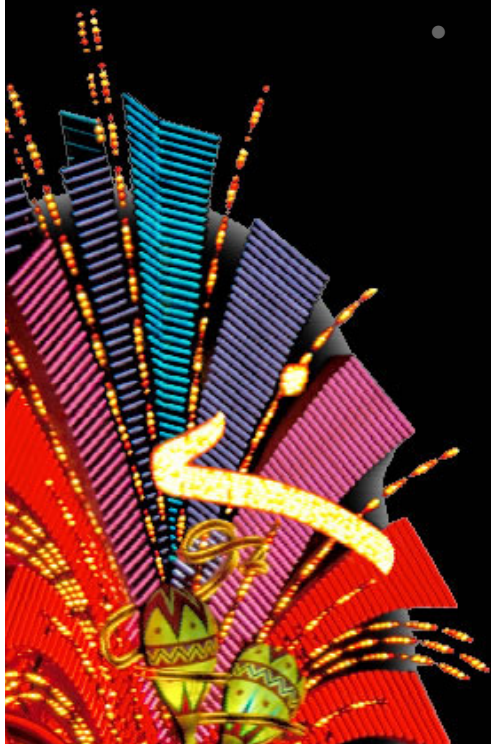


# Understanding Benchmarking to Improve Branch Performance

- Bill Simmons, Pitney Bowes Business Insight



**MapWorld<sup>08</sup>**  
**LIVE IN LAS VEGAS**

**G1** customer conference **08**  
**LIVE IN LAS VEGAS**



# Sales Goal Allocation Methods

Most institutions employ one or more of the following goal setting methods--each has its strengths and weaknesses.

- Historical Performance
- Uniform Allocation
- Total Market Wallet
- Opportunity Based

***Which Method Maximizes Revenue Potential?***



# Historical Performance is History

Goal is based on what you achieved last year

## Strengths

- Comfort Level in Setting Expectations
- Data is Typically Readily Available
- Ease of Communication to Regions/Branches

## Weaknesses

- Performance Will Vary Based on Yearly Product Focus
- Market/Trade Area Economic Conditions Change Year to Year
- Branches are Maturing at Different Rates
- Never Addresses “How High Is Up?”

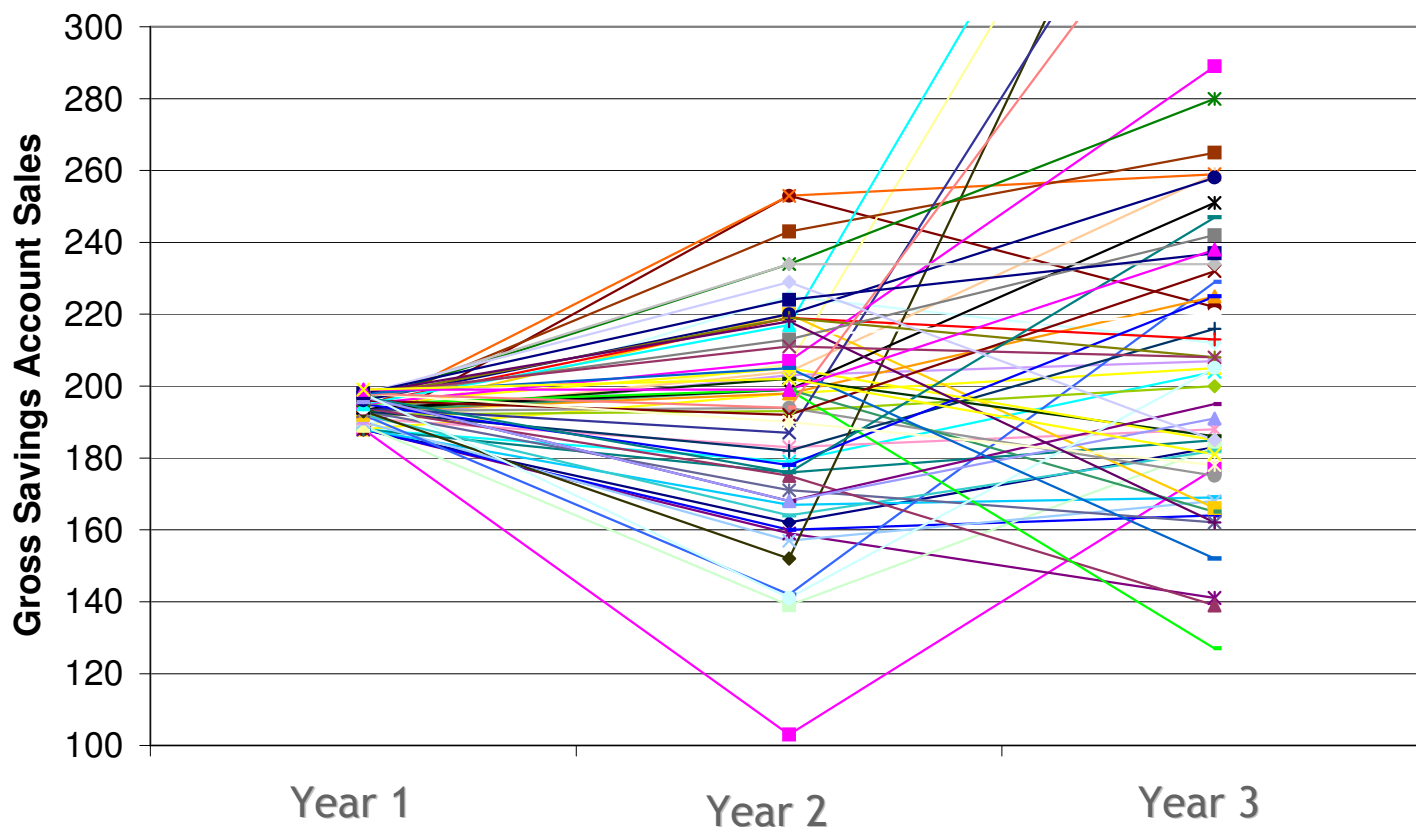
***Punishes Good Performing Branches  
and Rewards Poor Performing Branches***



