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THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Bancography Launches New Mainstreet Credit Union Brand

Bancography recently assisted the former Credit Union of Johnson County (Kansas City) with the debut of a new name, logo and ad campaign in a strategically timed premiere during the 2010 Super Bowl coverage. The new brand, *Mainstreet Credit Union,* taps into the current public backlash against Wall Street, reaping the benefit of the local and national media's glorification of all things "Main Street."

Credit Union of Johnson County (CUJC) sought a new name and brand primarily due to its expansion strategy. Recent acquisitions outside of Johnson County, Kansas into surrounding counties in both Kansas and Missouri rendered the current name problematic. Plus, although the credit union received a community charter long ago, there remained confusion based on the name and origin of the original sponsor. Originally known as the Northeast Johnson County Teachers' Credit Union, CUJC was chartered in 1953 by a small group of teachers.

Bancography's first step was to deploy our Brand Evaluator to gauge brand strength and penetration in the credit union's trade areas. The Brand Evaluator measures top-of-mind awareness, market share, competitive differentiation, loyalty and brand positioning. The findings establish benchmarks prior to the engagement of our next step, the Bancography Brand Map.

The Brand Map process defines the brand and enables a plan of action toward differentiating the credit union in the marketplace. *(continued on page two)*

The network effect is the phenomenon that allows large branch networks to capture a disproportionate share of banking deposits as consumers reward institutions with broad, convenient branch networks.

Network Effect Remains Strong as Ever: Implications for Branching Strategy

Regular readers of Bancology will recall that the network effect is one of Bancography's favorite concepts in banking. The network effect is the phenomenon that allows large branch networks to capture a disproportionate share of banking deposits as consumers reward institutions with broad, convenient branch networks. The network effect can be stated in two ways:

1) As an institution's outlet share (i.e. the proportion of total branches in a given market that it owns) increases, its market share increases by a greater proportion. So an institution that owns 15% of the branches in a market may capture 20% of its deposits; while an institution with only 5% of the branches might capture only 3% of the market's deposits.

2) Or, alternately stated, an institution's deposits per branch increase as a function of its number of branches; for example, an eight branch network will gain more than twice as much in deposits as a four branch network.

In a 2004 study, Bancography used empirical data from the 50 largest U.S. metros to prove the network effect's existence. In 49 of the 50 MSAs studied, there was a positive correlation between average branch size and number of branches. In other words, even on a per-branch basis, deposits increased as institutions added branches, with each successive branch providing a lift to the other branches in the network. The study controlled for main offices, new branches and other potentially distorting factors.

The five years since 2004 brought varied economic conditions: a period of rampant branch expansion followed by a large drop in de novo branching, sharp declines in branch transaction volumes as electronic channels evolved and consumer preferences changed, and significant industry consolidation. This provoked us to consider whether the network effect has persisted through all these changes and, if so, whether it has increased or decreased in strength. *(continued on page three)*

Bancography Launches New Mainstreet Credit Union Brand (continued from page one)

The Brand Map defines the positioning, personality and tonality for the institution, and becomes the guide for executing the brand message consistently across all internal and external contact points. Further, it suggests imagery, verbiage and messages that impound the heritage of the established brand while presenting the prime attributes of the new brand. The positioning statement Bancography developed for the new yet-to-be-named entity follows:

There's a place with the financial resources and information you're looking for. A hometown place where you feel welcome and you're treated like a neighbor, not a number. Where the tools and services are up to the minute, yet grounded in basic American concepts like trust, honesty, respect and plain talk. A part of the heartland, where values come from main street, not Wall Street. A place that's been a trusted part of the community for more than 50 years. Where you can learn about your financial options and feel comfortable asking questions, knowing you'll receive clear, knowledgeable, straightforward answers. A strong financial friend you can depend on to be there for your family, year after year.

