on MBC income statement.

B. Vendor Relationship - FNIC is one of the largest independently managed broker/dealers in the country, but it is not suited for a small client like First Entertainment. FNIC has not provided us with management support or guidance, and our program is clearly unsuccessful in terms of gross dealer concessions (GDC) and overall growth. The GDC from 2001 through 2003 was $47,000, $48,000, and $37,000 respectively. The typical GDC generated by a successful financial
advisor is over $180,000 according to industry standards.

C. Conversion - Since Financial Planning has been unsuccessful in recent years and the relationship between FNIC and the credit union and CUSO has been non-existent, the CUSO is converting to another broker-dealer called XCU Capital. XCU Capital is a smaller broker dealer that is 100% owned by credit unions. In addition to becoming a client, the CUSO seeks to become a 3% owner in the company.

D. Advantages to Conversion

1. Platforms - XCU Capital operates on the same Pershing Platform as FNIC making conversion transparent to the members who currently use financial advisor.

2. Financial Advisor - As part of the conversion, the Financial Advisor will become an independent contractor of XCU Capital, eliminating the annual cost of salary for this representative and creating the possibility for additional financial advisor representative support.
3. Stock Ownership - Provides the opportunity for more active involvement and connection to the broker/dealer by establishing the ability to vote on shareholder issues and by having a vested interest in the company's performance.

4. Online Services - XCU Capital offers online purchases and portfolio viewing.

5. Other Investors in XCU Capital - These are credit unions in the same asset category as First Entertainment Credit Union or larger. These credit unions tend to have similar needs in terms of the products and services desired from the broker/dealer.

E. Challenges - There will be a philosophical change with the conversion from FNIC to XCU Capital. The Financial Advisor (FA) will receive 100% commissioned-based pay, which is completely different from the salary that the FA has currently receives. There is the potential that a FA could put personal interests above the needs of the member or client. MBC will work with XCU Capital to ensure that ethical behavior and member satisfaction are paramount in any
transaction or interaction between the FA and the member or client.

6. ShareBuilder (Online Investments)

A. Service Description - ShareBuilder is a co-branded Website that allows members and clients to purchase of full or partial stocks online. Members can choose to purchase from over 4000 stocks and 68 indexed shares. This program appeals to the long-term investor who may not be able to buy a significant number of stocks or indexed shares on a given purchase. It also is attractive to the technically savvy as transactions, statements, tax forms, and notifications are all done electronically, either online or through e-mail.

B. Vendor Relationship - ShareBuilder Corporation is a member of the National Association of Securities Dealers (NASD) and the Securities Investor Protection Corporation (SIPC). ShareBuilder provides the secure co-branded Website that First Entertainment Credit Union links to for its members. The vendor also provides electronic material and graphics for membership drive promotions.
C. Strength of Program - It provides an alternative to members who may be interested in investing in the stock market, without incurring larger fees associated with stock purchases through a broker/dealer. Fees are reasonable for both monthly and real-time transaction purchases.

D. Challenges - This service has generated less than $3,500 in income for MBC in 2004. Although there are links and banners promoting the service on the credit union Website, marketing efforts still need to be improved to increase member penetration for the use of this service.

Financial Analysis

Financial Assumptions

More than 80% of the revenue generated for MBC over the past three years has come from its various insurance services including MBI, Auto and Homeowner’s Insurance, AD&D and GAP. The assumption for revenue in these individual insurance categories will remain constant with exception of MBI, which has improved significantly over the past three years.

Revenue from the Financial Planning service is expected to increase dramatically by almost three times
from the projected revenue in 2005 to 2006. This projected increase is primarily due to the fundamental change in philosophy of making the Financial Planning service a profit-driven service by shifting the service to a new broker/dealer who hires independent contractors to sell security and insurance products on a 100% commission basis.

The financial advisor who will be an independent contractor is expected to generate Gross Dealer Concession (GDC) in the amount of $180,000 on an annual basis. If the annual GDC generated for a single year was $180,000, then MBC would see 25% of this GDC or $45,000. Once this financial advisor (FA) reaches well over $200,000 in GDCs, MBC would request that the broker/dealer, XCU Capital recruit another FA and establish territories around existing branches for each FA to work. Such a strategy might be employed in the latter part of 2007 or beginning of 2008.

On the expense side of the income statement, MBC will see a dramatic decrease in overall expenses primarily due to the elimination of the FA’s salary since this position will become an 100% commission-based position in the 3rd quarter of 2005. This strategy will continue for the next several years. The Office Occupancy line-item expense
could increase at the time that MBC decided to bring in another Financial Advisor who might need office space at an existing branch location. The present balance sheet and projected income statement found in Appendix C will illustrate the aforementioned assumptions.

Financial Statements

The Board of Directors and Credit Union staff reviews the Balance Sheet, Income Statement, and Investment Statement on a monthly basis. A cash flow analysis is not necessary at this time since MBC is a subsidiary of First Entertainment Credit Union. The credit union could provide MBC with an infusion of cash if a large capital expenditure were necessary for a new venture or service. Furthermore, none of the current products and services through MBC require intensive amount of cash to run these programs. In the event that MBC considered adding a product that required a great deal of cash, then a cash flow analysis would be employed.

Measures of Financial Success

The Board and Management staff will review trends in sales by looking at the revenue generated for each product or service MBC offers. Trends will be reviewed on a monthly and annual basis. The following Total Sales Graph
represents the sales trends for 2003, 2004, and pro forma 2005 for each of MBC’s existing products or services.

Table 2. Media Benefits Corporation Total Sales Growth

<table>
<thead>
<tr>
<th>Product</th>
<th>2003 Sales</th>
<th>2003 % inc</th>
<th>2004 Sales</th>
<th>2004 % inc</th>
<th>Pro forma 2005 Sales</th>
<th>Pro forma 2005 % Inc</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBI</td>
<td>31,987</td>
<td>14%</td>
<td>38,655</td>
<td>21%</td>
<td>44,902</td>
<td>16%</td>
</tr>
<tr>
<td>Auto/H.O.</td>
<td>55,783</td>
<td>18%</td>
<td>54,576</td>
<td>-2%</td>
<td>53,150</td>
<td>-3%</td>
</tr>
<tr>
<td>Financial Planning</td>
<td>19,516</td>
<td>-34%</td>
<td>23,920</td>
<td>23%</td>
<td>11,526</td>
<td>-52%</td>
</tr>
<tr>
<td>AD&amp;D</td>
<td>56,144</td>
<td>0%</td>
<td>59,179</td>
<td>5%</td>
<td>58,892</td>
<td>0%</td>
</tr>
<tr>
<td>GAP</td>
<td>51,580</td>
<td>29%</td>
<td>43,813</td>
<td>-15%</td>
<td>44,624</td>
<td>2%</td>
</tr>
<tr>
<td>Share- Builder</td>
<td>1,500</td>
<td>-59%</td>
<td>3,458</td>
<td>131%</td>
<td>4,818</td>
<td>39%</td>
</tr>
<tr>
<td>Total Sales</td>
<td>216,510</td>
<td>0.5%</td>
<td>223,601</td>
<td>3%</td>
<td>217,912</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Source: Author, 2005.

