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Framework for Branch
Performance Evaluation

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Increasing pressure on an institution's profit margin and the need to consider all types of delivery systems make branch evaluation more important than ever. This article presents guidelines for evaluating branch performance, ranging from the definition and measurement of branch performance to the mechanics of developing a formal program, and looks at alternative debranching strategies.

Framework for Branch Performance Evaluation

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All of those financial institutions with branches and those that may be contemplating one are well aware of the significant and continually rising costs associated with this category of fixed assets. But, some of these assets can or may have already become liabilities in terms of the drain on profits and net worth of a problem branch.

Branch performance evaluation is not only for those institutions that have, or may think they have, a problem branch but rather for any insti-

tution with a branch. That is, branch performance evaluation programs are not only to make problem branch situations good, but also to make good branch situations better. A main office is no exception. Furthermore, many of the branch performance evaluation concepts discussed in this article are applicable to ATMs and other financial services delivery systems.

Although many financial institutions are taking corrective action regarding certain existing facilities, the idea of a formal branch performance evaluation program is a new one for most institutions. In addition to being a relatively new topic, it is a rather difficult one. This is not only because of the rather small amount of published research on this subject, but also because of the different disciplines involved.

There are at least four possible approaches to the evaluation of financial institution branches: an accounting approach, a financial approach, a marketing approach, and an operations approach. While each of these viewpoints stresses certain items, what is needed is an interdisciplinary stance that considers the key aspects of each approach and the important relationships among them.

Branch Performance

Defining Branch Performance. In the course of our work, we have asked the officers of several financial institutions of different sizes what "branch performance" means to them. Although most of the responses are along the lines of deposit volume and growth, there are many other definitions. Obviously, there is no one right answer, since branch performance must be measured relative to an institution's branching objectives — and, different institutions have different branching objectives. What may be a high performing branch for one institution may not be the case for another.

A case in point is a branch of one of our smaller savings and loan association clients, a \$50 million association. Deposits at this relatively seasoned branch amount to only a few million dollars. While many associations would consider this to be a problem branch because of its low deposit base, this branch has been the reason why that association was able to maintain a favorable profit margin for several years.

That office's objective has been to generate new mortgage business through continuing contacts with the area's builders and realtors. The substantial mortgage originations of this office in past years enabled that association to profitably turn over its mortgage portfolio in the secondary market. Even considering this high performance but low deposit volume branch, the question then becomes: would a change in that office's location or some other factor enable it to generate a greater savings volume but still provide the same mortgage production benefits?

The most common branching objectives concern an office's deposit portfolio. Deposit ob-

jectives might be related to: total deposit volume; absolute or relative growth in deposits; the number of accounts; or, market share. Other deposit objectives may be related to the size of average account balances; the mix of deposits (i.e., fixed rate CDs, market rate CDs, demand, NOW, or savings accounts); or, even the mix and number of transactions.

There are still other branching objectives besides those related to deposits. As noted in the example, there is the loan side. Specific lending objectives for an office can focus on loan volume, the mix of loans, the yield on the loan portfolio, or its maturity structure. Still other branching objectives, which may vary from office to office, relate to such items as: personnel development; the amount of cross-selling; the breakdown of corporate versus retail business; the penetration of the institution's target market segments; improvement of the institution's image; and social goals.

Branch Deposits vs. Branch Profitability. The most obvious branching objective is the maximization of branch profitability. There is usually a distinction made between short- and long-run profitability and absolute and relative income — or return on investment. Regardless of the precise definition, we believe that branch performance *should* be measured in terms of branch profitability and the contribution to overall institution profitability.

Although branch deposit growth may be the most common branching objective for financial institutions, it is not synonymous with the branch profitability objective. This point can be made by briefly examining the four financial institution *de novo* branches that reportedly had the most successful grand opening promotion campaigns ever in terms of new deposit generation.

Each of the four New York City mutual savings bank branches described in Inset 1 generated new deposits in excess of \$100 million in its first 30 days of operations. What do we learn from these four examples? Very simply — we cannot equate deposits and profitability. The four largest grand openings of all time were not necessarily the four most profitable.

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Inset 1. The Four Largest New Branch Deposit Promotions.