# Historical Performance is History

Historic sales performance is too erratic and is not a reliable basis for goal setting. This year-to-year variation appears in every product that we analyzed

### Typical Variance in Branch Level Year Over Year Sales



Source: Pitney Bowes MapInfo

# Uniform Allocation

The only fair goal is that everybody gets the same goal



## Strengths

- Ease in Goal Allocation/Communication

## Weaknesses

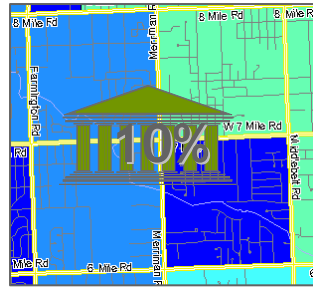
- Economic/Branch Trade Area Conditions Change Year to Year
- Branches are Maturing at Different Rates
- Each Branch Doesn't Have Equal Opportunity
- Never Addresses "How High Is Up?"

***Rewards Branches in High Growth Markets  
and Punishes Branches in Mature Markets***



# Total Wallet

Branches with the most demand in their trade area should get the greatest goal



## Strengths

- Partially Market Based
- Some Ease in Communication

## Weaknesses

- Ignores Competitive Intensity
- Branches are Maturing at Different Rates
- Might Address “How High Is Up, But Doesn’t Provide “How Much Is Realistic”

***Rewards Branches in Weak Competitive Markets and Punishes Branches in Highly Competitive Markets***

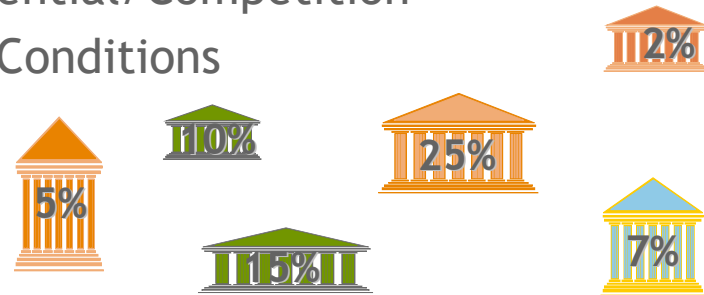


# Opportunity Based Goal Setting

Opportunity based goals account for each branch's unique selling environment and opportunity

## Strengths

- Based on Market Realities-Product Potential/Competition
- Address Economic/Branch Trade Area Conditions
- Address Branch Maturity
- Provides “How Much Is Reasonable”



## Weaknesses

- Can Be Complex to Build
- Challenging to Communicate

***Fair to All Branch and Maximizes True Potential at the Branch***



# Understanding Opportunity Based Potential

# Opportunity Based Goal Setting

Key steps in gaining a better understanding of each branch's market

- Defining Branch Trade Areas
- Interpreting the Demographics Drivers in the Trade Area
- Competitive Environment and Own Capabilities
  - Sales and Service Platforms
  - Strategic Position Overview
  - Understanding The Branch Life Cycle
  - Facility Capacity and FTE to Sell





# Opportunity Based Goal Setting - Demographic Characteristics

Trade area demographics are key to understanding which products to emphasize at the branch



## Demographic Variable

Household/Worker/ Business Density

Household Growth

Median Household Income

Age

Home Ownership

## Variable Range

	Low			High
				All Products
			Transaction Products	Mortgage
Transaction Products				Investment Products
			Time/IRA Products	Investment Products
Transaction Products			Home Equity	Mortgage