The Marketing Plan in the next chapter also addresses the importance of sales tracking especially as it relates to the monitoring of credit union staff’s ability to cross sell MBC products and services along side of core credit union products and services.
CHAPTER FOUR
MARKETING PLAN AND TECHNOLOGY STRATEGY

Marketing Background

Situation Analysis

Media Benefits Corporation offers a variety of investment and insurance services. The corporation has a solid and loyal customer base consisting of credit union members and it has steady revenue over the last three years. MBC has increasing competition from a variety of sources and it is highly dependent on revenues from AD & D, MBI, GAP, and Auto, Homeowners, and Personal insurance, which account for over 80% of the revenues for MBC. These revenues help offset the losses MBC has seen in Financial Planning. Improving the revenue stream in Financial Planning as well as implementing other value-added services will help MBC realize continued growth and stability.

Market Summary

MBC primarily services First Entertainment Credit Union members. First Entertainment has over 52,000 members with eight branches in Southern California, one branch in Las Vegas, Nevada and one branch in Manhattan, New York. The credit union’s membership is predominantly
concentrated in Southern California. The majority of the membership either joined the credit union because they work in the entertainment industry or they have a family member who works in the industry. The core field of membership served by the credit union is reasonably diversified and it is experiencing steady growth that exceeds the economic performance of the state as a whole.

Many credit union members understand the cooperative principles of the Credit Union and they are loyal to the purpose. Other members understand the close relationship between the Credit Union and their employer and therefore feel bonded as part of the Credit Union organization.

This bond and loyalty that the credit union has established with its members creates an advantage and opportunity to capitalize on this relationship in order to offer these members various CUSO services.

**Market Demographics**

MBC looks at the market demographics of its clients in terms of Age, Lending and Deposit Trends, and an exclusive membership group, known as the A-List (AKA VIP Members).

1. Age - First Entertainment Credit Union has a young membership base. More than 85 percent of its membership is between the ages of 18 and 54
and a significant segment of this group is between the ages of 18 and 34. Members between the ages of 18 and 34 tend to be more credit-driven, requiring automobile, lifestyle and real estate loans. MBC’s success in selling its various insurance products, especially MBI, GAP, Automobile, and Homeowner’s insurance is a function of the credit union’s success in lending to this segment of the membership.

2. Lending and Insurance Sales - Approximately 25 percent of the membership has a loan with the credit union and 14 percent of credit union members have an automobile loan with the credit union. MBI policies are sold on roughly 3 percent of the automobile loans funded while GAP sales typically represent 13 percent automobile loans funded in a given month. Improvement in insurance sales in these areas is dependent upon increases sales penetration on automobile loans funds.

3. Deposits - The average credit union member has over $7,500 on deposit with the credit union. Over 65 percent of the membership’s deposits are in regular savings and money market accounts,
while 20 percent of deposits are in Term Share Certificate accounts. Success in Financial Planning is dependent upon the targeting of these deposit segments.

4. "A List" - The credit union has defined a very small, exclusive group of its membership as highly profitable through significant loan balances or deposit balances. While this group represents less than one percent of the credit union’s membership, this group is very significant in terms of its profitability. The credit union has assigned an Account Executive to personally serve these members. A concerted effort to seek referrals from this Account Executive would help boost sales of MBC products.

Market Needs

Media Benefits Corporations provides tangible and intangible value. The products and services available to First Entertainment Credit Union members are complementary and add value to the products and services the credit union provides. Since many members are loyal and trust the credit union to provide good services at a fair price, providing convenient insurance and investment services to
these members is a natural fit. These services are also a value to the credit union that is able to enhance its relationship with its membership.

Market Trends

Market trends fall into three general categories: changing regulatory landscape, increasing use of the Internet, and key client (member) growth.

1. Changing Regulatory and Legislative Landscape - The credit union industry is a highly regulated industry. Sometimes regulatory legislative changes have an impact on the products and services that can be offered through the CUSO.

2. Increasingly using the Internet to conduct Transactional business, whether it is buying an insurance policy, or purchasing a security such as stock or a mutual fund online. In order to be competitive in the offering of our various insurance and investment products, online services must be made available to meet this increasing consumer demand.

3. Key Member Growth - The credit union is making a conscious effort to improve its relationship with financially successful executives in the entertainment industry through the use of an
Account Executive to bring in new business development. Helping to meet these members' needs will bring MBC along in offering additional services and provide an opportunity to strategically expand the services we offer. The credit union is also beginning to offer business loans. There may by an opportunity for MBC to help in the expansion of these services.

Strengths, Weaknesses, Opportunities, and Threats Analysis

The SWOT analysis addresses strengths and weaknesses within Media Benefits Corporation and the opportunities and threats that exist in our environment. This analysis highlights areas that should be accentuated and suggests areas where we must improve as a business.

Strengths

1. Credit Union's Image: First Entertainment has a very good image in the entertainment industry. The Credit Union is perceived as the "industry" credit union and MBC can leverage this image to sell its products and services.

2. Member Bond/Loyalty: Many credit union members understand the cooperative principles of the Credit Union and are loyal to the purpose. Other members
understand the close relationship between the Credit Union and their employer and therefore feel bonded as part of the Credit Union organization. The CUSO benefits from this bond and loyalty because members associate getting products and services that the CUSO provides through the credit union.

3. Board, Management, and Staff: MBC has very strong management with extensive experience in the credit union industry. Its Board primarily consists of professionals from the entertainment industry who are very "business savvy."

Weaknesses

1. Full Plate of Projects on Credit Union side of Business: The credit union has a vast number of projects that are essential to its strategic plan. While MBC offers value added products and services to credit union members, it contributes a very small amount to the credit union's bottom line. Therefore, sometimes projects of the CUSO take a "backseat" to credit union projects that have the potential of bringing in greater revenue.

2. Sales Culture: MBC relies on credit union employees to cross sell its products and services. Today, most credit union employees can be categorized as "order
takers." The CUSO needs to work with the credit union to create a sales environment, complete with incentives and sales marketing reference material.

3. Lack of Staff solely dedicated to working toward the success of the CUSO: MBC does not have the luxury or ability to maintain a staff that specifically works on projects for the CUSO. While the management of the CUSO is very experienced in the credit union industry, they are "spread thin" in terms of managing all of their responsibilities on the credit union side, making it challenging to focus on a directed vision for MBC.

Opportunities

1. Investment Services: The Credit Union currently has established financial planning services as one of our core services. This service could be significantly expanded to include services marketed directly to SEGs. Also, the Credit Union could establish more of a direct relationship with the broker/dealer.