1. The Lexington Avenue branch of Metropolitan Savings Bank (formerly a branch of The Greenwich Savings Bank) is located adjacent to the Grand Central Station in Manhattan. Total deposits at this branch, which was opened in March, 1975, were just under \$160 million after one month of operations — representing some 81,000 new accounts.
2. The next savings institution branch to reach such a deposit volume was the 2,100-square-foot Madison Avenue branch of the Dime Savings Bank of New York located on Manhattan's Upper East Side. Total deposits at this branch, which opened in September, 1976, were just in excess of \$160 million after its first month of operations — making it the most successful branch grand opening campaign ever on the basis of new deposits.
3. Two other de novo offices reached the \$100 million deposit level in their first month, and both of them opened in July, 1977; this was the summer in which the "wild card" certificates were maturing. Despite the fact that the first month of operations of The Manhattan Savings Bank branch in the World Trade Center was interrupted by a bomb scare that emptied the building, that branch office was able to generate over \$120 million during its first month. The branch manager noted at that time that the bomb scare hurt them since they were averaging approximately \$600,000 an hour in new deposits during the hours they were open during the promotion campaign.
4. The Bowery Savings Bank opened its Kings Plaza branch adjacent to a regional mall in Brooklyn later that same month, but at a time other than a grace period. Total deposits there were approximately \$137 million, representing some 53,000 new accounts during its first 30 days.

Even though these branches may have met the deposit objectives set for them, consider these two facts. First, deposits were predominantly CDs, representing between 85 and 90 percent of their deposits at the present time. Deposit bases, we might add, which although close to or slightly above the \$100 million level, have not grown since the grand opening; the only exception is the Bowery branch that now has deposits in excess of \$200 million. Second, some of these grand opening campaigns were reportedly in the \$1-½ to \$2 million range. These up-front promotional expenses, not to mention the cost and sensitivity of the CD money, are two reasons why one must look beyond the deposit figures and consider profitability.

Each of the four New York City mutual savings bank branches . . . generated new deposits in excess of \$100 million in its first 30 days of operations. What do we learn from these four examples? Very simply—we cannot equate deposits and profitability.

For similar reasons, it is easy to understand why a financial institution's largest offices (in terms of deposit volume) may not be the most profitable ones. While the nation's largest *de novo* branch office can be identified on the basis of publicly available FDIC and FSLIC branch office data (see Inset 2), no statement can be made regarding the profitability of that (or any) office without branch income and expense data, which are obviously confidential (when they are internally available).

The Determinants of Branch Performance. If branch profitability is to be a meaningful objective by which performance is to be evaluated, then branch management must clearly understand its specific goals relative to those of the institution and how the branch will be evaluated.

Inset 2. The Nation's Largest De Novo Branch.

According to available published FDIC office deposit data, the branch of the Dime Savings Bank of New York located in the Green Acres Shopping Center in Valley Stream, Long Island, just outside of New York City, is reportedly the largest de novo financial institution branch in the country in terms of deposits.

Deposits at this shopping center branch, which was opened in 1980, now total more than \$900 million — in one de novo branch! And, one-fourth of this amount, over a quarter-billion dollars, are regular savings. Among the several enabling factors in the continued growth of this office are its long hours: 9:30 a.m. to 9 p.m. on weekdays and 9:30 a.m. to 5 p.m. on Saturdays.

This store-front branch has approximately 40 tellers and 40,000 square feet of space. A freestanding drive-in facility, which was added in 1975 in the parking lot of this regional shopping center, services more than 500 cars per day, on average.

Each financial institution office can be evaluated and continually monitored on the basis of the various controllable determinants of branch performance. Furthermore, the enhancement of branch performance involves feasible modifications of these controllable determinants. The branch controllable and uncontrollable determinants of performance, which may be relevant for many other delivery system vehicles as well, are listed in Exhibit 1.

The set of three location factors, which are often considered to be the most important determinant, includes an office's site, the immediate area in the vicinity of the site, and its primary service area or market area. All three locational factors, rather than just one or two of them, must simultaneously be favorable for an optimal location.