# Opportunity Based Goal Setting - Competitive Intensity

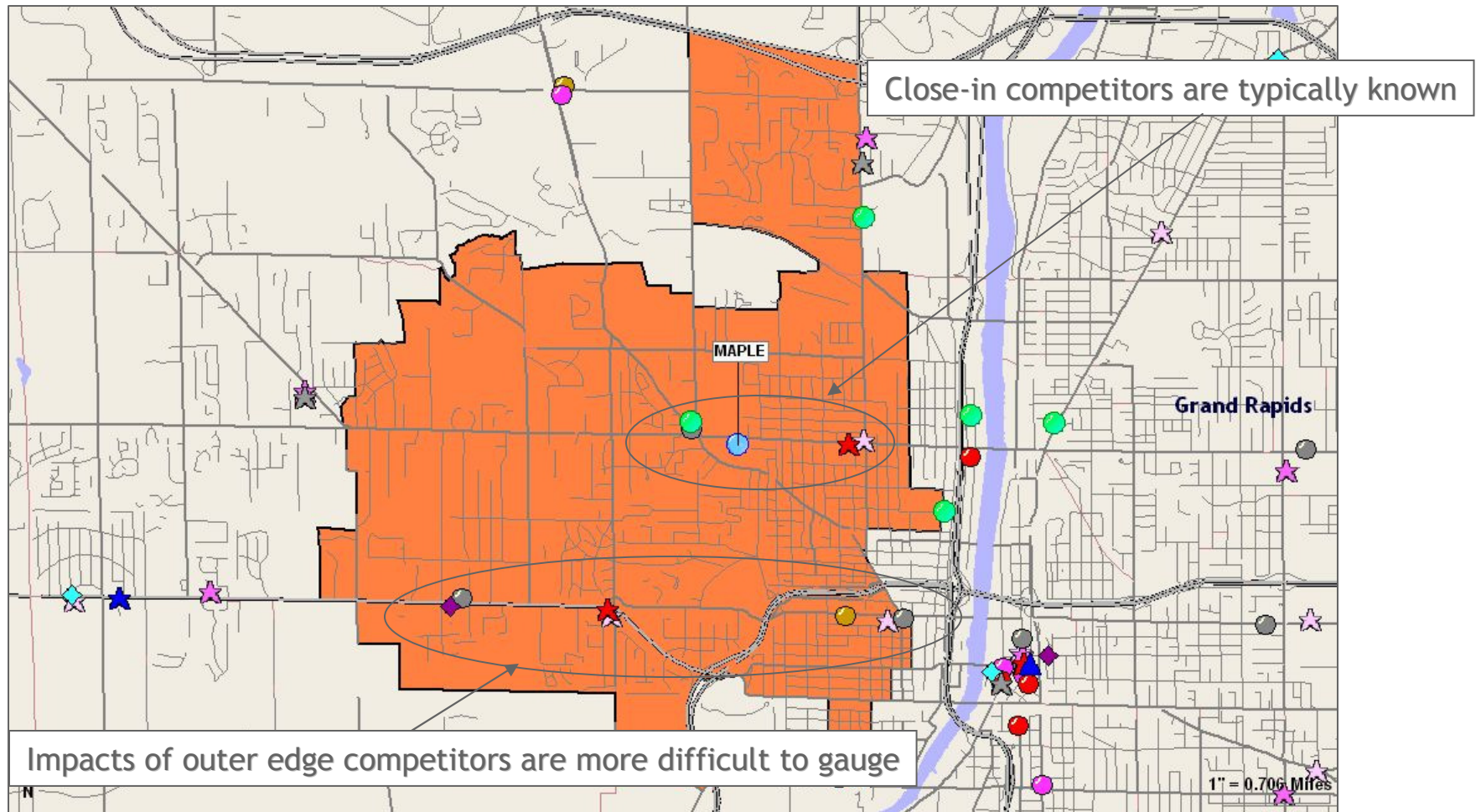
Setting realistic goals starts with an understanding of the relative strength of competing offers and knowing your own capabilities

- Number of Competitors and Distance
- Size and Strength of Distribution Network
- Branch Facilities and Type
- Product Focus/Pricing
- Understanding Branch Life Cycle
- Staffing
- Understanding Your Branch's Book of Business



# Opportunity Based Goal Setting - Competitive Intensity

Close-in competitors are relatively easy to assess; don't forget that numerous competitors will draw business from a branch's market



# Opportunity Based Goal Setting - Competitive Intensity

Knowing your trade area competitors can help you understand who you are selling against

## Sales and Service Capacity

## Sales Opportunity

Bank/Branch	Distance in Miles	FDIC Deposits	Branch Type	Platform	Tellers	Drive Lanes	ATMs	Sat/Sun Hrs	Open Sun	Tot Hrs
<b>CASTLE BANK</b>										
BRIDGE ST/LEXINGTON AVE	1.4	\$ 18.2	In-Store	1	3	0	1	Y	Y	54
CARPENTER AVE/MARNE AVE	1.85	\$ 25.2	Storefront	4	4	0	1	Y	N	40
LEONARD ST/WALKER AVE	0.29	\$ 38.7	Freestanding	4	5	3	1	N	N	40
<b>FIRST CROSSINGS</b>										
MAPLE	na	\$ 35.6	Freestanding	4	4	3	1	Y	N	42
<b>GULFSHORE BANK</b>										
PETTIBONE AVE/FREEMONT AVE	1.18	\$ 29.4	Freestanding	4	4	2	1	N	N	48
<b>HARBOR NATIONAL BANK</b>										
LAKE MICHIGAN/COVELL AVE	1.23	\$ 16.3	Freestanding	3	4	5	1	N	N	44
LEONARD ST/JENNETTE AVE	0.65	\$ 11.3	In-Store	1	2	0	1	Y	N	44
<b>FIRST CREDIT UNION</b>										
MAIN	0.31	\$ 18.5	Freestanding	9	7	3	1	N	N	35
<b>SANDPIPER BANK</b>										
BRIDGE SR/GOLD AVE	1.36	\$ 21.9	Storefront	3	7	0	1	N	N	40
COVELL RD/LAKE MICHIGAN	1.25	\$ 56.6	Freestanding	4	6	2	1	N	N	40
LEONARD ST/ALPINE AVE	0.74	\$ 56.4	Office Bldg.	7	5	0	1	N	N	40
<b>UNITED SHORES S&amp;L</b>										
LAKE MICHIGAN/MARNE AVE	1.93	\$ 52.0	Freestanding	3	4	3	2	N	N	47

Analyzing the sales and service capacity of trade area branches helps to provide an understanding of the competitive force. Extended hours provides additional sales opportunities at the branch and may indicate an aggressive sales focus.



