A Quarterly Journal

BANCOLOGY

MARCH 2009 VOLUME 30

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Can inline branches grow at a rate close enough to traditional branches so that, given their lower operating costs, they can offer comparable financial returns?

Low Cost Branch Formats: The Inline Alternative

The cost of freestanding branches has zoomed past $2 million dollars in recent years, while quality sites have become harder to find. As a result, we have heard increased debate about the viability of inline branches (i.e. branches in strip shopping centers) as an alternative to traditional freestanding construction. While most bankers acknowledge that inline sites face a disadvantage in terms of visibility, no one could quantify that disadvantage. This raises the question of whether the deposit gap between inline and traditional branches is so large that it negates the cost savings of the inline operating model. Or can inline branches grow at a rate close enough to traditional branches so that, given their lower operating costs, they can offer comparable financial returns?

In early 2009, Bancography conducted a survey to quantify the magnitude of the deposit gap between inline and traditional branches. The survey examined the performance of more than 100 inline branches across 25 states, and compared the inline branch's deposit growth to the growth of surrounding traditional branches. The study confirmed a gap between inline and traditional branch performance but found the gap to be moderate in magnitude.

The inline branches in the survey did not represent a random sample, in that they were not distributed geographically or by asset size in proportion to the nation's branches overall. To overcome this, the inline branches were compared only to traditional branches in the same submarket. To minimize the impact of outliers, the study eliminated main offices and branches open less than four years.

Deposit base comparisons

The inline sample had ***median deposits*** of $31M, or 72% of the $43M median of the corresponding traditional branches. The inline branches displayed lower variance in their deposit levels, indicating that exceptional performance is much less likely from inlines. The top quartile break for the traditional sample fell at $72M (i.e. 25% of branches exceeded $72M in deposits), $48M for the inline sample. Surprisingly, there was no statistically significant difference in the deposit base of the inline branches with and without drive-ins.

Deposit growth comparisons

We next investigated the difference in recent branch ***deposit growth***, to reduce any bias from historically large but stagnant deposit bases. *(continued on page three)*

Economic Crisis Affects Service Quality

Bancography conducts approximately 6,000 interviews monthly that primarily measure service quality, attrition, onboarding and market or brand awareness. Variation in respondent perception and expectation across the industry changed at a snail's pace, until now. The current financial calamity has wreaked havoc on research, beginning in the third quarter of last year.

> The percentage of customers who experienced a problem or error by the institution has not varied, but the description of the issue has. The percentage of complaints relating to ***rates and loan approval*** has skyrocketed, replacing minor issues such as ***illegible statements***.

> Institutions receiving TARP infusions are experiencing increased attrition. Media attention is fueling this exodus, due to customers' fear that the institution will fail. This phenomenon is affecting larger institutions the most.

> Community banks and credit unions not receiving negative media coverage are benefiting from the larger-institution attrition with a dramatic increase in new accounts. Onboarding research identified that the reason customers chose the new institution was their need for a smaller and financially stable institution. Some customers have shared that they were simply dispersing their investments amongst multiple institutions for FDIC coverage. Institutions participating in the Certificate of Deposit Account Registry Service (CDARS) program have greatly benefited.

Brand Bytes

A little bit of Home Depot in my life

A little bit of Toyota by my side

A little bit of Starbucks is all I need

A little bit of Comcast is what I see

A little bit of Oakley in the sun

A little bit of Sealy all night long

A little bit of Wells Fargo here I am

A little bit of brand makes me your man

As financial services marketers, we have to be cognizant of competing for our customers' limited attention. No longer do they set aside specific time for watching television, reading a newspaper or magazine, or even surfing the internet.

With apologies to Lou Bega, my *Brandbytes No.5* won't exactly set the music industry on fire with its latest cover, but I think the idea of "a little bit" sets the stage for a timely discussion of what's hot in the marketing world today – what I'm dubbing ***brand byte*** communication.

CNN Headline News started it back in 1982. The internet propelled it. And Facebook has humanized it. We live in a world of sound bites (bytes if you prefer, as I do) where we get a little bit of everything and not a lot of anything.

As consumers, we're on marketing overload. Thousands of messages a day compete for our attention as we navigate life, and we can't begin to absorb them all.