Important site characteristics may be an office's parking, drive-in, and ATM facilities; its visibility; actual (and perceived) accessibility; overall appearance; interior layout; and, size. Just as each of these site items should be evaluated in terms of its desirability, so too should the demand and supply characteristics of the immediate area or locale in the vicinity of the site. For example, if the office is located in a shopping center, a major employment area, or an older downtown business district, what are the prospects of that immediate area relative to the number of competitors?

Even the most desirable site in an undesirable or declining immediate commercial area may

Exhibit 1. The Determinants of Branch Performance.

- A. Locational Factors
 1. Site
 2. Immediate Area
 - a. Demand Factors
 - b. Supply (i.e., competitive) Factors
 3. Primary Service Area or Market Area
 - a. Demand Factors
 - b. Supply Factors
- B. Personnel
- C. Promotional Program
- D. Pricing Policy
- E. Product Mix
- F. Other Factors (e.g., site and image, office hours, corporate policies and relationships, "driving power" of subplot office space, etc.)

have limited potential. Conversely, an institution may have a problem because it has an inferior site within a very desirable shopping center. How many times we have heard, "It doesn't matter where we are at the shopping center — as long as we're there." Our location research shows that it does matter where a facility is situated in or near a shopping center; it does matter what side of the street it is on; and, it does matter what corner of an intersection it occupies.

The demand and supply factors of an office's primary service or market area are also important. A branch may be in the right market but at the wrong site and/or immediate area to serve that market.

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These three locational factors collectively represent but one determinant of branch office profitability. A second determinant upon which an office may be evaluated is the nature of branch management and staff, and there is a fairly substantial literature on this subject. Unfortunately, it is often quite difficult to quantify this important determinant (e.g., in the case of a friendly teller).

A third determinant of branch performance is the promotional program. A successful grand opening promotional campaign can be quite important to a new facility. The follow-up advertising and other promotional programs (e.g., personal selling and direct mail) of the individual branch and the institution are part of this factor.

An institution's rate and pricing structure, its product and service mix, and other miscellaneous factors enter as additional determinants of branch performance. These are generally, but not always, policy or institution variables beyond the control of branch management. One

important determinant of office performance in the latter category that may or may not differ by branch is the number of hours and days that an office is open.

Developing a Formal Branch Performance Evaluation Program

Considering the determinants of branch performance, the nature of a branch performance evaluation program is straightforward: to evaluate the controllable determinants, both individually and jointly, relative to an institution's branching objectives.

Many institutions without a formal evaluation program are now generating financial, marketing, and operations reports by branch. These reports can be the foundation of a branch evaluation effort to the extent that they evaluate these determinants. The most important reports in the formal branch profitability measurement system, however, are concerned with identifying the total costs of operating a branch and actual branch profitability.

Examples of worksheets that can be used as general guidelines for this purpose are found in

Exhibit 2. Calculating the Costs of Operating a Branch.

1. Direct Branch Costs:	
A. Personal	\$ _____
B. Interest on Deposits and Purchased Funds	_____
C. Occupancy Costs	_____
D. Other Costs	_____
Total Direct Branch Costs	\$ _____
2. Allocated Home Office Costs for Services Rendered:	
A. Data Processing	\$ _____
B. Accounting Department	_____
C. Marketing Department	_____
D. Other Departments	_____
Total Allocated Home Office Costs for Services Rendered	\$ _____
3. Allocated Home Office Administrative Costs (e.g., executive salaries)	\$ _____
Total Costs of Operating a Branch	\$ _____

Adapted from Bank Administration Institute, *Bank Costs for Planning and Control* (Park Ridge, Illinois: Bank Administration Institute, 1972).

Exhibits 2 and 3. These worksheets, which obviously require modification and appropriate detail for a particular institution, are used in the most formal approach to branch profitability measurement, an approach that only a small percentage of institutions regularly utilize. There is a considerable amount of published data on the generation and appropriate use of these types of financial statements.¹ Most institutions would require a considerable amount of new cost accounting data to implement a formal system of branch profitability measurement. A cost accounting system allows an institution to cost out individual activities such as deposit or loan account servicing, and this information may be used in the evaluation of a particular branch, department, or function.

While a formal system may not be feasible for all institutions, we feel that any meaningful attempt in this direction is worthwhile. The

Exhibit 3. Calculating Branch Profitability.