# Opportunity Based Goal Setting - Competitive Intensity

Branch characteristics can influence the sales opportunity of each location

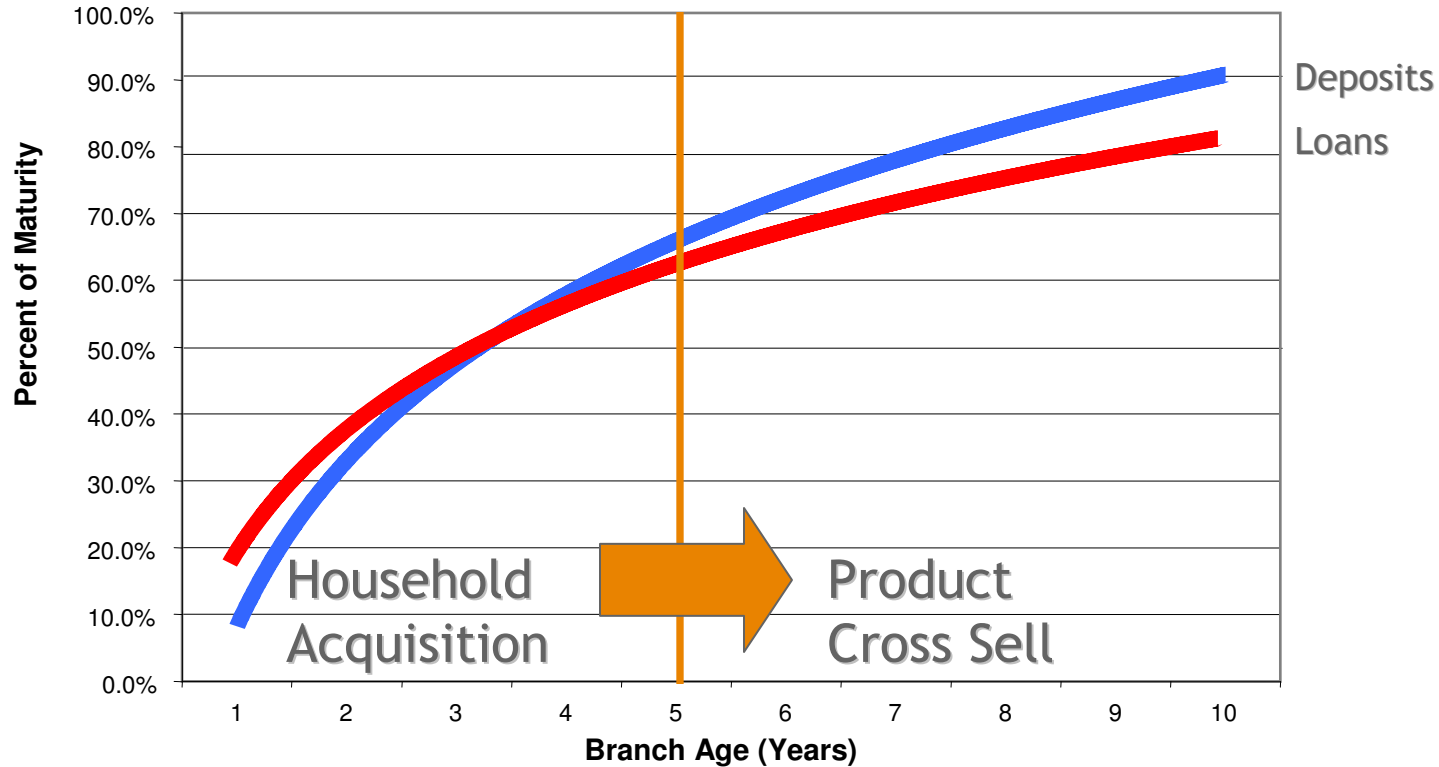


- Platform stations and specialized product areas have the potential to attract more complex product sales such as loan or investment products.
- Services attributes; tellers, ATMs and drives-up will be efficient at selling service oriented products such as checking and savings.

# Opportunity Based Goal Setting - Branch Life Cycle

The branch maturity curve describes that rate at which a branch acquires new households. As the branch matures, the selling focus at the branch changes from household acquisition to product cross-sell

### Consumer Deposit and Loan Balance Maturity



# Opportunity Based Goal Setting - Branch Life Cycle/Role of the FTE

The branch life cycle should dictate the skill set of the branch FTE.

## FTE Skills Year 1

- Account Opening Processing
- Relationship Building
- Branch Marketing

## FTE Skills Year 10

- Identification of Need
- Recognizing Opportunity
- Relationship Retention



# Opportunity Based Goal Setting - Role of the FTE

Most branch sales are passive in nature, more complex sales tend to be active and require a higher skill set from branch FTE. Increased sales level at a branch will require a different skill set.