2. Technology: The Credit Union's Symitar system provides the Credit Union with an exceptional data processing system. This data processing system offers tools that can be used to help credit union employees cross sell members CUSO products and services.
Threats

1. Legislation: Federal, State, and Local Legislation can have an impact on how products and services are offered to credit union members. One such example is Senate Bill 1 (SB 1) in California, which deals with privacy, requiring credit unions to give members the ability to “opt-out” of sharing information with third-parties, even if the credit union owns or is affiliated with the third-party (Brelsford, 2003).

2. Regulation: The unilateral actions from the NCUA, federal or state regulator can have a lasting impact on the credit union and the relationship or continuing existence of the CUSO.

3. Competition: There is increasing competition from banks and other credit unions as more and more credit unions have opted for a community charter, which means that they can serve the same members as First Entertainment serves. This increasing competition leads to having to find new ways to distinguish the products and services offered through the CUSO.

Marketing and Sales Strategy

MBC is primarily dependent on the credit union to market its products and services. The marketing of CUSO
products and services will take place through the credit union's website, newsletter, brochures, and other mailings (i.e. marketing inserts in mailed statements, e-mail notifications, etc.).

Cross Sales

The CUSO will continue to work with the credit union staff to create tools allowing credit union staff to seamlessly market and sell CUSO products along side with the more traditional credit union products and services. The credit union has purchased a member cross sales tool that integrates with its core data processing system. While this member cross sales tool was purchased with the intention of selling the credit union's core loan and deposit products, CUSO products can also be included in the cross sales package.

Product Bundling

MBC's products and services will be bundled with the credit union's products and services. Insurance products, such as Automobile, Homeowners, Mechanical Breakdown, and GAP, will be offered as part of the package with the appropriate consumer and mortgage loan products. Investment services will be offered along side more traditional savings products like certificates, Money Markets, and IRAs.
Sales Tracking

As the credit union continues to move toward developing staff who are more sales conscious, it will also continue to track the progress of its staff in terms of both the sale of traditional credit union products along with CUSO products and services. Reports will be developed and generated on a periodic basis to track progress, offer incentives when established goals are met, etc.

Internet and E-Commerce

MBC will continue to seek products and services that can be delivered electronically through the credit union’s website or Internet home banking product.

CUSO products and services will be marketed and, in some cases sold, electronically through the website, home banking, and e-mail notifications.

MBC views the use of Internet and E-Commerce technology as a means to complement other traditional methods of selling products and services. However, the CUSO also recognizes that there is greater competition from other businesses that can offer convenient and value-added services through the use of Internet, which becomes increasingly important as more and more consumers
choose to conduct business electronically over the Internet.

**Product Evaluation**

MBC will periodically evaluate its products and services (on an annual basis) to ensure that there is value and convenience offered to its potential market. The CUSO recognizes that periodic evaluation of products is essential in order to continue to be competitive and improve sales in the long-run.

**Technology Strategy**

**Philosophy**

The vast majority of MBC's revenue is generated by sales to credit union members. The credit union primarily serves members who work in the entertainment industry as well as family members. Even though the credit union has obtained a Community Charter, it still intends to serve this "entertainment" niche. Both the Credit Union and the CUSO believe that these members are more technically savvy than the average consumer because many credit union members who work in the entertainment industry rely on computer technology to perform their daily tasks at work. In addition, over 50% of the credit union’s membership is signed up for the credit union’s home banking product.
Therefore, these members have a higher expectation that the credit union offer convenient products and services. MBC will foster and support the credit union's philosophy as "early adopters" of newer technologies in an effort to meet members' expectations.

**Internet**

The CUSO believes that the Internet plays a significant role in offering convenience and achieving efficiencies in two important ways: Business-to-Consumer and Business-to-Business. From the Business-to-Consumer perspective, the Internet provides a viable means to deliver products and services directly to prospective buyers of insurance and investment products. In terms of the Business-to-Business dynamic, the Internet offers a more efficient and effective way for the CUSO (through credit union staff) to conduct business with third-party vendors. For example, more and more third-party vendors provide tools to sell their insurance and investment products online.

**Five Areas of Strategic Importance**

The CUSO has identified the following five areas of strategic importance with regard to technology:

1. Operational Efficiencies - Whenever possible, the CUSO will seek to provide staff with
effective tools that increase their sales productivity.

2. Systems Integration - The CUSO’s Director will work with credit union staff to interface third-party software products with the credit union’s core software system.

3. Delivery Systems - MBC will periodically evaluate third-party vendors’ delivery systems as part of its overall monitoring of its current vendor relationships, ensuring that the member has convenient and hassle-free access to products and services.

4. Electronic Commerce - The CUSO recognizes that a significant segment of its potential clientele is technologically proficient. In addition, MBC recognizes that more and more consumers are embracing the convenience of conducting business online. Whenever possible, the CUSO will offer products and services that are available through the web. Current examples of such services are ShareBuilder and Brokerage Account Services, and Insurance Quoting Tools.

5. Privacy and Security - Member privacy and security have become increasingly important from
both legal and consumer awareness perspectives. The credit union has recently evaluated and updated its privacy policy. While the credit union’s policy states that it shares information with its affiliated service organization, Media Benefits Corporation, the credit union must also give members the right to Opt-out from sharing information with affiliated and non-affiliated third-parties. MBC will respect the wishes of members who do not wish to have member information from the credit union shared with MBC. It will also take the necessary steps from a technical standpoint to protect the integrity of members’ data who continue to allow the sharing of information between the credit union and CUSO.

Thus in summation this chapter covered a marketing plan and technology strategy to complement the overall MBC business plan in Chapter Three. The background information and research outlined in the first two chapters of this project coupled with the business plan, marketing plan and technology strategy in chapters three and four allow for the development of the strategic goals offered to MBC, which is the subject of Chapter Five.
CHAPTER FIVE

SPECIFIC STRATEGIC ACTIONS FOR MEDIA BENEFITS CORPORA TION OVER THE NEXT TWO YEARS

The Director of CUSO Operations should address the following strategic goals in the next 12 to 24 months:

I. Increase Sales Commissions earned by the CUSO through the selling of Investment Products.

a. **Background:** A successful Financial Advisor (FA) brings in approximately $180,000 in Gross Dealer Concessions (GDCs) on an annual basis. Historically, MBC’s FA has brought in less than a quarter of the above referenced production which is significantly less.

b. **Tactics or Tasks to Improve Situation:**

i. Work with the new Broker/Dealer, XCU Capital to establish productivity in sales expectations.

ii. XCU Capital will work with the FA to develop a personal business plan to achieve desired sales goals.

iii. Evaluate the feasibility of asking XCU Capital to provide additional independent contractor FA’s. First Entertainment CU is
over $500 Million in Assets. A credit union this size should be able to support at least two FA’s.

iv. Look for new opportunities to bundle Investment products with other credit union services, such as the A-List. The “A-List” is a special group of very highly profitable members. It would seem like a natural fit to offer these members personalized Investment services in much the same way that we court these members for traditional products and services.

v. Work with Business Development Officer on the credit union side to market investment services directly to Select Employee Groups (SEGs).