Flow of Funds Statement:	
Funds Provided (i.e., deposits)	\$ _____
Less: Funds Utilized (i.e., loans)	_____
Excess Deposits (or deficiency of deposits)	\$ _____
Branch Profitability Schedule:	
1. Branch Income	
A. Interest Income on Loans and Other Income	\$ _____
B. Home Office Transfer Price Credit for Excess Deposits	_____
Total Branch Income	\$ _____
2. Costs of Operating a Branch:	
A. Total Direct Branch Costs	\$ _____
B. Allocated Home Office Costs for Services Rendered	_____
C. Allocated Home Office Administrative Costs	_____
Total Costs of Operating a Branch	\$ _____
3. Pre-tax Branch Profit After Deducting All Costs	\$ _____

Adapted from Bank Administration Institute, *Bank Costs for Planning and Control* (Park Ridge, Illinois: Bank Administration Institute, 1972).

techniques and concepts that are employed in the formal approach may provide an institution with a new perspective on branch performance.

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Two Important Issues: Profit Centers and Funds-Transfer Pricing. Two issues that are of particular importance in this area are the "profit center" notion and the "funds-transfer pricing" problem. An understanding of both of these accounting concepts is important in the development of a branch performance evaluation system.

The treatment of each branch department or function (and potentially even a customer) as a "profit center" means that such a unit's profit is evaluated as an individual entity.² Since branch management does not have control over certain expense and income items, the profit center notion is often abandoned in favor of other concepts.

While a "cost center" may be evaluated on its ability to effectively control costs,³ a "responsibility center" is judged only on controllable items of expense, income, and profit.⁴ Even if an institution does not implement a formal branch evaluation system, the idea of evaluating a branch based upon controllable income less controllable expense and its contribution to corporate profits is an important one to consider.

The funds-transfer pricing" problem is a complex and not totally resolved one. It refers to the determination of the appropriate rate to be charged on funds that internally flow from one office to another within an institution. This is essentially an internal accounting question. A "funds surplus" branch in, say, an older or established area will generate more deposits than required to meet the loan demand there. How-

ever, these funds are needed for mortgages and related credit by the institution's "funds deficit" branch in a newer area where the younger home-seeking families are generating a relatively small amount of deposits.

To properly motivate and evaluate branch management and to efficiently allocate resources, it is necessary to develop an internal funds-pricing scheme to credit the older funds surplus branch for funds supplied to a home-office pool, and likewise debit the newer funds deficit branch for funds used from the pool. These credits or debits show up as income or expense items on the profit and loss statements of the respective branches (e.g., see Exhibits 2 and 3). Even small changes in this internal "funds-transfer rate," which may encourage or discourage the generation of new deposits or loans by branch management, can have a major impact on measured branch profitability.

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Just as in the case of the profit center concept, problems can develop through the inappropriate use of even a sophisticated funds-transfer pricing system. Specifically, a branch or profit center may act in a dysfunctional manner to maximize its profitability, as it is supposed to do, but only at the expense of overall system profitability; however, this is contrary to the systems approach⁵ (i.e., overall institution profit maximizing). Also, there is no general agreement on the appropriate transfer rate, although a marginal cost of funds rate is often used for this purpose.

The Problem Branch. Each institution should appropriately examine its delivery system in

terms of whether or not each component is consistently contributing to corporate objectives. If this is not the case with some of an institution's branches, we may be talking about a "problem branch."

A problem branch is defined as an office with chronic under-performance relative to the branching objectives of an institution. In terms of the profitability criterion, a problem branch would be defined as a chronically unprofitable one. These problem branches could be *de novo* or acquired offices and may vary considerably in the number of years opened. Some may even be relatively large offices opened in expensive shopping center locations in the early seventies. Also, problem branches, like problem banks, differ in terms of the degree of their problems.

An ongoing branch profitability measurement program should act as an early warning system for potentially unprofitable branches. In this way, corrective action can be taken well in advance before the problem reaches the bottom line. Just as the regulators have early warning systems for problem institutions, each institution should have its own early warning system for problem branches.

An ongoing branch profitability measurement program should act as an early warning system for potentially unprofitable branches. In this way, corrective action can be taken well in advance before the problem reaches the bottom line.