## Passive

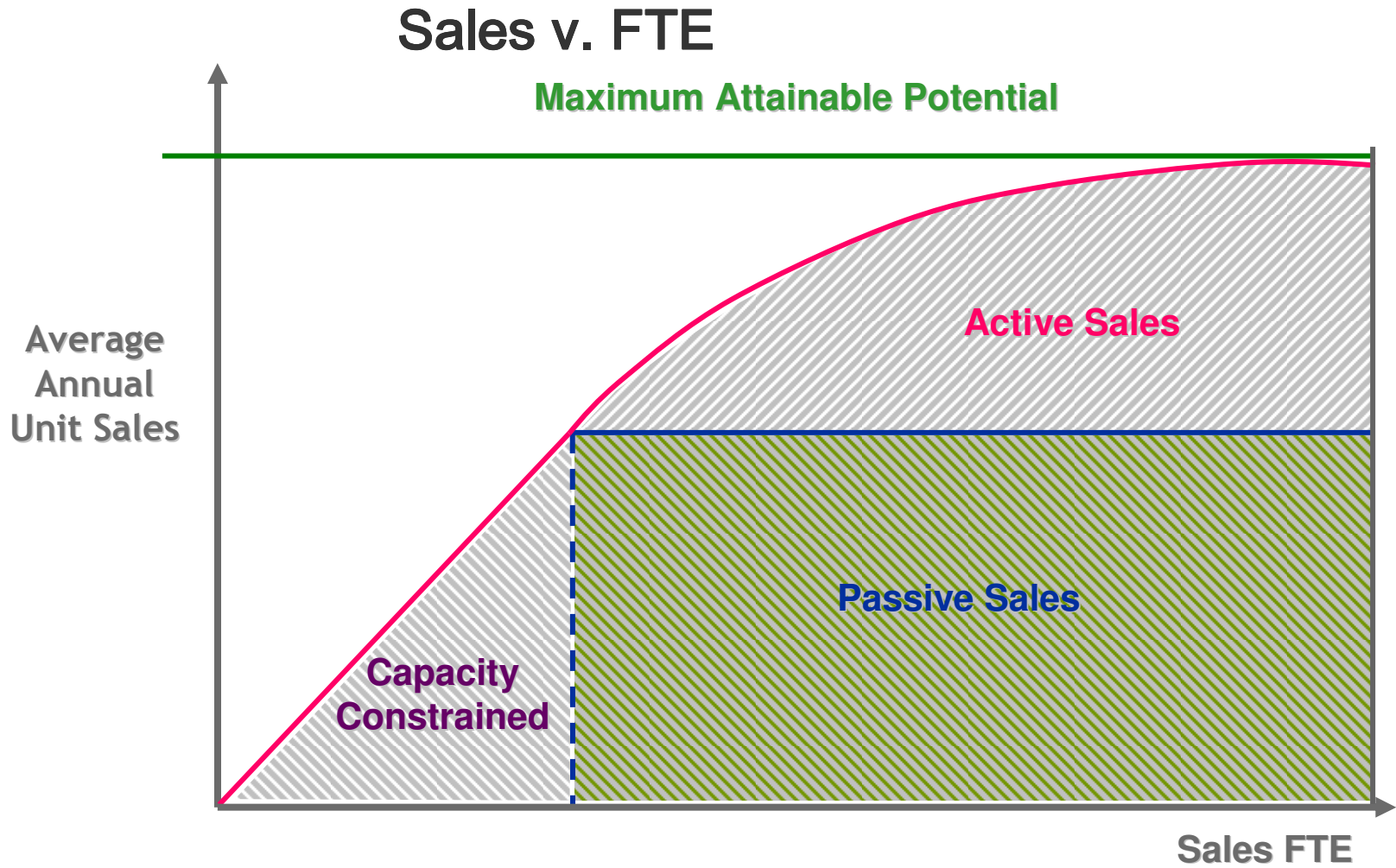
- Customer Initiates Contact
- Touch Point Convenience Is Critical
- Largely Order Taking
- Accounts for Most New Customers
- Limited by Capacity and Coverage

## Active

- Dependent on Sales Staff
- Requires Staff to Raise Customer Awareness
- Accounts for Most Lost Opportunity
- Primarily Cross-sell
- Limited by Sales Force Ability and Size

