

**BANCOLOGY**  
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THE ART OF BANK PLANNING  
**bancography**

**CASE STUDY: THE CAUSES OF ATTRITION**

The senior management team at a commercial bank desired to explore the reasons behind losing core checking relationships from its Retail Banking and Small Business Banking clients. The focus of this study was to learn the controllable reasons (unlike relocation, bankruptcy, death, etc.) behind attrition. In order to meet this objective, one-on-one bank-sponsored telephone interviews were conducted

with recently lapsed customers from each group. For one-on-one research, Bancography recommends 75 completed interviews for each group. The interviews were conducted in dialogue format, which yielded richer information than data collected from a purely quantitative survey. Although the interviews were lengthy and robust in findings, a few highlights follow.

*Case Study continued on pages 2 & 3*

**NEW RELEASE: BRANCHPLANNER SOFTWARE, 2003 EDITION**

Bancography is pleased to announce the release of the 2003 edition of BranchPlanner. BranchPlanner is an innovative product that offers a quick, intuitive means of estimating market potential for any branch location in the United States. In three steps, BranchPlanner collects information about the branch address, projected market penetration, and rates and costs, and then produces reports that help you estimate the potential for any branch location.

BranchPlanner yields everything necessary to evaluate a proposed branch location or to compare the performance of an existing branch against market potential: a balance sheet and income statement for the proposed location, competitive profile, demographic profile, and competitor maps. This unique tool combines disparate data sources and Bancography's proprietary demand projection model to provide a consistent method for comparing branch opportunities.

Notable features of BranchPlanner include:

- Complete demographics, including population estimates, five-year growth projections, age, income, home value, and business and employment counts by SIC code.
- Presentation-quality maps showing all competing banks, thrifts, and credit unions.
- Five-year deposit history for all competing institutions, including June 2002 deposit data.
- Complete financial projections including balances for checking, savings, money market, CD's, installment loans, equity lines, business deposits, and loans.
- User-specified assumptions about rates and spreads, land and construction costs, and operating expenses that yield a complete income statement, including efficiency ratio, (net-present) value, return on assets, and years to breakeven.

Demographic, competitive, balance demand, and mapping data are updated periodically throughout the year.

We offer demonstration disks that include a fully functional version of BranchPlanner for true hands-on testing. Call us at 205.251.3227 or visit [www.bancography.com](http://www.bancography.com) to request a demo disk.

<b>Metro Bank &amp; Trust</b>	1.5 mile radius around				
Davis Highway Branch	8503 North Davis Highway, Pensacola, FL				
2,800 sq ft, free-standing	Latitude 30.517344 Longitude -87.215328				
<b>Income statement (pre tax) at 15% market penetration</b>					
	Year 1	Year 2	Year 3	Year 4	Year 5
Loan spread	27,834	97,418	194,836	320,088	473,174
Deposit spread	41,151	144,028	288,057	473,236	699,567
Non-interest revenue	27,821	97,372	194,744	319,936	472,949
Total revenue	96,805	338,818	677,637	1,113,261	1,645,690
Occupancy	24,000	25,200	26,400	27,783	29,172
Depreciation	52,571	52,571	52,571	52,571	52,571
Personnel	200,000	210,000	220,000	260,000	280,000
Other	18,000	18,900	19,845	20,837	21,879
Total expenses	294,571	306,671	318,876	361,192	383,623
<b>Net income</b>	<b>-197,766</b>	<b>32,147</b>	<b>358,760</b>	<b>752,069</b>	<b>1,262,067</b>
<b>Key statistics</b>					
Efficiency ratio	304%	91%	47%	32%	23%
Return on assets	-25.10%	1.17%	6.51%	8.30%	9.42%
Return on liabilities	-9.60%	0.45%	2.49%	3.17%	3.60%
Years to breakeven	1.9				
Five year NPV	171,924				
Five year IRR	18.63%				



## SMALL BUSINESS: NEEDS VERSUS REALITY

The following is an excerpt from Bancography's white paper, "Small Business: Needs versus Reality." The full 16 page document can be purchased for \$135 from [www.bancography.com](http://www.bancography.com) or by calling 205.251.3227. Sources for this excerpt can be obtained from Bancography.

