

# Marketing News

reporting on marketing and its association



Dec. 16, 1977 Vol. XI No. 12 40¢

## Newly available individual office data aid financial institution marketing researchers in helping management plan branches

BY KENNETH H. THOMAS  
K.H. Thomas Associates  
Philadelphia

**FINANCIAL INSTITUTION MARKETING RESEARCHERS** now have access to new data that can be most valuable in planning and developing the optimal branching system. These deposit data for individual offices of federally insured financial institutions previously were available only to federal regulators.

While some prior individual branch office data were available in a few states on a reciprocal basis, the first federal agency to release these previously confidential data was the Federal Deposit Insurance Corp.

Beginning early last year, it made publicly available data for all FDIC-insured commercial and mutual savings bank offices showing deposits broken down into: individuals, partnerships, and corporations demand, savings, and other time; public funds (demand, savings, and other time); and all other.

Legal restrictions prevented

the FDIC from releasing summary of deposits branch data for years before the June 30, 1975, survey, which limits time series applications. Data are available for mid-year '75, '76, and '77.

Even though the Federal Home Loan Bank Board didn't release any comparable savings data for Federal Savings and Loan Insurance Corp.-insured savings and loan associations until this summer, it provided data back to the original '67 summary of savings accounts.

This allows for relatively extensive time series analysis. Savings balances from the

FHLBB are as of each March 31 and Sept. 30.

The application of traditional and sophisticated marketing research techniques to the relatively new data bases with proper analysis and interpretation allows researchers to provide senior management with recommendations regarding the closing, relocation, or modification of existing offices and the establishment of new traditional branches and/or electronic facilities.

**EVEN THOSE** institutions that periodically branch via mergers will find these branch data to be of some value in the preliminary evaluation of possible merger candidates.

The availability of this branch data base makes the calculation of relative office market shares by type of deposit for a given geographical market segment a straightforward procedure. Such



Kenneth H. Thomas

data also can be most helpful in branch feasibility studies, branch applications, and hearings in terms of the evaluation of competitive facilities and the

CONTINUED ON PAGE 5

SECOND CLASS POSTAGE paid at Chicago, Ill., and additional mailing offices. Please return label with change of address before you move.

# Thomas

CONTINUED FROM FRONT PAGE

determination of the existing and projected amount of untapped deposit potential of various types in a primary service or other area.

Just because one financial institution office recorded a very significant deposit growth in a relatively short time doesn't necessarily indicate a feasible branching opportunity for a competitor. Several factors besides location affect branch performance and deposit growth.

Our analyses show that office performance and deposit growth can be satisfactorily explained and predicted by different combinations of the office marketing mix variables of service, promotion, price, and location but with consideration also given to the nature of branch personnel and the image and/or size of a particular institution.

The location factor, often considered the most important, is multidimensional. It refers to:

- The characteristics of an office's site, such as actual and perceived accessibility, visibility, office appearance and condition, parking, etc;
- The immediate area in the vicinity of the site, such as the nature of adjacent commercial or other development; and
- The estimated primary service area of the office, for example, demand variables, such as population growth, working employment, income, age, and density, and supply variables representing competitive factors.

Often this threefold distinction is ignored, blurred, or compacted into a twofold one, and the

result can be a less than optimal location.

For example, we've seen savings and loan association branches growing extremely well in terms of deposits in spite of the fact that they're not ideally located to serve their particular markets. However, in such areas where a significant excess demand for services is shown, a competing association could gain a strong competitive advantage because of its more convenient location if it would open its office in the market's optimal location.

OUR PRIMARY USE of this new branch data file has been in conjunction with the application of multivariate marketing research techniques, such as multiple regression and discriminant analysis.

These techniques have enabled us to explain and understand the determinants of past office deposit size and growth and predict future deposit levels for new and existing offices. Likewise, we have been able to discriminate among those factors that best explain why certain offices of a given bank may be closed.

These types of applications and others can answer questions such as:

1. Why are some of the nation's leading banks closing more offices than they are opening in a given year?
2. Why do certain newly chartered financial institution branches report total deposits of less than \$1 million after one year while others in the same metropolitan area report \$10 million in opening month

deposits — or, in at least two outstanding cases of substantial premium promotions, more than \$100 million?

3. Focusing on longer time horizons, why do some newly chartered shopping center branches have less than \$10 million in deposits after they've been open for 15 years while others in the same metro area have more than 10 times this amount — and, in one case, more than \$750 million after being open the same length of time?

Actually, "branch performance" must first be put into perspective inasmuch as it is not always synonymous with branch deposit size or growth. Branches that function mainly as loan production offices for banks or mortgage origination/banking offices for thrift institutions may be among the most profitable for an institution although their deposit levels may not be significant.

We define branch performance in terms of risk-adjusted capital budgeting formulations, namely discounted net present value and the rate of return on investment. While detailed income and expense data for these calculations are available for our clients' offices, the evaluation of performance of competitive offices necessitates a less precise procedure using proxies for the amount of branch investment, variable expenses, and other sources of income.

Because individual office income and expense data are not available for all institutions and because several of them don't

even have branch accounting or profit center programs, the use of office deposit size or growth as the dependent variable is most common. However, alternative specifications of this variable should be considered whenever possible.

Our completed BRANCHPLAN System studies for banks and thrift institutions covering various geographic areas — such as a county, metro area, or the legal branching area of a certain institution — have used hybrids of cross-sectional and time series designs.

[The BRANCHPLAN System is our registered name for a modular software package that results in the determination of the optimal branching system for a given bank in a given study area. Various marketing research techniques and management science programming methodologies are interfaced in BRANCHPLAN Subsystem I, the Branch Performance Evaluation Model (for existing facilities), and BRANCHPLAN Subsystem II, the Optimal Branch Location Model (for proposed facilities).]

AS IS THE CASE with any data base, marketing researchers must be aware of the limitations of these office data. Data are not available for state-insured financial institutions that operate large branching

systems, which may be an important factor in some states.

Some relatively small federal-insured institutions don't even maintain branch office data on an internal basis. Likewise, some larger institutions report combined deposits for offices close to each other, and consequently report no deposits for some offices.

Due to some institutions' peculiar internal accounting procedures, reported deposits credited to a given office aren't always a function of the hypothesized set of independent variables associated with that office. For example, a particular office's deposits sometimes are swelled due to an institution's policy of crediting all of its bank-by-mail deposits, IRA/Keogh certificate money, or other types of deposits to a certain branch.

While some private companies are making these individual office data available to financial institutions on a fee basis, it is preferable to obtain these data directly from the FDIC (Bank Statistics and Financial Analysis Section) or the FHLBB (Information Disclosure Section of the Industry Data Division). Obtaining these data in printed or magnetic tape form from these regulators not only eliminates the possibility of transcription or other errors but also results in considerable cost and time savings.

MM

## Use of bank credit cards soars, but they won't replace money, checks, Hock asserts

BANK CREDIT CARDS are

who provide it well."