There are a number of branch malfunctions that have been diagnosed as being symptomatic of problem branches. They may include a deteriorating market share of deposit or loan services or a continued leveling or decline in the number or dollar volume of deposit or loan accounts. While these may be obvious symptoms of a sick branch, others may not be so obvious.

Oftentimes, widely fluctuating activity levels or facility usage, operating efficiency, or ex-

pense ratios that are significantly out of line with other offices and past trends may signal a potential problem branch situation. There are still other warning signs to look for at a branch: high employee turnover; average transaction times and customer wait times that are consistently beyond the institution's standards; an increasing number and intensity of customer complaints; or, a greater frequency of simple clerical or account-handling errors.

It is possible that some of these or other malfunctions may not be associated with an existing or future problem branch; it really depends upon the nature, intensity, and frequency of these symptoms and, of course, upon the institution's branching objectives.

Identifying Feasible Branch Performance Enhancement Strategies

Once an existing or potential problem branch situation has been diagnosed, it is necessary to prescribe corrective action in the form of an appropriate branch performance enhancement strategy. Rather than taking the costly (in terms of corporate resources and time) "trial and error" approach to performance enhancement strategies, an institution should utilize the systematic approach inherent in a formal branch evaluation program. This involves the identification of feasible alternative strategies and the selection of the optimal one.

The identification of feasible alternative strategies will vary in each situation depending upon the four types of feasibility: financial, marketing, operational, and regulatory. These are the same feasibility considerations that are used in branch and ATM feasibility studies. Consequently, the definition of feasible alternative strategies should consider the views of an institution's financial, marketing, and operations personnel, all within regulatory constraints.

We believe that the most important feasibility consideration should be financial feasibility, as exemplified in Exhibits 4 and 5. It is here that an institution quantitatively compares the expected costs and benefits of feasible

Exhibit 4. Ten-Year Projection of Expected Cash Flows and Branch Profits, Feasible Alternative ___ for Problem Branch X

Year	Cash Inflow from Income	Cash Outflow for Fixed and Variable Expenses	Net Cash Flow	Net Cash Flow After Depreciation and Tax Adjustment	Present Value Factor*	Annual Present Value of Branch Profits
1982	\$ _____	\$ _____	\$ _____	\$ _____	1.00	\$ _____
1983	_____	_____	_____	_____	.83	_____
1984	_____	_____	_____	_____	.69	_____
1985	_____	_____	_____	_____	.58	_____
1986	_____	_____	_____	_____	.48	_____
1987	_____	_____	_____	_____	.40	_____
1988	_____	_____	_____	_____	.33	_____
1989	_____	_____	_____	_____	.28	_____
1990	_____	_____	_____	_____	.23	_____
1991	_____	_____	_____	_____	.19	_____

Total Present Value of Branch Profits for Feasible Alternative: _____

*Present value of \$1 in 1982 to be received in a future year with a 20% required rate of return.

Note: The time horizon is, 10, 15, or 20 years, at option and the required rate of return are to be adjusted accordingly.

alternative enhancement strategies, utilizing the important present value concept (preferably on a risk-adjusted basis) of capital budgeting. Exhibits 4 and 5 for problem branch X conclude that the branch modernization option is the most desirable of the four identified feasible alternatives.

The identification of feasible alternative strategies will vary in each situation depending upon the four types of feasibility: financial, marketing, operational, and regulatory.

The branch planning function, as we define it, involves a financial institution's total financial services delivery system, both existing and proposed branches and EFT units. According to the systems approach, an institution should consider all existing branches and electronic units in its new location decisions, and conversely, consider its proposed branch and EFT network in its existing facility decisions. Exhibit 6 depicts a

ranking of the various feasible branch planning proposals available to one hypothetical institution. With a \$1 million 1982 capital budget for this purpose, it would consider the first four proposals, but carefully monitor its problem branch Z as a branch-closing candidate.