There are an estimated 25 million small businesses in the United States, and this number is increasing by 14% per year. Not only does the small business market constitute the world's third largest economy, it is also one of the banking industry's most profitable segments, delivering approximately \$50 billion in annual revenues and an estimated market of services of \$120 to \$138 billion. Small businesses tend to be two to three times more profitable than the average retail customer, according to the Bank Administration Institute.

Among small business banking customers, fewer than 10% contribute 90% of the profits. In addition to being the largest market segment in the United States, small businesses are attractive to financial institutions for a number of reasons:

- They use a variety of cash management services that generate daily fee income.
- Their high transaction volumes increase profit opportunities through increased per item charges.
- They often use profitable electronic delivery products and services.
- They are likely to require products and services that reduce exposure to fraud.

- Regarding wealth management and private banking opportunities, Merrill Lynch reports that nearly 70% of the high-wealth segment, defined as those with more than \$5 million in assets, are business owners.

In order for financial institutions to capture and benefit from these prosperous small businesses, they first must understand their composition and their needs. A few findings from the white paper follow:

- Half of small business owners prefer to use the same service providers that they use for their personal needs.
- Thirty-two percent of these businesses are women-owned and 9% are minority-owned.
- Nearly 90% of small businesses use commercial banks as their primary financial provider.
- Small business owners are in serious need of financial planning and private banking due to their lack of diversification. Almost half of their personal wealth is invested in their business, and their other holdings are often invested in the same industry.
- Business owners typically do not seek individual products and services; rather, they prefer bundled packages that address multiple business and personal financial needs.

Small business owners can be a profitable and loyal segment for any institution. To learn more about this study or to purchase the white paper, please visit our "Syndicated Research" page at [www.bancography.com](http://www.bancography.com) or call 205.251.6227.

*Continued from page 1*

**Retail Attrition** In evaluating the information gathered from lapsed retail checking customers, almost all responses could be classified into four broad categories. About half changed banks for an account or service that our client bank offered; however, the customer was in a different, inappropriate account type and unaware of the desired offering at his own bank. Alarming, almost all of these customers visited the branch to close their account, where someone missed an easy opportunity to salvage a relationship. Although many were asked why they were closing their accounts and how the bank could retain them, respondents conveyed that they did not feel that the banker was persistent or truly cared.

Fees of varying amounts and types (e.g. traveler checks, dormant accounts) represent a second reason for closure. In most cases, respondents just finally became irritated enough to close the account. But in others, specific "hidden fees" prompted the customers to move their business.

Bank policies and procedures comprised the third category. Customers did not understand the bank's cutoff, check hold, or deposit posting policies, which resulted in bounced checks. Many of these customers lacked overdraft protection and did not know that it was available.

The final major reason for account closure was a bad loan experience. This is the quickest way to permanently alienate a customer. Customers were either denied, endured poor communication from the officer, or suffered through an unacceptably lengthy approval process.

In summary, most closures are not the overt fault of the institution. But, if the customer perceives it as such, then the fault still lies with the institution for not better explaining account features, fees, policies, procedures or just showing empathy. What amplifies this scenario for any bank is that unlike two decades ago when a disgruntled consumer would tell ten others of their perceived negative experience, the communication age has at least doubled this statistic. Customers only know what their salesperson tells

C A S E S T U D Y

## HOW TO DESIGN EFFECTIVE MANAGEMENT REPORTS

Each quarter in Bancology, this space features a ‘how to’, typically dedicated to a quantitative calculation or technical task. However, presentation of data can prove as important as the data itself. Results and projections are often thrown upon the page with little consideration of how the unfamiliar reader will interpret them. Yet your management’s interpretation of the data you supply may determine whether they approve a new branch, endorse your next direct mail campaign, or allow you to promote a struggling product. Below are several tips for the essential but often overlooked task of effectively conveying your findings.