We summarized this paragraph to craft a brand positioning statement: ***we live where you live.***

Once Bancography and the client concurred on the tenets of the new brand, we moved to Name Development. Using a mix of qualitative and quantitative analysis, we crafted names that fit the brand positioning, achieved separation from competitors and created positive and lasting impressions. We presented the final name candidates to members, non-members and associates in both focus group settings and telephone interviews. The results yielded a clear preference for *Mainstreet Credit Union.*

After establishing a new name for the credit union, Bancography then began the brand identity phase. Bancography submitted more than 30 potential brand marks (logos) to the institution's management and board of directors. Ultimately the credit union selected the following design shown to the left.

MAINSTREET
CREDIT UNION

Next, Bancography partnered with our colleagues at the advertising agency AMP (www.theampgroup.com) to create the launch materials for the new brand. Elements included television and radio spots, outdoor billboards, bus wraps and newspaper ads. The client handled website design, internal communication and point-of-sale. Connecting all of the media vehicles was a common launch theme: *You're not Wall Street. Neither are we.*

The campaign kicked off with a television commercial in the pre-Super Bowl program, which can be seen here: *www.youtube.com/watch?v=myP7sSg_PMs.*

The launch flight ran for six weeks and included "Premiere" events at all major branches supported by radio remotes, prize giveaways and other celebratory activities.

Both members and non-members told Bancography that Mainstreet was a name that reflected their values and ideas. They felt it represented a place where they would like to bank. An added bonus has been the ability to piggyback onto the grass roots anti-Wall Street fever prevalent in many communities. The name Mainstreet was ultimately chosen for its enduring value; but its particular relevance in the current economic-cultural landscape will help facilitate a successful initial transition for the credit union.

For more information about Bancography's Mainstreet Credit Union campaign or the Bancography Brand Map, contact John Mathes at (770) 360-5710 or *john@bancography.com.*

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Mainstreet Credit Union's new outdoor billboard

How To Approach the Business Banking Market

The economic downturn and the corresponding decline in credit quality has forced many large banks to reduce their lending to small businesses, creating an opportunity for community banks and credit unions – many of which are just beginning to address this segment – to capture new relationships. But the business banking market is not a single, uniform group; rather, there are distinct segments within the market, and these segments can provide a helpful framework for approaching business banking sales.

There are 77 two-digit SIC codes, each denoting a separate industry such as railroads, oil and gas or legal services (seven of the codes refer to specific governmental sectors, and one refers to the non-profit sector). The private sector codes are aligned into nine broader industry sectors that can serve as the basis for a segmentation scheme. Each of the industry groups shows different product needs, and banks should align product lines and relationship managers accordingly.

For example, manufacturing firms are the most credit dependent segment, while business services firms carry much higher deposit balances. Sales approaches to these firms should therefore be aligned differently. Agricultural sector firms show a similar loan-to-deposit ratio as manufacturing firms, but require a specialized form of lending and should thus be treated as a distinct segment. The retail and service sectors have the highest cash handling requirements and lower deposit balances, which causes some institutions to shun these firms. However, an appropriate fee structure and a rigid avoidance of fee waivers can turn this segment profitable, too.

If industry sector forms one dimension of a business market segmentation scheme, sales volume should represent another dimension. The sales and product proposition that meet the needs of a firm with $500,000 in annual sales differs (continued on page four)

Network Effect Remains Strong as Ever: Implications for Branching Strategy (continued from page one)

Findings

Using the 2009 FDIC branch deposit statistics, Bancography again examined the relationship between average branch size and number of branches across the 50 largest U.S. metros. The study measured the correlation between the two variables using Spearman's rank correlation coefficient. This statistic measures the degree to which the rankings of each variable (as opposed to the values) align; this helps minimize the effect of outliers. If the network effect holds, we would expect a high correlation. So, the institution with the greatest number of branches in a market should show the highest average deposits per branch; the owner of the next largest branch network should show the second highest deposits per branch, and so on.

