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THE ART OF BANK PLANNING
bancography

Average Branch Costs Now Exceed 2M

In 2003, Bancography surveyed its clients and colleagues regarding their planned branch activity. The branching environment has continued to evolve in the three years since the initial survey, so we reprised the survey in February 2006. The survey included nearly 40 financial institutions and confirmed that the pace of branching remains strong, even as average branch costs surpass $2 million.

Our findings

How many branches will your institution open in the next year?

All but two of the responding institutions plan to open at least one branch in the next year. On average, the planned openings represent a 9% increase in the respondents' branch networks, slightly below the 11% pace reported in the 2003 survey. Several respondents expect to increase their branch networks by over 15%.

How many of the new branches will be non-traditional, i.e. in-line, in-store, drive in only… anything other than a traditional free standing branch?

Approximately one-third of the responding institutions plan to open at least one non-traditional branch, with non-traditional formats representing 14% of planned branches, the same proportion as in the initial survey. Nearly all of these branches will employ an in-line format, with in-store branches cited by only three respondents.

What is the average square footage of the planned new branches?

The average size of the planned free standing new branches will be 3,560 square feet, down significantly from the 3,900 square feet reported in 2003. One institution is planning a 10,000 square foot branch; excepting that, sizes ranged from 2,500 to 6,000 square feet, with half the responses falling between 3,000 – 4,000 square feet. Institutions in larger markets were more likely to pursue larger branch formats. The planned in-line branches averaged 2,580 square feet, and ranged from 1,500 to 3,500 square feet.

What is the average land cost of the planned traditional branches?

This question showed the greatest variance, with responses ranging from $400,000 to $2.3 million. Land costs averaged 1.1M, with the highest costs reported from the northeast United States and the lowest costs in outlying communities. Many responses from metros with over 2 million residents exceeded $1.5 million. The 2003 survey reported average land costs of just over $800,000.

What is the average construction cost (everything but land) of the planned branches?

The average cost of construction and equipment was $1.4 million for free standing branches, up significantly from the $1.1 million average reported in the previous survey. Three institutions reported costs of over $2 million, while only six respondents reported construction costs of under $1 million. Among the leased facilities, average build out costs were reported at $500,000.

On a per square foot basis, construction and equipment costs for free standing branches ranged from $250 to $530, with an average of $360. The 2003 survey found an average construction cost of $310 per square foot. For in-line branches, the average build out cost was projected at $190 per square foot.

Branch Expansion: Regional Trends

In the last issue of Bancology, we reviewed findings from the latest FDIC and NCUA deposit reports at the national level. This issue will explore some of the regional trends revealed by these statistics. New branches remain concentrated in the largest metros, with eleven markets accounting for half of the nation's net branch growth. Chicago, the third largest US metro, posted the greatest branch net branch change for the third consecutive year, increasing its base by almost 250 branches. The largest metro in the US, New York, ranked next with a net gain of 150 branches. But Dallas, despite ranking only sixth in population, ranked third in net branch growth with an increase of 120 branches.

Six other metros added at least 50 branches: Washington, Houston, Los Angeles, Tampa, Minneapolis, and Phoenix. In all twenty five metros added at least 20 branches.

