Crossing the Line

Strategic vs. Utility

Introduction

Technologies change constantly. When a technology becomes ubiquitous, i.e. it's only noticed when it's not there, it becomes a utility. What happens when a technology moves from being a strategic direction to being a utility? How can you tell and how do you measure and manage it. A strategic technology is measured on how well it accomplishes the goals set by the vision you have of what your CU is becoming. A utility is measured on how efficiently and reliably it delivers its product.

Constant Change

A few years ago, a CU wanted to provide its members with a leading edge home banking application to expand the member's access to account information, differentiate themselves from other financial institutions, and reduce transaction costs. That was a strategic decision. When they implemented that home-banking system, there were very few CUs or banks providing that kind of service. Their members gained a service that they couldn't easily get elsewhere and the CU got enhanced loyalty from the members. Reduced transaction costs soon followed.
After a couple of years, home banking became a standard service among financial institutions. Members now expected or even demanded online banking. That technology had crossed the line from strategic to utility.

On the other side of the line

When you cross the line from strategic to utility, it's time to think about either establishing a "maintenance" group or outsourcing the operation to some else. In either case, the amount of unit resource devoted to the utility should begin to decline. If it doesn't, you either have an operational problem or insufficient mass to force the costs down.
In the first case, you need to take steps to gain control of the costs. Consider deploying a packaged solution instead of a highly customized and costly one.   Examining the way the product or service is delivered and removing the non-value added steps in the delivery process could also help solve an operational problem.

The critical mass problem in the second case is somewhat more difficult to solve. Outsourcing may be a solution. That could be done a couple of different ways. You could develop partnerships with other like-minded organizations to collectively deliver the service or product, or find a business to deliver that product efficiently and use that organization as your product surrogate. In either case, an outsourcing arrangement can aggregate a number of clients together to gain cost advantages that a lone CU can never attain.

Outsourcing Issues to consider

In the example above, let's assume that the CU decided to outsource their home-banking application. When they did that, they had 2 major areas that they focused on when evaluating vendors, service levels and vendor management.

Service levels

This part of vendor evaluation may be difficult because it involves not only evaluating the service levels that the vendor says they can deliver, but also examining your own organization to determine what level of service you can support and are willing to pay for. Our hypothetical CU might believe that they want to provide 24x7 service with no downtime. That is an achievable standard, but the cost may be prohibitive and the CU may not be able to support that level of service if the home-banking application requires the host system to be available for data retrieval. Realistically, this might be a standard that provides for 100% uptime with an exception for scheduled maintenance downtime. The CU and the vendor can determine what an acceptable level of maintenance downtime might be. At that point, you can begin to build a partnership that will provide for bonuses or penalties based on deviations from the accepted standard. That way the vendor and the CU have equal desire to meet the standard.

Management

One of the most difficult things to do in outsourcing is vendor management. Many times, organizations are outsourcing a headache and simply want to wash their hands of it. That's exactly the wrong thing to do. There should always be a manager who works for the CU that is responsible for oversight of the vendor and the service levels. That manager should view the outsourcing company as an extension of the CU staff. Don't fall into the trap of just letting the vendor do his job without the same kind of regular review you would give to an employee.

Conclusion

Technology has a way of updating itself. Continually review the technology as well as the products and services to see if they've crossed the line. If they have, its time to begin to measure and manage them as the utilities that they've become.