II. Seek and Implement additional (Insurance) Products and Services that enhance credit union member relationship and increases CUSO revenues.

a. Background: Through the years, MBC has gradually added various insurance products that help to enhance the members’ relationship with the credit union, while generating revenues for the CUSO. There are other opportunities to offer
desirable insurance products that also accomplish the aforementioned goals, such as Long-Term Care, various Life Insurance Programs (Term, Universal, and Whole Life), and Wellness Programs.

B. Tactics/Tasks:

i. Identify segments of First Entertainment’s membership that might be interested in these types of insurance programs and services and determine the potential market for these programs.

ii. Select insurance programs that are attractive to members with minimal implementation and administrative costs to the CUSO.

iii. Select the methods to deliver these products and services, such as: direct mail, Internet-based applications, bundled as an add-on to an existing product or service.

iv. Appoint the Director of CUSO Operations and credit union’s Vice President of Marketing to coordinate marketing effort on these products.
v. Establish metrics to determine success of newly implemented programs.

III. Develop Integration Strategy between CUSO and Credit Union.

a. Background: Top CUSO leaders agree that integration between credit union and CUSO services is vital to the success of the latter (Merrick, 2002). While the credit union already includes to the Chairman of the CUSO Board in Credit Union Board meetings, more can be done to foster integration between credit union and CUSO products and services.

b. Tactics/Tasks:

i. Credit Union staff must embrace CUSO products and services as a core product. The CEO sets the tone for this by making the success of the CUSO a top priority. Employees will follow the CEO’s lead.

ii. Encourage Board Members and Credit Union staff to use the CUSO products and services. This helps to create an awareness of what is available to the membership and makes it easier for both board members and
staff to promote these products through word of mouth.

iii. The Business Development Officer should highlight both credit union and CUSO products and services when conducting an orientation for a new select employee group (SEG).

iv. Implement cross-referral efforts for credit union and CUSO services. Consider offering incentives to the branches that make the most referrals to CUSO services.

v. Align credit union and CUSO strategic goals.

vi. Continue to offer CUSO services in credit union marketing materials. Promotions might cross sell a credit union product along with a CUSO product. For instance, a promotion encouraging the use of ShareBuilder, the credit union’s online investing product might also promote the credit union’s checking account product or automobile loan might be sold along side of automobile insurance, GAP, or a MBI policy.
IV. Improve Credit Union/Sponsor Relationships.

a. Background: Sponsor companies place a high value on credit union services—and significantly more value when those services are combined with access to financial planning products, advice, and guidance. CUSO services can help enhance relationships with employers (Merrick, 2002).

b. Tactics/Tasks:

i. The Business Development Officer should seek opportunities to facilitate seminars given by a Financial Advisor or Insurance Agent at Employer sites.

ii. First Entertainment might improve SEG relationships by participating in company events and employee fairs to raise employee awareness of credit union and CUSO services. The manager of the branch at SEG locations could ask SEG contacts for permission to open a booth at employee break-rooms or at the commissary in an effort to cultivate new relationships with potential members. Experts who sell CUSO products could participate along with the branch manager.
V. Hire and Retain the Right Staff.

a. Background: Failing at the member touch-point will have a dramatic effect on the success of credit union and CUSO products and services. The credit union needs to develop and cultivate a sales cultured environment. Historically, the credit union staff has mostly been comprised of "order taking" staff rather than sales-oriented staff.

b. Tactics/Tasks:

i. Examine hiring practices of front-line credit union staff.

ii. Consider hiring staff who may not have previous experience in the credit union industry, but have experience in a sales oriented environment.

iii. Establish employee recognition programs (that may include incentives) for those employees who cross sell products and services well.

VI. Develop consolidation strategy for moving Financial Planning from the CUSO to the credit union in anticipation that the SEC will make a final ruling
requiring credit unions to move this service from the CUSO to the credit union.

a. Background: Although the SEC has not issued its final no-action letter requiring credit unions to move investment services from their CUSO’s back to the credit union, the ruling appears to be inevitable and it is likely not to have a "grandfather" period. Therefore, the MBC and First Entertainment Credit Union need to have a strategy already developed in anticipation of this requirement.

b. Tactics/Tasks - The following list comes from an article written by Guy Messick, an attorney specializing in CUSO law and counsel for NACUSO (National Association of Credit Union Service Organizations). These steps should be considered when moving investment services from the CUSO to the credit union:

i. Revise the financial services agreement with the broker/dealer. This takes a little more thought than just assigning the agreement from the CUSO to the credit union. There are terms in these agreements that refer to the relationship between the
credit union and CUSO that have to be modified. This is an excellent opportunity to review the agreement to make sure that you have all the terms that you might have overlooked the first time. These items could include the control of business upon termination of the agreement and privacy terms that were not fully set forth in the original agreement (Messick, 2004).

ii. Revise the Letter 150 policies. The Letter 150 Policies will have to be amended to remove the CUSO. Letter 150 was a letter written by the NCUA to credit unions in December 1993 concerning guidelines for the sale of non-deposit investment products and services (Messick, 2004).

iii. Appoint a Letter 150 compliance officer with a job description. Letter 150 requires the appointment of a person not involved in the management of the investment services program to oversee the credit union's compliance with Letter 150. Are the proper disclosures being given? Is there adequate separation of the investment sales function
from the deposit taking function at the credit union? Some credit unions are looking for heightened vigilance in this area now that CUSOs are not involved to help shield the credit union from liability. Letter 150 requires the appointment of a compliance officer. Typically the Letter 150 compliance officer is an internal auditing function. It is recommended that the give the compliance officer a job description so he or she does not do too little or too much. Remember the compliance officer is only looking at Letter 150 compliance, not securities law compliance. Security law compliance is the job of the registered principal assigned by the broker/dealer to supervise the investment sales activities at the credit union (Messick, 2004).

iv. Decide whether the credit union intends to offer the insurance products through the CUSO or the credit union. The SEC ruling only applies to the sale of securities, e.g. stocks, mutual funds and variable
annuities. The credit union can still offer insurance products through a CUSO. A few states do not permit a credit union to obtain an insurance license. Where credit unions have a choice, most credit unions are electing to sell the fixed annuities insurance products through the credit union networking agreement which in most cases means that the credit union will have to obtain an insurance license. Credit unions are split on whether they will offer other types of insurance products through the credit union or CUSO. The credit union can only refer insurance products to a selling agent as it does not have the power to actually sell insurance as the selling agent. Therefore, if the CUSO currently acts as the selling agent as opposed to a referral agent, the CUSO would continue to sell the insurance products (Messick, 2004).