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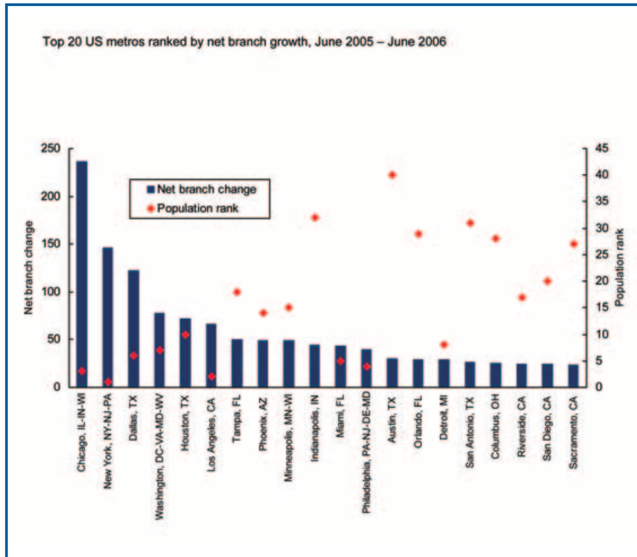
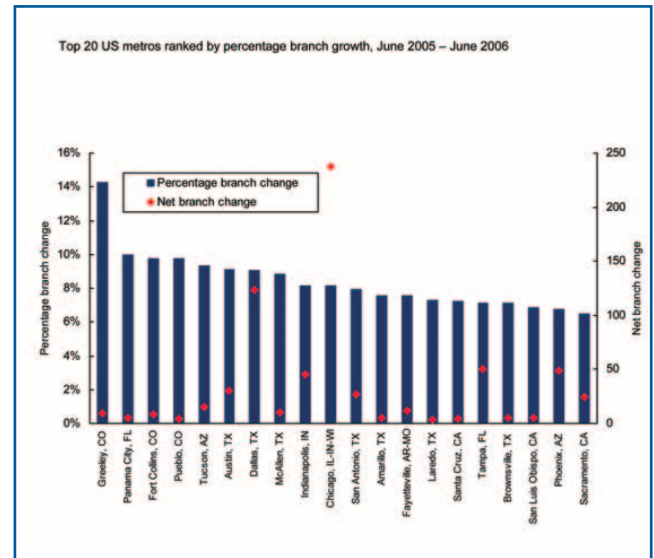
Branch Expansion: Regional Trends

Several metros showed disproportionate branch growth relative to their size: Indianapolis, Austin, Orlando, and San Antonio all rank between 30th and 40th in terms of population, but all ranked in the top 15 in terms of net branch growth.



In terms of percentage branch growth, markets in the west and southwest showed the greatest change. Note that percentage growth rankings favor smaller metros, which start with smaller branch bases, and the four highest growth markets all contain 100,000 or fewer households. Three are in Colorado: Greeley, Fort Collins, and Pueblo, with Panama City, Florida representing the other top ranking metro. In addition to the three Colorado markets, the top twenty percentage growth list includes seven Texas metros and two each in Arizona and California. Among the major metros with over 1 million residents, Dallas, Indianapolis, Chicago, San Antonio, and Tampa showed the greatest percentage change in number of branches.



Case Study: The Rural Branching Conundrum

Bancography recently completed several projects with a similar theme. In each project, a bank with historically rural or small town origins was seeking growth in nearby major markets because its home markets lacked such opportunities. The banks already owned a dominant share of their home markets, and those markets offered limited population growth.

The migration of branch capital investments from rural areas to urban areas is a natural consequence of America's continued urbanization. Since 1990, the nation's urban population has increased by nearly 20%, while the rural population increased by less than 9%. As a result, the proportion of Americans living in rural communities declined from 7.2% to 6.7%, and over 800 non-metropolitan counties lost population between 2000 and 2005. But faced with several existing branches in small markets with stable or declining population bases, one bank considered three possible strategies.

1. *Maintain the existing rural branches but with limited investment.* This plan presumes that the rural branch's current base is as large as it will ever be, and that it will slowly erode as the town's population diminishes. With a sizable deposit base, the branch would continue to throw off positive cash flow for years, but with no source of cash flow growth any expenditures would immediately dilute earnings. The primary risk of this strategy would be that withholding capital and marketing investments would leave the branch vulnerable to competitive threats and would hasten its balance erosion.
2. *Exit the rural markets.* Although urban-based banks frequently dispose of rural branches that they may obtain in an acquisition, this bank's rural branches still represented a significant proportion of its franchise, and it enjoyed leading share (or exclusivity) in most of its rural markets. The bank considered divestiture but dismissed the strategy as untenable because the most likely acquirers would have been separate independent banks in each community, yielding excessive transaction costs.
3. *Develop a delivery strategy for small market branching.* In considering options for its rural markets, the bank realized it had a particular expertise in small market banking, having operated for many years in those communities.

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How To Install A Successful Sales Training Program

Banks and credit unions of all sizes are continuing to expand their branch networks. But growing branch networks create a demand for staff, including tellers and CSRs, and some markets face a shortage of experienced financial services professionals. Yet given the increasing cost of new branches, the importance of quickly building sales at a new branch is amplified. Every financial institution, and especially fast growing ones, should operate a formal sales training program. In support of this, we offer some tips on installing and managing a sales training program.