As financial services marketers, we have to be cognizant of competing for our customers' limited attention. No longer do they set aside specific time for watching television, reading a newspaper or magazine, or even surfing the internet. The advent of Tivo-like DVR technology has allowed a concept referred to as ***time-shifting*** — watching television (and zipping through commercials) when convenient.

Time spent with all traditional advertising vehicles, a common media measurement, is tanking. Even time spent on specific websites is down due to the prolific run-up in choices, portals and social networks. In fact, Web 2.0, the trend toward real-time interactivity and collaboration via the internet, has led to a social phenomenon now known as ***ambient awareness***, the omnipresent knowledge of up-to-the minute status. Clive Thompson, in a *New York Times* article in September, wrote extensively about how status updates, which are the bedrock of Facebook, LinkedIn, Twitter, et al, are reducing our conversations (and attention) to snippets or, as I like to call them, bytes. Twitter is training its user base to communicate in 140 characters or less every time they have something to say. People must love the idea, as Twitter was the fastest growing social network in 2008, up a whopping 664% year-over-year growth.

If you've mastered the art of texting, or if you have teenagers, you know very well how much is communicated in just a few short characters and abbreviations. Sentences are so passé.

A quick byte is all consumers have time for. And frankly, it's all they want because there's no time for anything else. They get it. The challenge for financial-services marketers is to communicate to consumers succinctly and relevantly. Serve it up in easy-to-digest bytes. Just be sure to offer many serving stations. Let's look at some.

Most creative types will tell you that outdoor (billboard advertising) is the hardest to develop and write. That's because to be effective and readable, the message needs to be five to six words or less. That can be a difficult byte to write. Point-of-sale, merchandising and digital signage all have the same brevity objectives. Internet marketing thrives on bytes (all types). Promotional freebies have little room for anything but a byte. Consumers rarely read past a headline in a newspaper or magazine ad. I guess CNN had it right starting in 1982 . . . just the headlines. Television is selling more and more ten-second units, and there's even a movement by a few renegade advertisers championing a cause to carve up both television and radio advertising segments into a second or two. Wow, try to communicate something meaningful in a couple of seconds. That's daunting.

What makes a good ***brand byte***? It starts with your brand positioning. If you don't have one articulated, collaborate with a brand positioning firm that can help you map it out. If the resulting brand position is truly differentiating, then you are well on your way to a great byte. If the positioning speaks to your heritage and existing brand equity, then you are about to hit a home run. Make it clever, succinct, relevant and mix in a double entendre and you're golden. Oh, and keep it five words or less. Preferably three or less. Ok, two words.

(continued on page four)

How to Protect Customer Relationships During the Economic Crisis: Communications Strategy

With the banking industry facing well-publicized troubles, consumers are growing concerned about the safety of their balances and the future of their institutions. As a result, many are considering changing providers. There are several steps that can allay those concerns:

- **Have a talking points sheet.** It is critical to distribute consistent, accurate information to customers. Prepare a talking points sheet for every customer service representative (CSR). Include questions and answers in plain, understandable language that address the institution's safety, capital position, exposure and other industry-wide issues.
- **Know the law.** Recent legislation changed the FDIC deposit insurance limits. Be sure all CSRs understand the new rules and limits, and keep printed materials on hand to give to inquiring customers.
- **Be careful putting the CEO in front of reporters or a crowd** unless he/she has received communications/media training. Interviews with local media or community "town hall" meetings with customers offer a beneficial forum for a CEO or market president to directly address the situation. Such forums can build confidence with customers … or magnify their uncertainty. It is imperative that executives receive communications training before speaking to the press or customer gatherings to learn how to stay on message and on time.
- **Coordinate all media requests through the public relations / communications officer.** Be sure all employees know to refer media inquiries to the appropriate officer, who can then determine the institution's response strategy.
- **Be honest about the institution's condition.** If there are vulnerabilities, explain these and your strategy to remedy them. Denying a problem or withholding mention of it entirely sets the institution up for future criticism when it eventually is forced to disclose the issue.
- **Assume that internal memos will leak and consider the consequences.** Whether layoff announcements or a new travel policy, ask yourself before distributing institution-wide memos: how will this reflect on the institution if it were to reach the media?
- **Thoroughly reexamine all marketing collateral.** If any product features or requirements have changed, be sure every branch has updated collateral. It is imperative that internal marketing materials remain consistent with advertisements and pronouncements made in the media.
- **Assess the likely perception of event-based marketing campaigns.** There has been much overreaction to bank sponsorships that do serve a legitimate marketing goal. The cancellation of an event sponsorship may increase customer fears about the bank's stability, by signaling that the bank is facing severe financial constraints. However, it is prudent to scale back the tone and scope of certain events while trumpeting their benefits. For example, announce that "we are committed to maintaining our sponsorship of this golf tournament since it raises more than $2 million each year for local charities that need our support now more than ever," but eliminate the open bar at the hospitality tent.
- Finally, it is also important to **show empathy with your customers' changing financial situations.** While some customer inquiries will address the institution's health, others will center on their own financial health. What if I miss a payment? Is this bank raising credit card rates? CSRs must recognize the uncertainty consumers and small-business owners are facing and respond accordingly. And if you have to decline a new loan request to an existing customer, be prompt in your response, forthright about the reasons and propose alternatives if possible. Both institutions and consumers face an uncertain environment, but timely, honest, accurate information can go a long way toward preserving relationships in this stressful period.