v. Obtain an insurance license for the credit union if necessary. It is a relatively easy process to obtain an insurance license if
the state permits a credit union to obtain an insurance license. An NCUA General Counsel Opinion permits a credit union to obtain an insurance license if state law requires a license in order to share commissions under Incidental Powers. NCUA does not permit a credit union to be the selling agency, as credit unions do not have the power to actually sell insurance. Note that all states issuing an insurance license require that a licensed person associate with a representative of the credit union in an officer capacity. This means that a special officer position at the credit union would have to be structured for the licensed person. The associated licensed person could be a credit union employee or an outside person who is also licensed with the affiliated insurance broker. In some states, the credit union does not have to obtain a license and can receive commissions if it has a licensed employee. All these licensing issues have to be explored and
may determine whether the credit union continues to use the CUSO to sell insurance products (Messick, 2004).

vi. Verify if the credit union can receive securities commissions under state laws. This is currently not an issue in California where the credit union primarily sells insurance but it could be relevant if the credit union offers its services in the future in other states. Credit unions do not have the power to be broker/dealers. Unlike obtaining and maintaining an insurance license, obtaining and maintaining a securities license is cost prohibitive. The credit union could use an expense reimbursement agreement for the fair market value of the rent, clerical support and marketing support provided to the broker/dealer (Messick, 2004).

vii. Review the credit union's bond and insurance coverage for the investment activities. The credit union should review whether it wants to supplement the bond or insurance coverage to cover the investment
services. Typically, an affiliated broker/dealer has professional liability insurance to cover the negligence of the representatives and its own negligence. The broker/dealer typically indemnifies the credit union for the broker/dealer's errors and make sure the indemnification covers the errors of the registered representatives whom the broker/dealer exclusively supervises. Some credit unions also are considering buying their own professional liability insurance, especially in dual employee programs. While the cost is reasonable, the high deductibles, the insurance and indemnification from the broker/dealer and low history of risk to financial institutions in networking agreements causes many credit unions to pass on this insurance (Messick, 2004).

viii. Determine who will manage the investment program. A key success factor is the presence of a knowledgeable and skilled manager at the credit union/CUSO level.
Most credit unions with effective CUSO managers are moving the managers into the credit union at a Vice-President level. Do not make the mistake of trying to run this portion of the credit union's services with an unqualified person on a part-time basis (Messick, 2004).

ix. Decide if the investment program will have profit accountability. When the investment programs were in the CUSO, the profitability was always an item that was monitored. If the credit union has a cost accounting or arranges itself in profit centers, the investment services' profitability will still be monitored. If the credit union does not have cost accounting by services provided, there is a larger question for the credit union as to whether it should apply cost accounting across all lines of service (Messick, 2004).

In addition to the items listed above, the author has developed a CUSO Consolidation Checklist of tasks to perform when moving investment services from the CUSO to
the Credit Union. The checklist not only applies to moving investment services from the CUSO to the credit union, but it could also be used should the credit union determine that all services need to be moved back to the credit union in the event that it was decided to dissolve the CUSO. The CUSO Consolidation Checklist Spreadsheet can be found in Appendix D.

The CUSO Consolidation Checklist consists of 53 items to consider when moving CUSO services back into the credit union. These items are divided into four sub-categories specifying the department or area that would handle the task, such as the Accounting Department, CUSO, E-Commerce Department, and Marketing Department.

The 53 items included in the CUSO Consolidation Checklist were derived from a number of different sources. One source is the aforementioned list of considerations provided by Guy Messick, an attorney specializing in CUSO law. In addition to Guy Messick’s list, the author had the opportunity to attend a long-range planning (LRP) meeting in 2004 held by XCU Capital Corporation, Inc. intended for both existing and potential investment clients and shareholders. One of the topics of discussion during a roundtable at this LRP was the pending SEC ruling, which could require credit unions to move investment services
from the CUSO back into the credit union. Some credit unions had already gone through the exercise of moving investment services back into the credit union and these credit unions offered some suggestions to other client credit unions.

In addition to Guy Messick's list and the suggestions offered at XCU Capital's LRP, the author also incorporated his personal experience as a long-time employee of First Entertainment Credit Union to help him develop the CUSO Consolidation Checklist. The moving of investment services into the credit union is somewhat similar on a much smaller scale to the considerations that need to be made when one credit union merges into another credit union. Through the years, First Entertainment Credit Union has merged a few credit unions into its organization. Typically, a Merger Checklist is created when another credit union is going to be merged into First Entertainment, identifying the tasks that need to be performed by each department. The development of a CUSO Consolidation Checklist is consistent with the format of the Merger Checklist that First Entertainment Credit Union already uses. Therefore, the CUSO Consolidation Checklist can immediately be implemented in the event that the
credit union determines that it wants to shift investment services and insurance services into the credit union.

By addressing the aforementioned strategic imperatives over the next 12 to 24 months, both MBC and the Credit Union should see effectual change that helps to improve the bottom-line and continue to help guide management toward the path of offering the credit union membership value-added service through this CUSO.
CHAPTER SIX
CONCLUSION

The creation of a business plan for Media Benefits Corporation establishes a strategic direction for the CUSO. The author began by reviewing the strategic plan of First Entertainment Credit Union to see how he could align some of the goals of the CUSO with the credit union.

The author also spoke with leaders of successful CUSOs, such as XCU Capital, the CUSO for Xerox FCU and Patrion Mortgage, the CUSO for Altura Credit Union in an effort to discover the common key factors in developing a successful CUSO organization. Essentially, there are five key factors that lead to a CUSOs success: (1) Support from the Board and staff; (2) Full integration of CUSO Products and Services with the credit union's; (3) A good business plan; (4) Being a well capitalized organization; and (5) Dedicated and qualified CUSO management. Media Benefits already had many of these key factors and the development of a formalized business plan helps to solidify the organization's future direction.

As part of the proposed business plan, the author examined the existing products and services of the CUSO, especially in terms of the relationship with vendors used
to offer these services. The review of existing products and services is an important exercise that MBC will continue to perform on an annual basis to help insure the success of the organization. Looking at the relationship with existing third-party vendors also reinforces the importance that these organizations are strategic partners of MBC and First Entertainment Credit Union. The strategic partners' reputation in offering products and services can have an impact on the image of First Entertainment Credit Union since credit union members ultimately associated getting MBC products and services through the credit union.

From the financial perspective, the business plan looks at the past sales performance of its products and services so that benchmarks can be developed for the future. Similarly, the Income Statement summarizes past and current performance of MBC and forecasts future revenue growth. While sales of various insurance products and services appear to be proportionate to the number of auto and home loans generated, the CUSO does expect an improved revenue stream in its financial planning services in the coming years, assuming the service will remain as part of the credit union and not folded into the credit union's products and services. The decision to move
financial planning to the credit union will hinge on the final ruling of the SEC.

The future success of MBC will depend upon the ability of credit union staff to sell its products and services. Recognizing the importance of staff's role to the CUSO's success, the business plan calls for developing incentives for staff with the credit union to insure that established benchmarks are met and exceeded. Therefore, the business plan calls for the use of a balanced scorecard, which measures goals from four perspectives: Member, Financial, Internal/Business Processes, and Growth/Learning. The high-level balanced scorecard begins by incorporating MBC's vision statements into objectives and subsequently, measurable goals. The use of a balanced scorecard will not only benefit MBC but First Entertainment Credit Union.