- **Seek professional help:** Sales training is a specialized discipline requiring significant expertise. There are numerous firms specializing in sales training for financial institutions, ranging from large national firms to independent self-employed trainers. Either type can prove effective; choosing a sales training partner should depend more on compatibility with organizational culture than on absolute size of the firm. Further, when interviewing sales training firms, be sure to learn whether the training firm will deliver all the training itself, or whether it will employ a 'train the trainer approach' in which a group of bank managers are trained to deliver classes to the ultimate recipients at the branch level.

- **Focus on needs assessment and product knowledge:** There are many important general sales skills that any sales training program will address. But a sales training program should emphasize building relationships rather than just selling individual products. Attrition remains a severe problem throughout the industry, with many institutions needing to open over 10 checking accounts just to show a net increase of one account in their portfolios. The two primary causes of attrition involve poor needs assessment, in which customers are sold products incompatible with their current financial needs; and inadequate product knowledge, in which customers incur fees as a result of features that were never properly explained at the time of sale.

  Sales training programs that emphasize products the bank wants to sell for reasons of profitability may neglect customer needs, which should be the sole driver of the sales interview. Banks should seek sales training programs that teach CSRs first to discern customer needs; next to suggest the bank products most appropriate for those needs; and finally to explain the product features to the customer to confirm that they have identified the appropriate product.

- **Follow-up:** The sales process does not end when the product is sold. Routine follow-up with the customer is critical for two reasons. First, customer needs may have been incorrectly assessed, or the customer may have misunderstood certain product features, or the customer could have experienced service issues such as an incorrect initial check order. A post-sale phone call can uncover such issues and allow for quick resolution, thereby forestalling account closures. Second, even if customers leave a sales interview with the appropriate products for their current needs, customer needs change over time. A disciplined process for routine follow-up will allow the bank to respond to and fulfill changing customer needs.

- **Reinforce the training program with a sales incentive system:** Behaviors taught in sales training programs are more likely to be executed and repeated if the branch staff realizes direct benefits from performing those behaviors. A sales incentive system, or scorecard, can serve to reinforce the behaviors taught in sales training programs. A sound branch scorecard does not just reward product sales; it also includes goals for retention, cross-sell, and customer service – all indicators that the sales force are addressing customer needs rather than simply pursuing the quickest and easiest sales. By adding monetary incentives for executing the behaviors taught in sales training classes, a performance scorecard will insure that those classes translate into balance sheet growth.

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Thus, it considered leveraging those strengths to actually expand itssmall market branch network. If other institutions were shunning these markets as too small for traditional branching, could there be an opportunity with an alternate service model? The bank elected to pursue this strategy and is now developing a low cost service model for both its current rural branches and possible new branches. Rather than limiting capital investment, the strategy emphasizes training and operational investments that can ultimately reduce non-interest expense.

Although rural markets offer less growth than urban areas, many banks continue to operate profitably in such communities. But lacking the expanding suburbs that surround many metro areas, rural markets require innovative approaches in branch design, staffing, and operations. Smaller communities may not offer the instant growth potential of a developing suburban corridor, but they can still represent a profitable component of a bank's network.

Bancography contributed to the following articles:

- **"Branches keep coming, but metro not over-banked, officials say"** posted by the **Des Moines Business Record Online.**
- **" Marketing: Who Says We Need an Office on the Ground Floor"** posted by **American Banker Online.**

Kimberly Clay will present **"How to Execute and Manage a Marketing Research Program"** at the **Arkansas Bankers Association Annual Convention** May 11 - 12, 2006.

Steven Reider will teach a course in **"Delivery Channel Management"** at the American Bankers Association's **Stonier Graduate School of Banking,** June 10-17 in Washington, D.C.

Bancography will exhibit at these upcoming conferences:

- **Texas Credit Union League Annual Convention,** Galveston, April 18 - 20
- **SourceMedia Branch Banking Symposium,** Chicago, May 10 - 12
- **Financial Supermarkets In-Store Banking Conference,** Atlanta, May 16 - 18
- **Credit Union National Association (CUNA) Future Forum,** Orlando, June 11-14
- **Florida Credit Union League Convention,** Orlando, June 14-17

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bancography
2301 1st Avenue North, Suite 103
Birmingham, AL 35203
205.251.3227

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