

NEW BRANCH SURVEY FINDS COSTS APPROACHING \$2 MILLION

In April, 2003, Bancography surveyed its clients and colleagues regarding their planned branching activity. Seventeen banks responded, offering a broad sample, though one occasionally skewed by statistical outliers. Although our survey panel was not large enough for statistical significance, the survey is illustrative of broad trends in the industry. The results show banks continuing to expand their networks, even as total costs (land plus construction) approach \$2 million per branch.

Our findings:

How many new branches will you open in the next year?

- All respondents report at least one planned opening
- Average openings represent an 11% increase in network size
- Minimum network size increase 4%; maximum 25%

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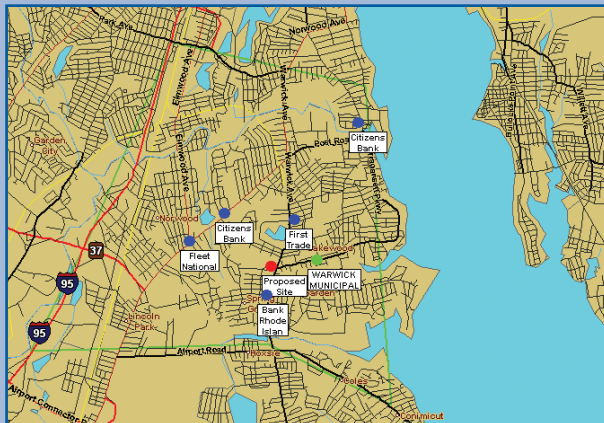
INTRODUCING BANCOGRAPHY PLAN

THE ART OF BANK PLANNING
bancography PLAN

Market Analysis and Branch Planning Software

Formerly marketed as BranchPlanner, Bancography's lead product for market evaluation and branch planning has a new name, look, and features! *Bancography Plan* still provides the fastest and most affordable software tool available for forecasting market potential, projecting branch performance, retrieving demographics, and producing presentation quality maps. But its new name reflects the addition of mapping and reporting features that give *Bancography Plan* uses well beyond its branch planning origins.

Branch planning: You can define a trade area as a polygon rather than just as a radius around a point. If your proposed site adjoins a major highway or body of water, it may draw only from one direction; this would indicate using a polygonal rather than radial trade area. *Bancography Plan* allows you to outline a specific trade area on a map, to include and exclude any areas you wish. You can then view competitive, demographic, and market potential reports for the specified area.



Nationwide competitor maps: *Bancography Plan* allows you to plot the complete network of any competitor. You can view the networks of up to four banks at once. Compare branch networks across the entire US, or zoom in to examine a target city or MSA.



Market share: With just three mouse clicks, view the five year deposit history and current deposit share for any county or MSA.

Other enhancements include a demand model for mortgages, the capability to e-mail reports, and 2003/2008 demographic data and projections. As always, we continue to offer *Bancography Plan* as a site license, so that users across multiple departments of your institution can benefit from its capabilities.

To receive a demonstration disk of *Bancography Plan*, please call 205.251.3227 or visit our website, www.bancography.com.

WHITE PAPER SERIES DELIVERY CHANNELS: THE ATM

Not long ago, retail branch banking was considered an outdated, inefficient way to interact with customers. Many executives spent significant capital and time investing in automated teller machines and other electronic banking channels as a planned alternative to the costly retail branch.

What began as the replacement for branch banking has evolved into the most popular customer service channel for conducting basic transactions, without eliminating the channel it was projected to displace. The ATM was intended to shift the burden of time consuming transactions out of the branch's lobby, allowing line staff to cross-sell. Although some branch traffic has been mitigated, the ATM has emerged as an additional, costly, service vehicle that customers have grown to depend upon.

While the cost of the basic cash dispenser has fallen, average ATM use has declined as well due to the increasing utilization of the debit card at POS terminals and a sharp increase in the supply of ATMs. Still, institutions are investing significantly in their ATM networks not only to increase ATM traffic, but also for myriad other reasons.

- Meet their own customers' demand for more fee-free ATMs
- Generate more fee income from non-customers
- Meet current and future government regulation demanding ATM enhancements
- In an attempt to reduce branch traffic, add functionality such as check cashing and image receipts

- Create new revenue streams from disbursement of non-cash items such as statements, postage stamps, and movie tickets
- Provide an advertising billboard for the bank

The challenge for financial institutions is to offset this investment through creative marketing and ATM network optimization that facilitates quick adaptation of new functions. All of the ATM's current challenges, and strategies to increase use and profitability, are examined in depth in *Delivery Channels: The ATM*.

Bancography's Marketing Research Division is pleased to announce the release of its white paper on the ATM as a delivery channel. This paper traverses every detail from the first cash dispenser installed in 1967 in London to new, innovative concepts that increase use and profitability. This white paper also studies technology, government regulation, and the ATM's greatest rival, the debit card. The white paper provides benchmark statistics and examines strategies to increase the machines' use and profitability through technology, marketing, and network optimization.

The complete 20 page document can be purchased for \$135. To order this study or to learn about other white papers, please call 205.251.3227 or visit www.bancography.com.