Each of the top 50 metros showed a positive relationship between network size and average branch size in 2009, even after controlling for main offices and other outlier effects. The correlation proved statistically significant at the .05 level in 44 of the 50 metros, and at the .01 level in 25 of the metros (lower significance levels equal stronger correlations). These outcomes confirm a very strong relationship between the variables: that there is extremely strong statistical evidence confirming that the larger networks prove more successful even on a per-branch basis.

The network effect is more pronounced in the largest markets. Eight of the 10 strongest correlations are in metros with more than 1.5 million households, a cutoff that impounds the 12 largest U.S. markets. The MSAs where the network effect is strongest are New York, Los Angeles, Chicago, Miami, Washington, Boston and San Francisco. Among smaller markets, only Raleigh and Buffalo rank in the top 10 in terms of strength of the effect. Among large markets, the least significant correlations are in Dallas and Philadelphia; across all of the top 50 metros, Memphis, Indianapolis, Virginia Beach, Denver, Jacksonville, and Milwaukee show the weakest network effects.

The network effect remains as strong as ever. In 23 of the top 50 metros, the significance of the correlation increased since the 2004 study while in 21 metros the correlation decreased. Six markets remained unchanged, all of which were significant at the <.0001 level in both the 2004 and 2009 studies; while one market, Raleigh, joined the top 50 in 2009, replacing Tucson.

Implications

The strength of the network effect, especially in the larger markets, carries marked implications for branching strategy. Institutions seeking to enter or expand in top 10 markets must commit to marketwide buildouts and top-tier outlet levels if they aspire to capture significant market share. Further, the data offer persuasive evidence that it is more beneficial to pursue one market aggressively than two markets with modest investment. For example, a bank in the Midwest would be better served deploying 10 branches in either St. Louis or Kansas City rather than opening five branches in each market.

Smaller institutions that lack the capital base and non-interest expense tolerance to undertake marketwide buildouts should instead emphasize specific corridors within target metros. Though this study examined the network effect at the metro level, the phenomenon is also demonstrable at the county level and even within specific corridors in a metro. Thus, it is preferable to own five branches concentrated on the north side of the metro rather than five branches scattered across that same market. In the former situation, the branches provide the same perceived convenience and reinforcement of one another at the corridor level that a broader deployment provides at a metro level.

Alternately, institutions can succeed in smaller markets by emphasizing a less branch-dependent line of business. Traditional mass market retail banking shows the greatest impact of the network effect, indicating that smaller institutions operating in larger markets should consider networks focused on private banking, mortgage, middle market business banking, or some other less branch-dependent business line.

Finally, it is imperative that institutions understand that if the network effect dictates broad branch expansion as essential for success, then such expansion must include a rigorous focus on non-interest expense. This argues for smaller branch models that can operate profitably at lower balance levels, thus allowing banks to add enough branches to realize the benefits of the network effect. As banks understand that the network effect is persistent and near omnipresent, we anticipate that future networks will include broad branch deployments, but of smaller branch formats.

How To Approach the Business Banking Market (continued from page three)

from that which would serve a firm with $5 million in annual sales. Most institutions segment businesses into three or four sales volume tiers. The smallest segment, with sales up to $1 million, is typically branch dependent and can be served by branch-based retail personnel. A middle tier starts at the $1 or $2 million sales level and generally ranges to $10 or $20 million, depending on the institution; with middle market and corporate banking tiers impounding larger firms.

Once an institution specifies the groupings of industries and sales tiers that define its business banking segments, it can then identify which segments offer the greatest opportunity. Contact a business list vendor such as InfoUSA or Dun and Bradstreet to obtain counts of businesses in each sales-by-industry segment for each market area. This can then help size which segments offer the greatest opportunity in each market. Then, once the largest opportunities are identified, the institution can define specific product and service offerings to appeal to the needs of each target segment. Finally, as new relationships are added, be sure to collect the industry code and sales level during the account opening process. This will allow measurement of penetration rates in each segment, so that the institution can track and compare performance across market segments and revise its offerings as needed.

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