Exhibit 5. Comparison of Feasible Alternative Branch Enhancement Strategies Over Ten-Year Projection Period, Problem Branch X

Feasible Alternatives	Total Present Value of Branch Profits (000)	Initial Outlay (000)	Net Present Value (000)
A - Status Quo	\$100	\$ 0	\$100
B - Branch Modernization*	450	250	200
C - Branch Renovation	350	400	150
D - Branch Downsizing to Mini-Branch	150	25	125

*Best possible course of action for Problem Branch X since net present value is the highest. If net present value of each feasible alternative were negative, the best possible course of action, based upon financial feasibility considerations only, would be to close the office.

Exhibit 6. Schedule of Proposed Branch and EFT Capital Investments For the Year 1982

Nature of Proposed Investment	Initial	Cumulative	Net Present
	Outlay	Total Outlays	Value Over Ten Years
	10001	10001	10001
1. Proposed Full Service Branch #1	\$300	\$ 300	\$250
2. Problem Branch X Modernization*	250	550	200
3. Proposed Mini-Branch #2	175	725	125
4. Proposed ATM Sharing Program	225	950	100
5. Proposed Main Office Modernization	250	1,200	75
6. Proposed Mini-Branch #3	150	1,350	50
7. Proposed Micro-Branch #4	100	1,450	25
8. Problem Branch Y Relocation*	175	1,625	10
9. Problem Branch Z Modernization*	150	1,775	(25)

*Each of these possible branch performance enhancement strategies represents the best possible course of action for the respective branches based upon the financial analysis.

The second type of feasibility is the marketing feasibility. The various possible branch enhancement strategies may differ in terms of their impact on an institution's image and promotional programs or its efforts to increase the share of its "target market." These potential marketing impacts should be quantified, to the greatest extent possible, as part of the overall analysis.

The operational feasibility of a branch enhancement strategy involves an examination of not only its impact on an institution's existing operational policies and branch personnel, but also the nature of actual equipment, property, and structural limitations. Relative to the branch equipment factor, ATMs (approximately 90% of which are on-premise locations) have expanded the potential alternatives available to an institution in dealing with a problem branch. Again, many important operational considerations may be difficult to quantify.

Now, if a branch enhancement strategy is feasible from the financial, marketing, and

operations viewpoints, shouldn't that be enough? While the answer to that question may be yes, there is obviously one other type of feasibility for a branch enhancement strategy — regulatory feasibility. The Community Reinvestment Act (CRA) is probably the most important factor in this respect in terms of its potential limitation of the branch closing alternative. The regulatory climate in banking today is unique because it not only involves such potential barriers to branch exit, but also to branch entry. However, with the Federal Home Loan Bank Board's new regulations to streamline the branch application procedure, and with the Office of the Comptroller of the Currency and other bank regulators apparently following their pro-competitive lead, the barriers to branch entry are being significantly reduced.

The "Debranching" Phenomenon — One Strategy. Our term for the branch disinvestment alternative is "debranching," and it refers not only to the selling of branches by an institution desirous of reducing or eliminating its branch retail network but also to the closing of chronic problem branches. The primary reasons most often cited for financial institution branch closures are the lack of deposits, the deteriorating nature of an area, a duplication of services (usually because of a merger), and security problems.⁶

The closing of a problem branch, if feasible on a regulatory basis, raises several important marketing and operational questions, not to mention the potential loss of deposits, a financial feasibility consideration. However, one major New England bank found that it retained approximately 70 to 80 percent of the deposit balances of a few of its closed branches, one to two years after they were closed.⁷

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Other banks, of which we are aware, that have closed offices have likewise reported fairly high deposit retention rates as long as another office was within reasonable proximity. The evaluation of the financial feasibility of a branch closing should be based on a fairly conservative deposit retention rate assumption. In some cases involving relatively isolated branches, it may not be reasonable to expect any significant amount of retained deposits, except those maintained by an aggressive bank-by-mail program.

Alternative Strategies. Debranching represents one extreme performance enhancement strategy. Alternative enhancement strategies are all related to modifications of the controllable determinants of branch profitability. For example, an institution has many alternatives involving the locational factor: an office may be rehabilitated; remodeled; expanded; supplemented by electronic or other facilities; downscaled to a "mini-branch" (i.e., a limited facility) or a "micro-branch" (i.e., a satellite); closed and replaced on the same site; or relocated within the immediate area or market area. Regarding the alternative of rehabilitation, the Economic Recovery Tax Act of 1981 provides for expanded investment credits, and this should be taken into account in the evaluation of the financial feasibility of such an alternative.