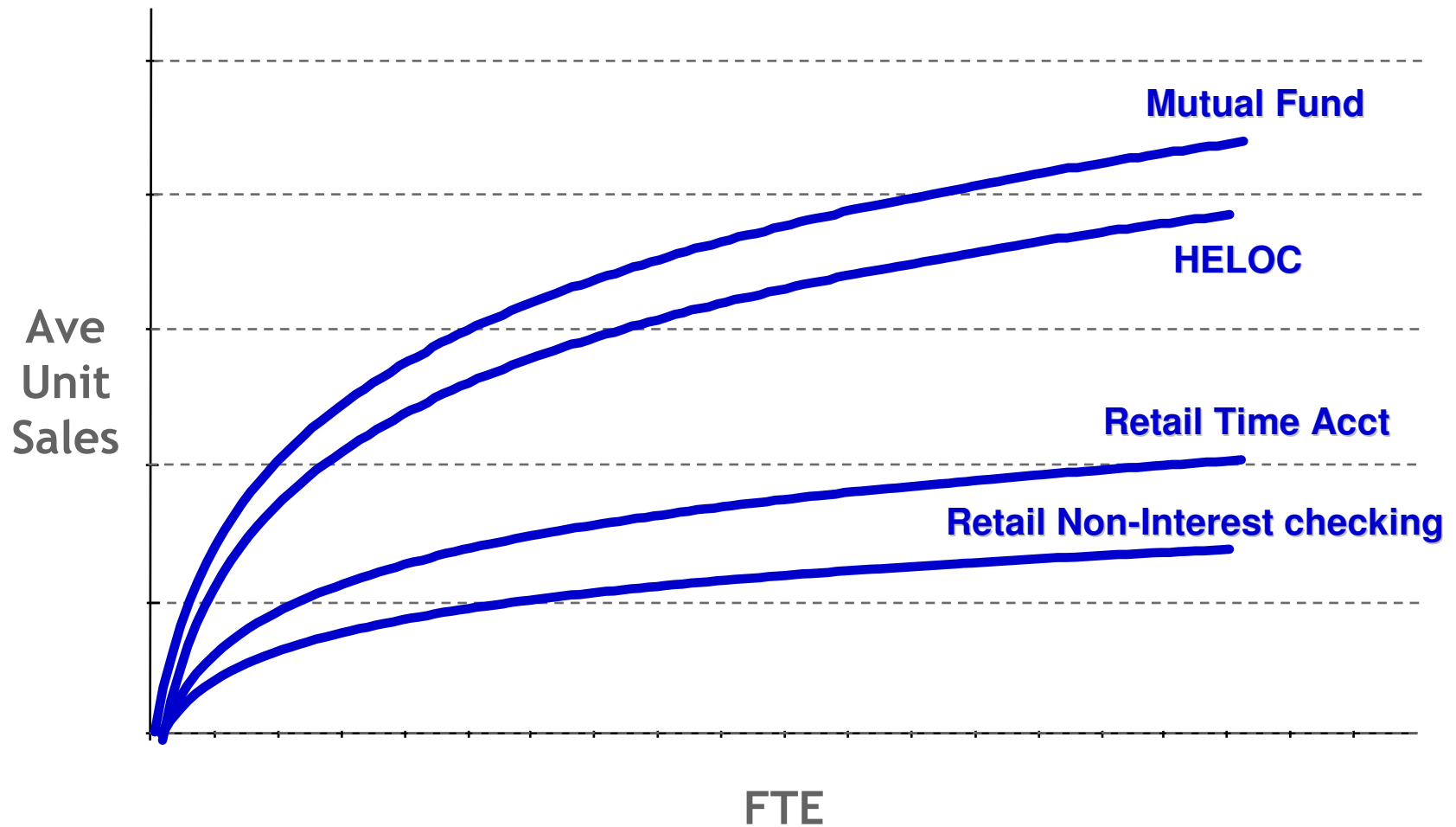
# Opportunity Based Goal Setting - Role of FTE

To achieve higher goals, sales have to move from passive to active and sale's capability needs to be adjusted to support the effort.



# Opportunity Based Goal Setting - Role of FTE

Keep in mind that the ability to produce a greater volume of active sales will vary by product type



# A More Sophisticated Approach

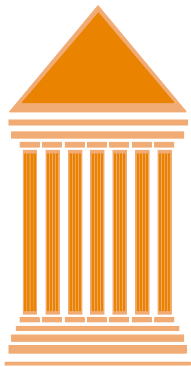


- Separates *external factors* from the performance of your people
- Benchmarks branch sales performance against *actual* sales of other bank branches
- Assessment of *true attainable potential*
- Rational allocation of sales goals based on *equal attainment risk*
- *Align Marketing Resources* with market opportunity

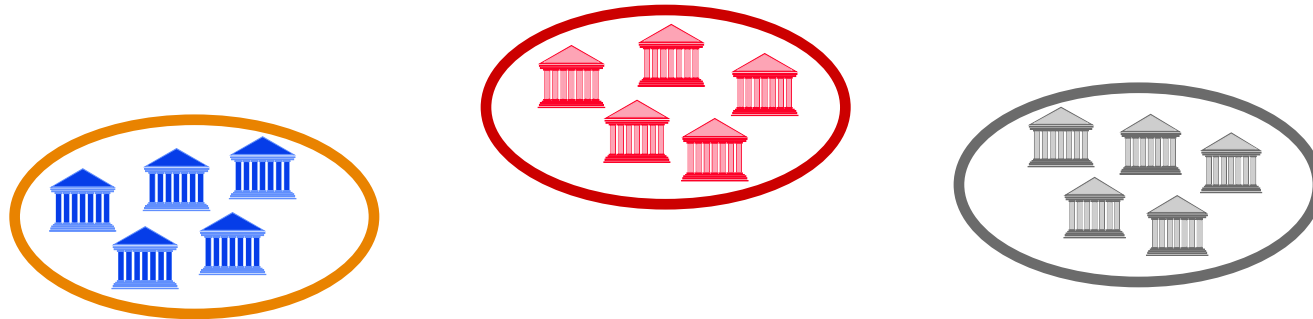
***Better Sales Goals = Increased Sales***

# A More Sophisticated Approach - Branch Segmentation

- Market: Growth - Decline - Demographics
  - Over 100 demographic variables by census block group
  - One year demographic forecasts
- Competition: How Much - Who
  - Branches in trade area by type
- Facility: Size - Hours - Services
  - Over 30 facility variables for each branch



