

IN-STORE ROLLOUTS SUPPORT VARIED OBJECTIVES; YIELD VARIED RESULTS

The recent industry-wide frenzy to expand branch networks has also generated a renewed interest in in-store banking. Throughout the largest US metros, banks have aligned with market leading grocery chains. Major regional and national banks have initiated many of the broad grocery affiliations, allowing them to quickly add dozens of branches.

For example, BankOne operates over 70 in-store branches in Chicago, out of its 200 branches across the metro. Over 60

of Bank of America's 180 Dallas branches sit in grocery locations. And over half of Wells Fargo's 150 Phoenix branches are located in-store.

Several motivations have fueled the banker-grocer alliances, with profitability of the in-store branch itself not always ranking atop the list.

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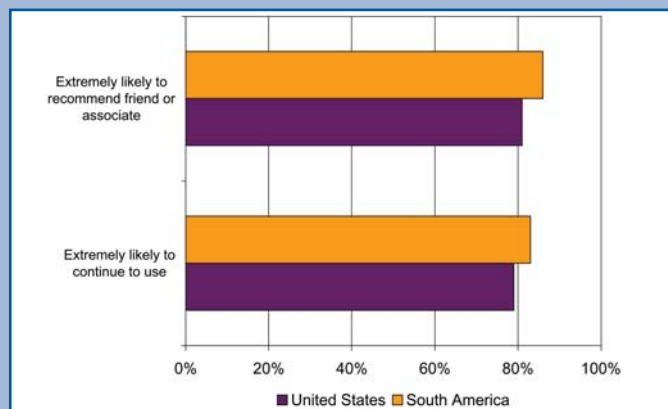
CASE STUDY: MEASURING SERVICE AND SATISFACTION ACROSS INTERNATIONAL BORDERS

Bancography recently concluded an initial benchmark survey for an ongoing customer service, satisfaction and loyalty study for a South American bank with United States presence. The mission of this bank is to serve its customers in its native country and wherever they may travel or live in the world.

Customers in both countries were interviewed, and results were segmented based on where and how the customer last interacted with the bank. Originally, the results were to be segmented by the country in which the customer resides, but many identified that they interacted with a branch in the country other than where they live.

There were no significant differences in the overall perception of the bank between customers who interacted in the U.S. or South America. Approximately 58% reported to be extremely satisfied with their entire financial relationship. Unlike the overall bank attributes, there is a significant difference in service quality between the countries. Those interacting with a South American branch reported significantly lower service quality scores (average of customers responding to be extremely satisfied on the service quality measures) than those interacting in the U.S.

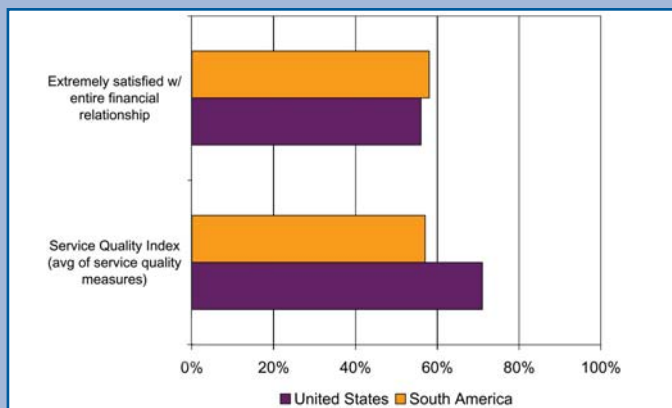
who recently interacted with a South American branch responding that they are extremely likely to recommend a friend or associate. These same customers also conveyed that they are extremely likely to continue to use the bank.



This bank's customers are very loyal, although service quality has room for improvement. For instance, those transacting in South America report lower service quality ratings but are more loyal. Due to the response similarities throughout the rest of the survey, the conclusion from the benchmark is that there is not a significant difference in the country where the customers reside, but in the country where they choose to transact. Therefore, the South American branch network must improve its service quality or eventually the high customer loyalty will erode.

Bank management is currently mystery shopping the poor performing branches in South America and is also coaching branch management and staff on the results of the survey. Bank management has recently approved attrition research on lapsed retail and business clientele.

This bank's customer service, satisfaction and loyalty surveying will be tracked twice annually. An analogous study of commercial banking will begin this spring. Please direct comments and questions to 205.251.6227 or research@bancography.com.