Many branch enhancements involving the locational factors are structured around the so-called "hub concept."⁸ This delivery system strategy centers around a large main or regional office that acts as a hub in a given market to many smaller brick-and-mortar facilities and several off-premise ATMs. The supporting offices, all of which have at least one ATM, include a few conventional branches (e.g., 2,000-3,000 square feet in size) in key activity centers and a larger number of strategically placed mini-branches (e.g., 800-1,200 square feet in size) and freestanding or in-store micro-branches. The micro-branches of 200-400 square feet, with one or two employees and an ATM (with 24-hour accessibility), may only be staffed for certain hours of the day or certain days of the week.

A conventional delivery system that is re-

structured in this manner (as a result of various branch closings, downscalings, relocations, and deployed off-premise ATMs) is not only more cost-efficient but also more productive. This is because a greater number of optimally distributed and flexible locations, each of which is tailored to the level of untapped banking potential in its respective area, are less capital- and human-intensive.

Other possible branch enhancement strategies that may or may not be used in conjunction with modifications of the locational factor include changes in an office's hours, its personnel, its branch promotional program, or any combination of these. While modifications of locational factors can represent major and costly changes, the revision of these other factors may not, and they could be the cause of a problem branch. An institution can also enhance branch profitability by subletting some of its prime lobby space to a "compatible" user that could potentially serve to increase the "drawing power" of the branch; at least one bank in New York City is obtaining some rental income from this source.⁹

An institution can also enhance branch profitability by subletting some of its prime lobby space to a "compatible" user that could potentially serve to increase the "drawing power" of the branch . . .

Conclusion

A branch performance evaluation program is not only important for those financial institutions that are experiencing a favorable return on assets and equity and desire to improve it, but also for those with diminishing and even disappearing profit margins. Some financially troubled thrift institutions, for example, might find that a branch performance evaluation program is more important than ever, since there may be significant opportunities to cut or eliminate costs associated with problem branches.

Such thrift institutions might be able to close their problem branches easily now since the public is aware of that industry's profitability problem. In fact, it is possible that a federal regulator may even require a branch performance evaluation to "weed out" and close an institution's unprofitable branches as a condition of financial assistance.

A leaner and more cost efficient version of such an institution's existing branch delivery system may be a very attractive part of the overall package that may be considered by another financial institution in a possible merger or acquisition. This is especially true since a large acquiring institution may be precluded from closing those same problem branches after a merger or acquisition because of regulatory factors (i.e., the Community Reinvestment Act).

As is evident from this article, there are various ways an institution can go about developing and implementing a branch performance evaluation system, ranging from a formal and sophisticated system to a less formal and less structured approach. Regardless of the approach an institution decides to take, the important point is that the institution is evaluating branch performance. And if not, the time to start is now --

not just because its competitors may have such a branch evaluation program, but because it does affect the bottom line.

Notes

1. For a discussion of the mechanics of calculating branch profitability utilizing these types of schedules, see Bank Administration Institute, *Bank Costs for Planning and Control* (Park Ridge, Illinois: Bank Administration Institute, 1972), pp. 195-206.

2. *Ibid.*, p. 218 and p. 221.

3. Charles T. Horngren, *Cost Accounting: A Managerial Emphasis* (Englewood Cliffs, N.J.: Prentice-Hall, 1977), p. 678.

4. Bank Administration Institute, *op. cit.*, p. 96.

5. C. West Churchman, *The Systems Approach* (New York: Dell Publishing Company, Inc., 1968), p. 29.

6. For example, see Federal Home Loan Bank Board, *An Analysis of Savings and Loan Branch Closures*, by Larry Cox, Jr. and Dean A. Dudley, Working Paper No. 56 (Washington, D.C.: Federal Home Loan Bank Board, June 1975).

7. "How to Close a Branch Successfully," *American Banker*, June 14, 1978, p. 4.

8. Kenneth H. Thomas, "Branch Planning in the Age of EFTS," *The Bankers Magazine*, Summer 1977, pp. 88-89.

9. "IBM to Sell Products in Chase Lobbies," *American Banker*, October 21, 1981, p. 1.