As part of the business plan, a marketing plan and technology strategy were also developed for MBC as well. In the marketing plan, MBC recognizes that members trust the credit union and the CUSO be able to capitalize on the bond and loyalty into to sell members various products and services. Market trends, demographics, SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, and
sales strategy are also developed as part of the Marketing Plan.

In the technology plan, MBC establishes itself as an “early adopter” of technology, which mirrors the credit union’s technology philosophy. The Internet is identified as playing a significant role for MBC in terms of Business-to-Consumer and Business-to-Business perspectives. Five areas of strategic importance with regard to technology are identified: (1) Operational Efficiency, (2) Systems Integration, (3) Delivery Systems, (4) E-Commerce, and (5) Privacy and Security. These strategic areas of importance establish how MBC intends to use technology to support and sustain MBC as a business.

Finally, six strategic imperatives are identified to be addressed by the Director of CUSO Operations over the next 12 to 24 months as part of the business plan. Tactics and tasks to fulfill these strategic imperatives are identified. A CUSO Consolidation Checklist was also developed in the event that financial planning services are moved under the umbrella of the credit union rather than the CUSO.

The major contributions of this project are mentioned in the aforementioned summary: (1) Aligning CUSO goals with Credit Union goals; (2) Research and information
gathering as well as discussions with prominent leaders of successful CUSOs; (3) Examination of existing CUSO products and services as well as the relationship with strategic partners; (4) The gathering of past sales performance data in order to establish benchmarks for future goals; (5) The use of a Balance Scorecard as a means to implement a comprehensive incentive plan for both the CUSO and credit union; (6) The development of Marketing and Technology plans which further support the business plan; and (7) an action plan of strategic imperatives, which MBC can use over the next 12 to 24 months.

This project also contributed to the author’s professional development in many ways. First, this project represents the first business plan that he ever constructed for any type of business. Second, the development of this business plan was the first time the author worked on a project as a consultant to a business. Although the work on this project was completed as part of a verbal agreement after leaving First Entertainment Credit Union for another job opportunity, it did open the door to other possible consulting opportunities in the future. Lastly, this project gave the author the opportunity to apply knowledge gained in the marketing,
finance, and strategic planning courses that were taken while in the executive MBA program into a practical business setting. A practical example of this can be seen in the development of a high-level balanced scorecard as well as the creation of a cursory marketing plan.

After reading this project, the reader should have a better understanding of credit unions as financial cooperatives and CUSOs, which act as the credit union's entrepreneurial alter ego. The reader should also have a better understanding of the challenges that credit unions and CUSOs face in terms of continuing to thrive as businesses while complying with increased legislation and regulations with each passing year. Lastly, the reader should be able to correlate the key ingredients to a successful CUSO, such as the commitment to a targeted clientele, organized management, awareness of technological trends, and financial analysis to other businesses that might be more familiar to the reader.
APPENDIX A

MEDIA BENEFITS CORPORATION MANAGEMENT

BIOGRAPHIES
Charles "Chuck" Bruen, President/CEO: Chuck has been the President/CEO of First Entertainment Credit Union since January 1987. At that time, First Entertainment had about $20 Million in assets at a single location. Today, First Entertainment Credit Union is over $545 Million in Assets and 11 branches (9 in Southern California, 1 in Las Vegas, Nevada, and 1 in Manhattan, New York). Chuck has over 32 years experience in financial services and is a past Chairman of the California Credit Union League, as well as serving in numerous League elected and volunteer leadership roles. Recently, he was appointed to serve on the National Association of State Chartered Credit Unions' Governmental Relations Committee and the Alternative Capital for Credit Unions Task Force. He also serves on the Advisory Committee for We Tip Corporation. Chuck attended Los Angeles Valley College and California State University Northridge. He received his certified Credit Union Executive designation in 1986 and successfully completed the Executive Development School at Stanford in 1995.

James Marcellino, Director of CUSO Operations: James has worked in credit unions for 24 years; 20 of those years at First Entertainment Credit Union. In 1985 when James
joined First Entertainment, there were 13 employees and the assets were below $20 Million. Through the years, James has held various positions in Management Information Systems (MIS), Member Services, Accounting, and Administration. James has been a member of the senior management team at First Entertainment since 1990. As Vice President of Operations, James is responsible for eOperations, Central Services, Call Center, Facilities, and CUSO. James graduated from Western CUNA Management School in 2000.
APPENDIX B.

MEDIA BENEFITS CORPORATION BALANCE SCORECARD
From Vision to Objectives

**Mission:** MBC will offer convenient products and services that primarily serve and add value to First Entertainment Credit Union members.

**Vision: Best Value to members**
- Provide useful, competitively priced and efficiently delivered services
- Convenience – provide products and services at a fair price with the most convenience that we can deliver to our members and other customers served
- Engage in Sound Business and Financial Practices
- Well Managed and Respected CUSO
- Support credit union philosophy: special democratic character, providing opportunities for self-help, mutual understanding, caring and encouragement within the membership.

**Goals**
- Satisfy member requirements to deliver value-added services.
- Use performance metrics to drive best practices and achieve high quality results.
- Enhance the mix of CUSO products and services offered by the credit union.
- Establish strategic alliances with vendors in an effort to offer better (more profitable) products and services.
- Ensure everyone is working toward the same vision and can connect what they are doing to make vision a reality.
- Embrace continuous learning for credit union workforce to ensure critical, high quality skill sets, especially as it relates to sales and service.

**Customer (Member) Perspective**
- Improve Member Satisfaction
- Relationships per Member
- Products and Services Mix

**Financial Perspective**
- Reduce cost to the member
- Support Credit Union's attainment of key financial ratios by offering source of non-interest income.
- Sustainable growth

**Internal Perspective**
- Harnessing Technology
- Efficient Processes for Staff and Members
- Vendors/Partners

**Growth and Learning Perspective**
- Staff and Management Development
- Training/Sales Culture
- Board Development

Adapted from Bloom, 2001
### MBC 2006 Corporate-level Balanced Scorecard:

Perspectives, Objectives, and Measures

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Objective</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Member</strong></td>
<td>* Improve Member Satisfaction</td>
<td>1) Member Satisfaction Survey</td>
</tr>
<tr>
<td></td>
<td>* Relationships per Member</td>
<td>2) Measure Growth in Relationships per Member</td>
</tr>
<tr>
<td></td>
<td>* Evaluate Product/Service Mix</td>
<td>3) Feedback from Membership on Product/Service Mix</td>
</tr>
<tr>
<td></td>
<td>* Reduce cost to the member</td>
<td>4) Monitor Pass-through costs of Products/Services to members</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>* Key Credit Union Financial Ratios</td>
<td>5) Establish targeted ROA and Non-Interest Income Goals</td>
</tr>
<tr>
<td></td>
<td>* Sustainable Growth</td>
<td>6) Establish targeted growth rate</td>
</tr>
<tr>
<td></td>
<td>* Improve Profit Margin</td>
<td>7) Member Profitability Analysis</td>
</tr>
<tr>
<td><strong>Internal Business Processes</strong></td>
<td>* Improve Service Quality</td>
<td>8) Develop and Measure Quality Index</td>
</tr>
<tr>
<td></td>
<td>* Harness Technology</td>
<td>9) Percentage of Members utilizing Online Delivery Channel</td>
</tr>
<tr>
<td></td>
<td>* Efficient Processes for Staff and Members</td>
<td>10) Turnaround Time in Delivery of Products and Services</td>
</tr>
<tr>
<td></td>
<td>* Evaluate Vendor/Partner Relationships</td>
<td>11) Vendor Service Quality Analysis</td>
</tr>
<tr>
<td></td>
<td>* Improve Cross-sales of Products Sold</td>
<td>12) Number of Products Cross-sold</td>
</tr>
<tr>
<td><strong>Growth &amp; Learning</strong></td>
<td>* Improve Employee Satisfaction &amp; Retention Rate</td>
<td>13) Employee Survey and Turnover Rate</td>
</tr>
<tr>
<td></td>
<td>* Establish Training/Sales Culture</td>
<td>14) Monitor number of training sessions conducted</td>
</tr>
<tr>
<td></td>
<td>* Board and Employee Development</td>
<td>15) Employees in Development Assignments</td>
</tr>
<tr>
<td></td>
<td>* Develop a Climate for Action</td>
<td>16) Organization Climate Survey</td>
</tr>
</tbody>
</table>

Adapted from Bloom, 2001
APPENDIX C

MEDIA BENEFITS CORPORATION FINANCIAL REPORTS
### MBC FINANCIAL REPORTS

**MEDIA BENEFITS CORPORATION**

**BALANCE SHEET**

For the Month Ending June 30, 2005

<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th><strong>LIABILITIES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong> 235,358</td>
<td><strong>A/P FirstEnt 0</strong></td>
</tr>
<tr>
<td><strong>FirstEnt Line of Credit 0</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Accounts Receivable 5,000</strong></td>
<td><strong>Accrued Exp - Taxes Payable 5,050</strong></td>
</tr>
<tr>
<td><strong>Accrued Exp - Professional Srvs. 1,800</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Investments:</strong></td>
<td><strong>Other Accrued Expenses 0</strong></td>
</tr>
<tr>
<td><strong>Wescorp 131,882</strong></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES 6,850**

<table>
<thead>
<tr>
<th><strong>Accrued Income:</strong></th>
<th><strong>Accd Int on Investments 0</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prepaid Expenses 511</strong></td>
<td></td>
</tr>
</tbody>
</table>

**EQUITY**

<table>
<thead>
<tr>
<th><strong>Fixed Assets:</strong></th>
<th><strong>EQUITY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Fixed Assets 5,771</strong></td>
<td><strong>MBC - Common Stock: 100,000</strong></td>
</tr>
<tr>
<td><strong>Total Depreciation (5,771)</strong></td>
<td><strong>MBC - Paid in Equity: 0</strong></td>
</tr>
<tr>
<td><strong>Accum Earnings at Beg Yr: 247,220</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Other Assets:</strong></td>
<td><strong>0 Net Income Operations, Y-T-D: 18,682</strong></td>
</tr>
</tbody>
</table>

**TOTAL EQUITY 365,902**

**TOTAL LIABILITIES**

**TOTAL ASSETS $372,752 AND EQUITY $372,752**
# MBC Income Statement Forecast

<table>
<thead>
<tr>
<th>INCOME</th>
<th>2003</th>
<th>2004</th>
<th>2005 Performa</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBI Insurance</td>
<td>31,987</td>
<td>38,655</td>
<td>44,902</td>
<td>52,200</td>
<td>60,700</td>
</tr>
<tr>
<td>Auto and Homeowner’s Ins</td>
<td>55,783</td>
<td>54,576</td>
<td>53,150</td>
<td>51,800</td>
<td>50,500</td>
</tr>
<tr>
<td>Misc. Insur/LTPC</td>
<td>252</td>
<td>316</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial Planning</td>
<td>19,516</td>
<td>23,920</td>
<td>11,526</td>
<td>45,000</td>
<td>50,000</td>
</tr>
<tr>
<td>AD&amp;D Insurance</td>
<td>56,144</td>
<td>59,179</td>
<td>58,892</td>
<td>59,000</td>
<td>59,000</td>
</tr>
<tr>
<td>GAP Insurance</td>
<td>51,580</td>
<td>43,813</td>
<td>44,624</td>
<td>45,000</td>
<td>45,000</td>
</tr>
<tr>
<td>LoJack</td>
<td>4,967</td>
<td>380</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment</td>
<td>3,526</td>
<td>3,273</td>
<td>5,474</td>
<td>9,200</td>
<td>10,000</td>
</tr>
<tr>
<td>Sharebuilder/Misc</td>
<td>10,576</td>
<td>3,458</td>
<td>4,818</td>
<td>5,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

| TOTAL INCOME | 234,330 | 227,571 | 223,386 | 267,200 | 280,200 |

**EXPENSE**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation and Benefits</td>
<td>82,573</td>
<td>78,691</td>
<td>21,235</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Travel &amp; Conference</td>
<td>1,210</td>
<td>4,518</td>
<td>2,698</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Office Occupancy</td>
<td>28,230</td>
<td>25,972</td>
<td>40,656</td>
<td>41,000</td>
<td>43,000</td>
</tr>
<tr>
<td>Office Operations</td>
<td>10,601</td>
<td>6,075</td>
<td>3,970</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Marketing</td>
<td>14,913</td>
<td>17,750</td>
<td>17,750</td>
<td>17,750</td>
<td>19,000</td>
</tr>
<tr>
<td>Prof/Outside Services</td>
<td>39,428</td>
<td>48,505</td>
<td>65,896</td>
<td>66,000</td>
<td>69,000</td>
</tr>
<tr>
<td>Business Taxes</td>
<td>105</td>
<td>1,700</td>
<td>1,300</td>
<td>1,300</td>
<td>1,400</td>
</tr>
</tbody>
</table>

**OPERATING EXPENSES**

| OPERATING EXPENSES | 177,059 | 183,210 | 153,505 | 134,050 | 140,400 |

**NET INCOME PRIOR TO TAXES**

| NET INCOME PRIOR TO TAXES | 57,271 | 44,361 | 69,881 | 133,150 | 139,800 |

| Federal & State Tax Expense | 9,761 | 6,876 | 12,524 | 13,400 | 14,010 |

**MEDIA BENEFITS NET INCOME**

| MEDIA BENEFITS NET INCOME | 47,510 | 37,485 | 57,357 | 119,750 | 125,790 |
MEDIA BENEFITS CORPORATION
INVESTMENT REPORT
For the Month Ending June 30, 2005