QUICK FACTS: THE DEMAND FOR MORTGAGE LOANS

Low interest rates have fueled a surge of homebuilding and mortgage refinancing in the past two years, leading many banks to bolster their mortgage lending departments. Recently released data from the Federal Reserve Board and the Census Bureau reveal interesting facts about the demand for mortgages in the United States.

- Approximately two-thirds of US households are homeowners. (US Census Bureau)
- Of those households that own their primary residence, about 62% carry a mortgage; thus, 42% of all American households carry a mortgage. (US Census Bureau)
- On average, consumers live 8 miles from the institution at which they obtained their primary mortgage. (FRB, Survey of Consumer Finances)
- Just over half of all mortgage holders obtained their primary mortgage at banks, thrifts, or credit unions. About 40% used dedicated mortgage companies; the remainder obtained their loans from finance companies, brokerages, or other firms. (FRB, Survey of Consumer Finances)
- Current mortgage balances represent 45% of the total value of US residential real estate, leaving homeowners with 55% in equity. This ratio has remained relatively stable over the past five years. (FRB, Flow of Funds Accounts)
- Total mortgage debt has grown at nearly a 10% annual pace over the past five years, and now exceeds five trillion dollars. (FRB, Flow of Funds Accounts)

GETTING STARTED IN MARKETING RESEARCH: MEASURING SATISFACTION, SERVICE QUALITY, AND AWARENESS

Financial institutions are quickly realizing the necessity of building an aggressive sales organization in order to compete in our increasingly fragmented industry. But emphasizing sales may negatively affect customer service. Too often, personnel neglect fundamental service tasks in pursuit of incentive rewards from sales management systems. Primary market research can help a bank ensure that even as its sales emphasis grows, it maintains high customer service, satisfaction, and loyalty.

Management philosophies regarding how to measure customer service and loyalty and how to act upon results vary as widely as the budgets and staff dedicated to such endeavors. Management must ask:

- What do we want to measure?
- How often do we want to track these measurements?
- What level do the results need to be significant or actionable?
- How will we use these results?
- How much staff can we devote to this research?

Some institutions impound service quality in their incentive systems to create a culture that rewards sales but still ensures that its customers receive fast, accurate, professional service. These institutions regularly measure retail and/or business banking service levels to identify and remedy situations that would leave them vulnerable to

customer attrition. Such programs are quantitative and retrieve results at the transaction level. Data can be collected through telephone or mail surveys. Transaction level programs can grow complex and expensive, but the information garnered is statistically significant at the branch level, thus actionable for most every use. These programs are extremely effective in monitoring and changing behavior. Management must remember though that only the survey attributes that are in the bankers' direct control should be tied to the incentive system.

Other institutions chose not to drill down to the smallest level of responsibility but focus instead on the service quality of their network overall and relative to their competition. The objective is to understand strengths, weaknesses, opportunities, and threats relative to their competitors in their retail and commercial markets. These market awareness studies measure primary household or account share, brand awareness, customer loyalty, perceived service quality, and product value. Results gathered are at the metro area or bankwide level and help determine the institution's direction and strategy. Market awareness studies are costly but carry a shelf life of about two years, giving the studies long term value to the organization.

If you would like to learn more about marketing research programs, please call 205.251.6227.

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

- Six of 17 respondents will open at least one non-traditional branch
- Non-traditional branches represent 15% of total planned new branches

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

- Average new branch will be 3,900 square feet
- Minimum 2,500 square feet; maximum 5,500 square feet
- 70% of respondents plan branches between 3,000 and 4,000 square feet

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

- Average land cost will be \$820,000
- This question showed the broadest variance, ranging from \$450,000 to nearly \$1.5 million
- Most banks operating in major metros (population greater than 1 million) report land costs of over \$1 million

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

- Average branch will cost \$1.2 million, or \$1 million after dropping outliers
- Two banks report costs of over \$2 million; 7 report costs under \$1 million
- Construction costs average \$310 per square foot, but range from under \$200 to over \$600 per square foot

For more information about the survey,
please call 205.251.2262.

Bancography will exhibit at three conferences this fall. Please visit us!

American Bankers Association's Marketing Conference, Chicago, September 14th - 16th. This is Bancography's third consecutive year to participate in this conference and we strongly encourage all marketers to attend this informative, educational event! Stop by Booth #323 and enter to win a free one-year license to Bancography Plan. Visit www.aba.com for more information.

Thomson's Financial Services Marketing Conference, Chicago, October 15th - 17th. This is the first year for this conference and it should be a great one. Visit www.tfconferences.com for details.

Bank Administration Institute's Retail Delivery Systems Conference in New Orleans, November 18th - 20th. Always

one of the largest shows in the industry, RDS will once again showcase a wide array of new technology. Visit us at Booth #1343 and enter to win a free one-year license to Bancography Plan. See www.bai.org for more information.

Bancography has appeared in several publications and journals recently. Bancography's white paper, "Attrition, Causes and Solutions", was cited by the Council on Financial Competition in its briefing "The Service Experience Conundrum". You can download the white paper at our website, www.bancography.com. Also, Bancography appears in the cover story, "Branch Mania" of the August issue of *ABA Banking Journal*. Finally, look for our article on "GIS Mapping and Branch Banking" in the September issue of *Bank Marketing* magazine. Contact us for copies of any of these articles.

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