# A More Sophisticated Approach - Branch Segmentation



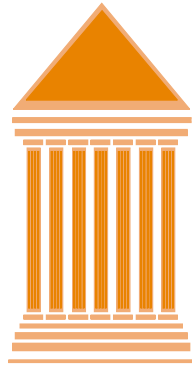
Market Segment	Branches
Older heads of households, moderate income	40
Young heads of households, moderate income, home owners	28
Young heads of households, moderate income, renters	27
Younger-middle aged heads of households, moderate income, rural area	25
Mature heads of households, seniors, moderate income	21
Younger-middle aged heads of households, moderate income, suburban	21
Middle-aged heads of households, moderate income	20
Young heads of households, high income, renters	14
Younger-middle aged heads of households, low income, low ethnic pop.	12
Older heads of households, low income	11
Younger-middle aged heads of households, high income	10
Young heads of households, low income	9
Middle-aged heads of households, high income	7
Middle-aged heads of households, low income	7
Young heads of households, high income, home owners	7
Mature heads of households, seniors, high income	4
Mature heads of households, seniors, low income	4
Older heads of households, high income	3
Younger-middle aged heads of households, low income, high ethnic pop.	2
Younger-middle aged heads of households, moderate income, urban area	2

Facility Segment	Branches
Older branches, shorter lobby hours, lower service capability	54
Older branches, longer lobby hours, higher service capability	39
Younger branches, shorter lobby hours, lower service capability	32
Older branches, shorter lobby hours, higher service capability	30
Younger branches, shorter lobby hours, higher service	24
Medium city downtown branches	24
Older branches, longer lobby hours, lower service capability	23
Younger branches, longer lobby hours, lower service capability	19
Younger branches, longer lobby hours, higher service	18
Major city downtown branches	7
In or near a mall	3
In-store branches	1

Competitive Segment	Branches
High competition, high # of tracts in trade area	99
Moderate competition, low # of tracts in trade area	82
Moderate competition, high # of tracts in trade area	75
Low competition, low # of tracts in trade area	17
High competition, low # of tracts in trade area	1
Low competition, high # of tracts in trade area	0



# A More Sophisticated Approach - Branch Segmentation



Branches that serve similar markets and face similar competition, but have different branch configurations, attributes, and capacity will have different opportunities to sell, especially to new customers.

# A More Sophisticated Approach - Branch Segmentation



Branches that serve similar markets and have similar facilities, but face different competitive forces, will not have the same sales opportunities.



# A More Sophisticated Approach - Branch Segmentation

<u>Branch</u>	<u>% of Customer Households with Savings Accounts</u>	<u>Rank in All</u>
Pine	89%	1
Cedar	87%	2
<b>Cherry</b>	<b>62%</b>	<b>59</b>
Dogwood	41%	74

# A More Sophisticated Approach - Branch Segmentation

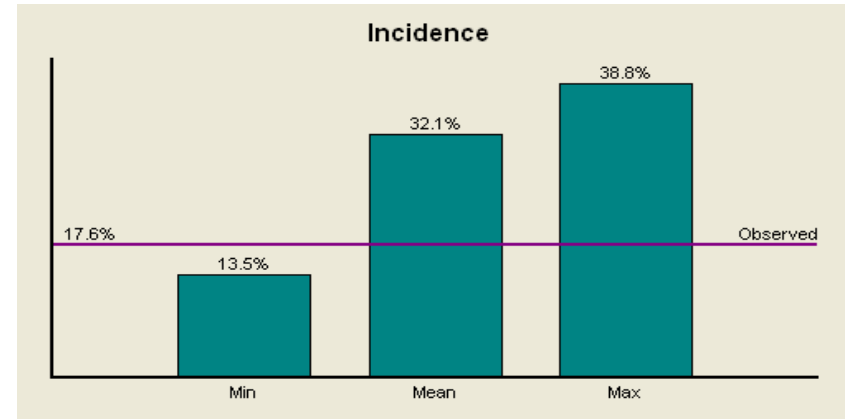
<u>Branch</u>	<u>% of Customer Households with Savings Accounts</u>	<u>Rank in All</u>	<u>National Reference Branches</u>	<u>% of Customer Households with Savings Accounts</u>	<u>Re-Rank</u>
Pine	89%	1	Peach	64%	-
Cedar	87%	2	Cherry	62%	4
			Fig	61%	-
					-
					-
Cherry	62%	59			-
Dogwood	41%	74			



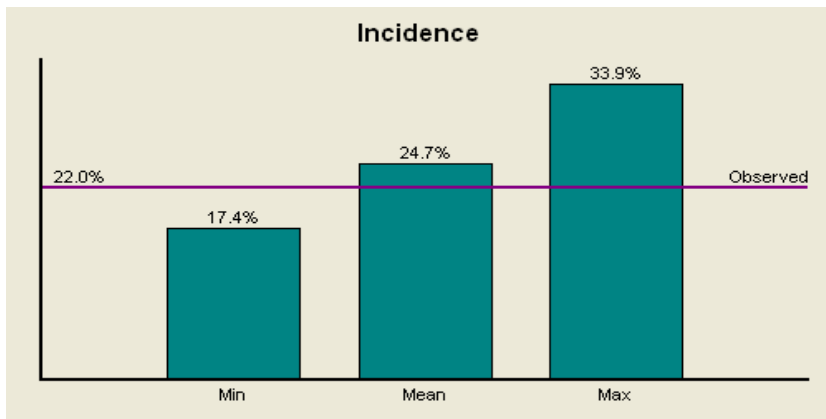
# A More Sophisticated Approach – Determining Performance Baselines

Using branch segmentation, performance benchmarks can be determined for each branch based on incidence rate (household cross-sell), household penetration (new household acquisition) and average balance. These benchmarks can be used to determine untapped potential.