<table>
<thead>
<tr>
<th>Investment</th>
<th>Rate</th>
<th>Maturity</th>
<th>Investment Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Entertainment Credit Union - Cash</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Share</td>
<td>1.00%</td>
<td>N/A</td>
<td>153</td>
</tr>
<tr>
<td>Checking</td>
<td>0.30%</td>
<td>N/A</td>
<td>37,313</td>
</tr>
<tr>
<td>Premier Money Market</td>
<td>1.85%</td>
<td>N/A</td>
<td>197,893</td>
</tr>
<tr>
<td><strong>Total Cash at FirstEnt:</strong></td>
<td></td>
<td></td>
<td><strong>235,358</strong></td>
</tr>
<tr>
<td><strong>Wescorp Federal Credit Union</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wescorp Market Daily - Average</td>
<td>3.08%</td>
<td>N/A</td>
<td>131,882</td>
</tr>
<tr>
<td><strong>Wescorp Certificate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Wescorp Certificates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investments at Wescorp FCU</strong></td>
<td></td>
<td></td>
<td><strong>131,882</strong></td>
</tr>
<tr>
<td><strong>Total Cash &amp; Investments:</strong></td>
<td></td>
<td></td>
<td><strong>367,241</strong></td>
</tr>
</tbody>
</table>
APPENDIX D
CREDIT UNION SERVICE ORGANIZATION
CONSOLIDATION CHECKLIST
<table>
<thead>
<tr>
<th>REF #</th>
<th>DEPARTMENT</th>
<th>ISSUE / TASK</th>
<th>ASSIGNED TO</th>
<th>RESOURCES REQUIRED</th>
<th>INITIAL TARGET DATE</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accounting</td>
<td>Determine filing requirements with Secretary of State, if any</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Accounting</td>
<td>Determine impact on comparability of financial statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Accounting</td>
<td>Determine 1099 report requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Accounting</td>
<td>Update UBI Tax Expense template</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Accounting</td>
<td>Determine if separate cost centers are required for the different regions, as currently organized in CUSO's GL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Accounting</td>
<td>Will non-members owning contracts automatically become members? Strategy to make them members? Signature Cards?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Accounting</td>
<td>Notify vendors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Accounting</td>
<td>Open GL accounts and cost centers, as required</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Accounting</td>
<td>Determine impact on reports, if any</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Accounting</td>
<td>Update GL management reports, as required</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Accounting</td>
<td>Determine if credit union will formally assume liabilities of CUSO</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Accounting</td>
<td>Eliminate unnecessary Standard JVs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Accounting</td>
<td>Record fixed assets onto credit union's books</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Accounting</td>
<td>Create test scripts for GL balancing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Accounting</td>
<td>Consolidate budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Accounting</td>
<td>Record consolidation entries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Accounting</td>
<td>Close CUSO checking account (any ACH deposits will need to be re-routed to CU Account)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Accounting</td>
<td>Consolidate GL Recon Aging Reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Accounting</td>
<td>File final tax return (If Applicable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Accounting</td>
<td>File Certificate of Dissolution (If Applicable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>CUSO</td>
<td>Review CUSO Bylaws, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CUSO Consolidation Checklist cont'd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 CUSO Broker/Dealer contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23 CUSO Review all other contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 CUSO Insurance Coverage - Cancellations and Continued Coverages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 CUSO Professional Liability Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26 CUSO Licensing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 CUSO New Business Cards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 CUSO In-house Forms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29 CUSO Address Labels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 CUSO Letterhead</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 CUSO Envelopes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32 CUSO Fund Company Statements (send notice to Fund Companies with CUSO name on Statements)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33 CUSO Notify CU employees of consolidation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34 CUSO Purge branch areas of CUSO logo items, replace with new CU logo items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35 E-Commerce Obtain and review all third party E-commerce agreements to determine security reviews have been performed and documented (e.g., Sharebuilder)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36 Marketing CUSO Ads</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>37 Marketing CUSO Posters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38 Marketing Compliance Approved Letters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>39 Marketing New Disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 Marketing Investments Brochure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41 Marketing IRA Brochure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>42 Marketing Customized Vendor Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43 Marketing FC Biographies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>44 Marketing FC Desk Disclosure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45 Marketing Internet Website</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>46 Marketing Intranet Website</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>47 Marketing Broker/Dealer website</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48 Marketing Educational Workshop Calendar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Marketing</td>
<td>Educational Workshop Flyers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Marketing</td>
<td>Educational Workshop Invitations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Marketing</td>
<td>E-mail Campaign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Marketing</td>
<td>Member Newsletter</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Marketing</td>
<td>Flyers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
REFERENCES

Retrieved October 22, 2005

Bloom, Thomas R. (November 2001) DFAS Strategic Plan, 

Blumenfeld, Kathy (October 4, 2005) Map Your Way to 
addedDimensions/articleDetail/0,1776,13532,00.html 
Retrieved October 5, 2005

Boye, Will (December 29, 2003) Bet on the Banking Industry 
to Reap Rewards of Recovery (an Article from 
Charlotte Business Journal), 
http://charlottebizjournals.com Retrieved January 5, 
2004

Brelsford, James F. (September 30, 2003) California Raises 
the Bar on Data Security and Privacy 
http://library.findlaw.com/2003/Sep/30/133060.html 
Retrieved October 4, 2003

Bylaws of Media Benefits Corporation: A California 
Corporation

Callahan and Associates (2002) CUSOs Evolve, Reach for the 
Big-Time, http://www.creditunions.com/home/articles/
template.asp?article_id=595 Retrieved October 17, 
2005

Corrigan, G. M. (May 2003) Not So Incidental: New FCU 
powers stand to have a significant effect on the 
future of CUSOs, 
http://www.nafcunet.org/Template.cfm?Section=HOME&Tem 
plate=/Content/ContentGroups/TFCU_Online/Features1/Ma 
y_June/Not_so_Incidental.htm Retrieved June 15, 2004

Devine, Jim (March 2005) Trust Services: Should You 
Retrieved March 20, 2005

Retrieved February 26, 2003
http://web.uvic.ca/bcics/anthill/v5/i1/cuso.htm
Retrieved October 17, 2005

Gramm-Leach-Bliley (1999) Gramm-Leach-Bliley Act
http://banking.senate.gov/conf/
Retrieved October 4, 2003

Hochgraf, (August 1999) The Other Side of the Coin,
http://www.cues.org/fyi/899othersideofthecoin.htm
Retrieved December 28, 2002

Merrick, Bill (2002) Best-of-Breed CUSOs,

Messick, Guy (2004) Ten Keys to Transitioning Investment Services from the CUSO

_____, (April 2005) What are CUSO Success Indicators?

NCUA (2001) Sales of Nondeposit Investments, NCUA 12 CFR 721

Storey, Charlene Komar (April 2001) The Best Structure,
http://www.cues.org/fyi/0401thebeststructure.htm
Retrieved December 28, 2002

Sweeney, Theresa (March 2000) Senior Boom,
http://www.cues.org/fyi/0300seniorboom.htm Retrieved February 1, 2003