**Use a blank row to separate totals from the body of the report.** Managers are interested in regional totals, not branch level details. Emphasize this row by surrounding it with white space and consider placing the total row above the detail rows.

**Avoid color for widely read reports.** Despite the proliferation of low-cost color printers, color copiers remain scarce. Notable reports may be copied and distributed throughout the bank, and highlighted red or blue cells will look no different from black; yellows will become unreadable. In graphs, use grayscale to distinguish between data series.

**Use consistent, legible fonts.** Just because Arial is the default font in most software is no reason to use it

exclusively. But, avoid using multiple fonts and point sizes and use bold and italics sparingly, only to distinguish the most important elements on the report.

**Always provide a point of comparison.** For sales reports, show the current quarter’s sales, the prior quarter, and the same quarter from last year; and show account openings on a per-branch basis to adjust for opens and closes since the prior period. For direct mail reports, compare results to a control group. For new branches, compare projections to actual performance of recently opened branches.

**Be careful when presenting annualized statistics.** Banks often manage to annual measures such as earnings per share or net asset growth, so it can prove useful to show product volumes or campaign results on an annualized basis. Rolling 12-month data are preferable, especially early in the year. Multiplying January’s loan production by 12 is unlikely to accurately predict the full year’s sales.

**Keep graphs simple and clean.** In a bar chart, don’t label each bar – the Y-axis labels convey the same information. If you’re graphing only one series, omit the legend – the title is sufficient. And, never use 3-D bar charts: 3-D bars clutter the page, convey no additional information over traditional bars, and violate the fundamental tenet of graphing that the area within each bar shows a proportionate representation of its data value.

## THE CAUSES OF ATTRITION

them when they purchase a product or service. Education of these customers about fees, policies, and procedures during the sales process would have forestalled more than half of the closures, or at least mitigated the customers’ animosity.

### Small Business Attrition

Customer service was the primary motive behind half of the business account closures and the secondary reason for

most others. Lapsed customers cited inadequate communication, empathy, and explanations. Ex-customers also noted staff courtesy and knowledge as drivers of poor service.

Beyond customer service issues, the remaining attrition causes are scattered and random. Some businesses left for accounts that the bank actually offers; others left over displeasure with fees, and some moved their accounts to banks that could accommodate their technological needs.

A bad experience with the loan process also caused lost business accounts. Although loan denial drives some attrition for businesses, this issue is not as acute as with retail customers; however, not communicating to businesses about the status of their loan application jeopardizes their relationships.

Small business demands are more complex, eliminating much latitude in service or problem resolution from their bank. Many comments conveyed feelings of the bank not caring or wanting their business once they got it. Some customers felt misled by the bank regarding policies on a newly opened account. Banks must strive to clearly explain terms and policies during account opening and follow up diligently to ensure that newly opened accounts meet customers’ expectations.

If you have any questions or would like details about this study, please call 205.251.6227.

Bancography will be exhibiting and leading a workshop at ABA's Financial Services Customer Conference in Dallas on May 7 – 9. The workshop is titled "Retention Analysis: Quantitative Examinations and Qualitative Survey Design". Please register for this great conference at [www.aba.com](http://www.aba.com) and meet us in Dallas!

Bancography will be exhibiting at Financial Supermarkets, Inc.'s 17th Annual Conference, May 21 – 23, in Atlanta. If your bank operates in-store branches or is considering in-store branches for the first time, you won't want to miss this informative, idea-filled conference. Contact FSI at (800) 992-4978 for more information about an event dedicated to the in-store delivery channel.

Due to overwhelming requests, you can now download back issues of Bancology on our website at [www.bancography.com](http://www.bancography.com). If you or someone else at your institution would like to receive Bancology, please register at our website or e-mail us at [info@bancography.com](mailto:info@bancography.com).

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