When exploring these customers' loyalty to this institution, the results were staggeringly high, with over 80% of those

SYNDICATED RELEASE:

With the end of the mortgage and refinance boom, financial institutions are searching for the next “big thing.” Since the majority of fee generating avenues have been used in the retail customer base, banks are now eyeing businesses of all sales tiers for opportunities. With this impending investment by bank management into the business and commercial banking divisions, many questions and concerns have surfaced regarding the sales process, incentive systems, private banking, and marketing.

In January of 2003, Bancography released a white paper entitled *Small Business: Needs versus Reality*. Due to its success and the increased attention that this topic is generating, the white paper is being updated and expanded to include banker interviews.

Bancography is currently interviewing bankers about their marketing and management practices in business and commercial banking. Banks from all asset tiers and geographic regions will be represented. Information yielded from these case studies will be the focal point for the study, and current event snapshots of the commercial banking industry will be included as well.

The following topics are a sample of what business banking practices are being explored during the interviews:

BENCHMARKS FOR MARKETING & MANAGING BUSINESS BANKING

- Management structure: where small, middle and large commercial banking report within the institution
- Sales process: identifying those responsible for generating new business in the divisions outlined above; who is responsible for managing the relationship; where the branch manager fits into the sales process
- Incentive system: understanding goal setting, pay outs, and all of those included in the system
- Private banking: understanding the relationship (referrals) between business and private banking
- Marketing: learning the budget implications, campaigns, strategies and retention tactics

If your responsibilities include business and commercial line management, product development, sales management, or marketing, you will benefit from reading this comprehensive study. To be notified when the research has been completed, contact us at 205.251.6227 or research@bancography.com. This study will cost \$525 for clients/ \$750 for non-clients.

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Rather, the expansions often reflect a desire to quickly achieve market scale – to create a perception of ubiquity, in terms of both convenience of locations and hours of availability. By leveraging the preexisting networks of leading grocers, a bank can gain presence throughout a market area and expand its share of stores and hours, without having to identify, purchase, and build branch sites one submarket at a time.

In today’s escalating retail delivery arms race environment, the entry of one major bank-grocer alliance triggers additional defensive alliances throughout the marketplace. Many banks, committed to maintaining a leading outlet share position, have rushed to strike in-store distribution deals “before all the good chains are taken.” Thus, in major metros such as Atlanta, Chicago, Dallas, Houston, Los Angeles, Philadelphia, and Washington at least two and in some cases three banks have added over 40 in-store branches each. And, with few exceptions, the banks are operating these networks to complement even larger traditional networks, rather than as substitutes for traditional branches.

But if the number of in-store branches is growing so quickly – far faster than the rate of household growth – will the industry soon face overcapacity? Can in-store branches maintain adequate deposit growth against an also increasing base of traditional branches? An examination of FDIC deposit statistics across 30 marketwide in-store networks reveals mixed results. Of the 30 randomly selected networks, six show median in-store branch deposits of over \$20 million, well past the threshold required for in-store profitability. These high performing networks include Wells Fargo in Houston and San Francisco, Citizens in Boston and Philadelphia, Bank of America in Phoenix, and Fifth Third in Cincinnati. In thirteen of the 30 networks, median branch size is between \$10 and \$20 million, leaving 11 networks with median branch size below \$10 million. These statistics reveal that some banks may be willing to accept lower deposit growth from their in-store branches in exchange for the overall benefits of greater outlet share.

HOW TO GET THE MOST OUT OF THE FDIC AND FEDERAL RESERVE BOARD WEB SITES

The banking industry's regulators publish many reports and studies on their web sites. Most bankers are familiar with the deposit share reports available from the FDIC, but our regulators offer far more information than simple branch level deposit totals. The FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency all publish information that can benefit your marketing, branch planning, and product management departments.

The FDIC offers access to all branch activity, including deposit information, branch listings by institution, and branch applications.