(Low Cost Branch Formats continued from page one)

The inline branches averaged $7M in deposit growth over the past four years, or 85% of the level of the traditional comparison set. The median growth statistics showed a similar relationship, $4.2M versus $4.9M. The inline branches with drive-ins enjoyed a modest 12% margin in deposit growth over the inline branches without drive-ins. Interestingly, there was no correlation between the square footage of the inline and its four-year deposit growth.

Comparison to submarket averages

When compared solely to their geographic peer groups, i.e., the surrounding traditional branches, only 22% of inline branches showed ***deposit bases*** higher than the average for their submarket overall; while 44% showed ***deposit growth*** higher than the average for their submarket. The submarkets in the study contained an average of 6.6 branches, including the inline branch.

- The average ***deposit base gap*** for inline branches relative to their submarkets overall was 28%; i.e., on average, inline branch deposits fall 28% below the level of their freestanding peers in the same submarket.
- The average ***gap in deposit growth*** was 42%, because those inlines that fell short of their peer group average fell far short. Examining the individual branch performance data indicates this is due to inline branches reaching an earlier plateau stage where deposit growth flattens.

Comparison to submarket leaders

It is rare for an inline branch to emerge as the most successful branch in its submarket.

- Only 9% of inline branches in the study own the ***largest deposit base*** in their submarket, and only 19% posted the highest four-year ***deposit growth*** in their submarket.
- The ***average deposit gap*** for inline branches ***relative to the submarket leader*** was 61%, much larger than the 28% gap to the average freestanding branch; this reflects the greater upper-end dispersion in traditional branch performance. Similarly, the average gap to the ***fastest growing branch*** in the submarket was 70%.

Conclusions

When forecasting deposit growth for an inline branch, it is appropriate to discount the forecast by 25% - 40%, especially if the branch is in a submarket with several freestanding competitors. Further, it is implausible to expect that an inline branch would emerge as a market leader. However, much of the higher revenue that freestanding branches generate is consumed by higher entry and operating costs. With inline branches, the substantially lower capital and operating costs can yield comparable or even superior profitability to a freestanding branch and justify the smaller format, especially when capital, site availability or construction time is limited.

(Brand Bytes continued from page two)

Whew. Easy, huh? Not! After you have one successfully crafted, try expanding your bytes into a full complement of succinct messages that work in all media.

You can do it. SunTrust Bank has. SunTrust, a southeast regional network, has the idea of ***solid*** firmly in its ***brand byte***. Recent communication conveys the following: stand on solid ground; solid is timeless; solid is habit-forming; solid builds from the ground up; live solid; bank solid.

All of your ***brand bytes*** should aggregate into your full brand message. As customers grab a byte here and there they are becoming increasingly ambient-aware of your brand's attributes, personality and ultimately the promise that your brand is making. If done successfully, each byte connects to each other and tells the story of how your brand is different from the financial services brand across the street or down on the corner.

John Mathes leads the Brand Strategy practice for Bancography. Connect with John on LinkedIn at: linkedin.com/in/johnmathes or follow him on Twitter at: twitter.com/john_mathes.

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

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

Return service requested

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Welcome to Bancology, a Quarterly Journal from Bancography