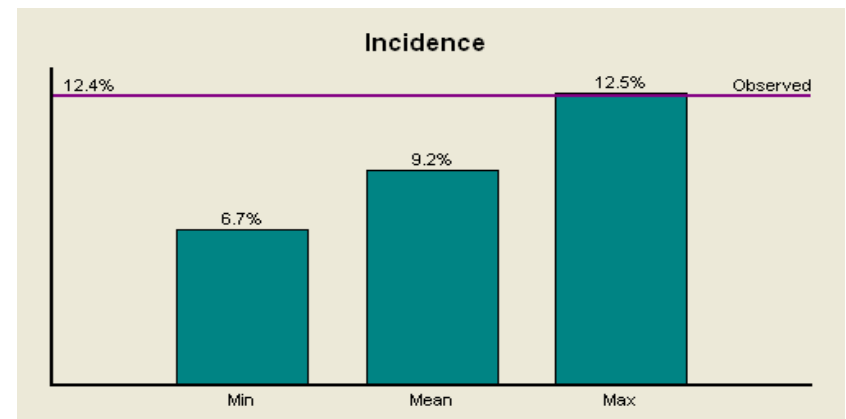
### Branch A



### Branch B

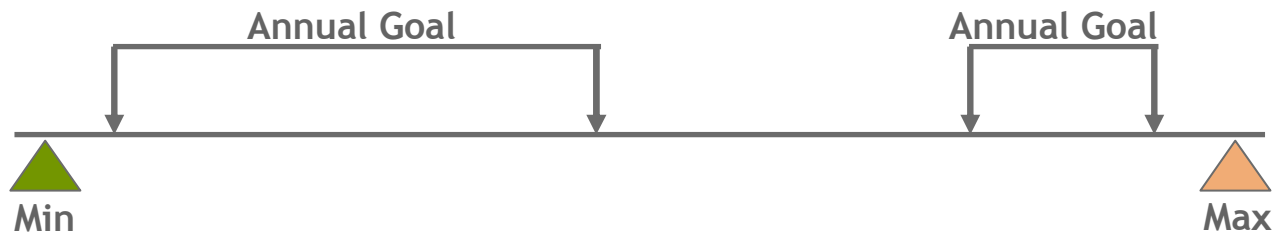


### Branch C



# Difficulty Depends on Starting Point

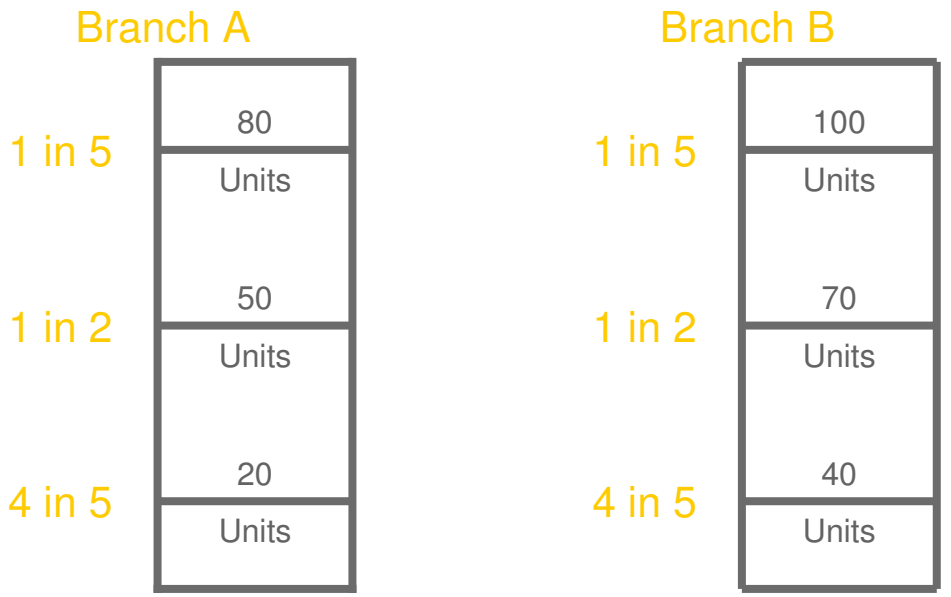
## Equal Risk Goals



## Lifetime Performance Scale



# Path of Least Resistance



## 100 Unit Total Goal

## Odds of Success

- |      |   |      |                               |
|------|---|------|-------------------------------|
| 0A   | + | 100B | 1 in 5                        |
| 100A | + | 0B   | 1 in 8                        |
| 50A  | + | 50B  | 1 in 2 for A but 2 of 3 for B |
| 40A  | + | 60B  | 3 in 5 for A and B (best)     |

## Benefits of Opportunity Based Goal Setting

- Assessment of true attainable potential by branch by product
  - Benchmarks branch sales performance against actual sales of other branches in national database
  - Separates external factors from the performance of your people
- Rational allocation of sales goals based on equal attainment risk
- Objective and defensible goal-setting system
- A sophisticated method for setting goals and increasing sales.





**THANK YOU!**

Bill Simmons

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