- Branch deposit reports that show number of branches, total deposits, and deposit share for any state, county, or MSA are available at www2.fdic.gov/sod. These data are as of June 30, 2003.
- For more current branch listings, please visit www2.fdic.gov/idasp. Updated weekly, these reports show complete branch lists for any bank. Although they do not show branch deposit totals, they do show the type of branch: traditional, in-store, drive-in, service facility, or other type.
- If you are monitoring competitors' activities, the FDIC also posts all branch applications under a section inviting public comments with respect to the Community Reinvestment Act. See www2.fdic.gov/cra for a list of pending applications in your market area. These reports are updated every two weeks but are not archived. The Office of the Comptroller of the Currency maintains detailed archives of its branch applications, updated weekly, at www.occ.treas.gov/weekly/weekly.htm.
- For bank level comparisons of a wide array of performance measurements, visit www2.fdic.gov/sdi. Here, the FDIC allows users to benchmark their bank's statistics against predefined or user-defined bank peer groups.

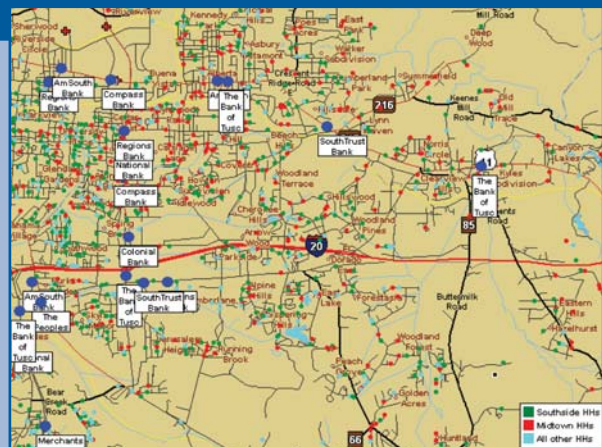
The Federal Reserve Board provides voluminous data supporting economic research on the industry from both a bank and customer perspective.

We have added a powerful new feature to *Bancography Plan*, our market analysis and branch planning software tool. *Bancography Plan* now allows you to plot the addresses of your customers on a map. You can import any geocoded file of your customers to graphically view your existing penetration of a market area. The new release allows you to show up to three customer groups, for example, households of three branches each in different colors, or consumer households in one color and business households in another color. This feature will enhance your evaluations of new branch opportunities and current branch performance.

- The Flow of Funds accounts, at www.federalreserve.gov/releases/Z1, represent the FRB's accounting of all financial assets within the United States. Divided by both sector (household, business, agricultural...) and instrument (checking, savings, mortgage, securities...), the Flow of Funds tables provide a comprehensive reconciliation of America's personal and corporate balance sheets.
- Other FRB monthly and quarterly releases are published at www.federalreserve.gov/releases/ and offer trended data on debt levels, interest rates, bank assets, real estate equity, and other statistics.
- The Survey of Consumer Finances is a triennial audit of the balance sheet, income, and demographics of American consumers. It provides vast data on the nation's wealth, with results cross tabbed by age, income percentile, and wealth percentile. The SCF provides an excellent source for examining the concentration of assets in the United States and the average product holdings of families in various demographic segments. See www.federalreserve.gov/pubs/oss/oss2/scfindex.html

The Federal Financial Institutions Examination Council (FFIEC) is a consortium of all of the primary industry regulators, including the FDIC, FRB, OCC, OTS, and NCUA. In addition to providing a common link to the aforementioned agencies' individual sites, the FFIEC contains at least one unique capability. Visit the FRB's National Information Center at www.ffiec.gov/nic to trace the history or organizational structure of any institution. This site allows you to view a 'family tree' of any bank or holding company, illustrating any institution it purchased and any antecedent institution of its acquired banks. Similarly, you can look up any acquired institution by its prior name to learn its acquirer and date of acquisition. The organizational charts show all affiliates of a bank holding company, including subsidiary brokerages, insurance agencies, and other firms.

Plot Your Customers with Bancography Plan



Bancography's Kimberly Clay is on the Advisory Board for ABA's 2004 Marketing Conference that will be held from September 12-14th in Scottsdale, Arizona at Hyatt's Gainey Ranch. Her responsibilities include planning the conference agenda, scheduling speakers, and aiding with event coordination during the conference.

Bancography will participate in the following conferences this spring:

Independent Community Bankers of America National Convention and Techworld in San Diego, California, March 14-18, 2004. Now in its 74th year, this is the largest gathering of community bankers. For more information, visit www.ibaa.org.

BAI's Smart Tactics Conferences for Profitable Retail Delivery in Las Vegas, April 26 - 28, 2004. This event is a Mini Retail Conference and will showcase practical and tactical solutions across the various delivery channels. For more information, visit www.bai.org/smarttactics.

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