

Winning the Site Selection Race

Thompson Associates

“An understanding of market product usage and account balances can provide a basis to assess whether sufficient demand exists to support a new branch office”

A chequered flag in a car race denotes the winner. The winner in the race for financial institutions is measured by bottom line profits; and nothing influences this more than site selection. Determining the ideal branch location is like choosing the right engine for your race car. It won't matter what the paint job looks like or how good the tires are, if the engine is bad – nothing will run. Proper site selection will add measurably to your bottom line profitability. Adding new branch offices (or relocating existing facilities) can be a strategic tool that can dramatically improve market share growth, increase customer profitability, and improve brand awareness.

As an illustration

A bank based in the Western U.S. with \$4 billion in assets conducted site selection research to determine the best locations for their branch offices. By identifying optimal sites for expansion and relocation within a major Western market, this bank was able to increase consumer deposit levels and profitability by more than 15 percent. In the end, the branch network was more efficient, served a greater number of potential customers, and was less expensive to operate.

Another case in point

An east coast bank with \$1 billion in assets developed an aggressive site selection strategy that gave them a competitive advantage over their rivals in a high growth suburban market. They froze the competition

out of the market by replacing an under performing downtown facility with two new offices (a full-service branch and an in-store office) in affluent, high growth areas.

In the past, banks believed that they could place branches anywhere, and the customers would come flooding in. This is no longer the case. When it comes to site location, banks need to think more like retailers. Convenience retailers such as restaurants or gas stations know the value of good visibility. If your customers can't see your sign or find your building, then it will be difficult to realise your sales expectations. There are numerous examples of banks that have done an excellent job of selecting the right market, yet placed their branch in a location with inferior access or visibility.

Site selection, however, involves much more than just picking a site with good visibility and access. Effective research on competition, demographics and market demand are also required. Retailers, such as drug store chains have mastered the approach of locating close to their customers. Locating near your best customers can make or break sales volumes.

Back to the auto racing analogy, placing a branch in the wrong location, is like driving stock car at the Indy 500. So, what can banks do to make sure that they have the opportunity to win the race? How can banks identify the best site locations for new branches or relocations?

Winning the Site Selection Race

2

The Top 10 Site Selection Techniques

The following 10 items represent a proven framework for assessing site selection opportunities:

1. Collect Demographic Data
2. Build an Inventory of Competition
3. Generate Market Characteristics
4. Quantify Market Demand for Financial Products and Services
5. Understand MCIF Customer Account Information
6. Recognise Customer Behaviour Patterns
7. Identify Potential Site Location Opportunities
8. Conduct Fieldwork
9. Identify Site Characteristics
10. Develop Final Recommendations for Senior Management



Demographic Data

If the driving elements of location research involves qualifying the potential number of customers, understanding where potential customers are concentrated (and whether there are sufficient quantities to support a branch) is like providing the gas to start the engine in identifying possible locations for expansion. The primary pit stop of this information is the U.S. Census Bureau. The 2000 Census provides a number of the lubricants, oils, air and tools for your vehicles; it is a wealth of information on the quantity of persons and households in each market. It is equally important, however, for banks to understand the nature of the

potential customers in each market. For example, collecting data on the age, income distribution, educational attainment and occupation type will provide great insight into understanding the market quality of various areas. Visualising demographic information on maps (see map example) can be a very useful way to understand demographic data.

Build an Inventory of Competition

Superior racers know their competition's style, strengths, and weaknesses, and they utilise this information to their advantage. Financial institutions should do the same. The Federal Deposit Insurance Corporation (FDIC) maintains an on-line database of all bank and savings and loan branch locations including the exact address and deposit levels. The FDIC also maintains a record of branch openings, closings and relocations that is updated every two weeks. It is very easy to access this data through the Internet. The FDIC databases will need to be supplemented by local intelligence on credit union, mortgage and brokerage offices for each target area, as well as an assessment of the quality of each competitor. With an inventory of competition, it will now be possible to identify the competitive intensity of each potential market areas. Some of the more common measures used to evaluate markets include: average deposits per branch, market households per branch, deposit market share, growth/decline of branch deposits, and share of outlets (branch offices).

Generate Market Characteristics

Branch location decisions need to be made with a long-term perspective in mind. Market characteristics, such as unemployment levels, planned road improvements and household growth, can provide clues into the overall quality of the market. Generally, local municipal and county government departments are able to provide this type of data along with information on zoning, building permit trends and planned economic development. Again, it is very helpful to display this information on a map to improve your ability to interpret the data.

Quantify Market Demand for Financial Products/Services.

A race team must answer viability questions before deciding to enter a race; the same is true for financial institutions. Is there sufficient demand for financial products and services in your target markets? Data on average household balances and product usage can be purchased from market research firms by geographic

Community characteristics such as unemployment levels, planned road improvements and household growth, can provide clues into the overall quality of the market



area for both current year volumes and five-year projections. It is also possible to collect information on delivery channel preferences (e.g. traditional branch, in-store branch, ATM, telephone banking or on-line banking) by market area. An understanding of market product usage and balances can provide a basis to assess whether sufficient demand exists to support a new branch office.

Understand MCIF Customer Account Information.

Your existing customer information provides valuable insight into future expansion opportunities as well. Financial institutions have a real advantage in capturing quality information on current customers as compared to many other industries such as restaurants or retailers. With key customer information including address, balances levels, products, branches visited, and target/profitability segments banks have a wealth of useful knowledge. This information, typically captured within a Marketing Customer Information File (MCIF) database can provide important clues for site selection opportunities. MCIF data can help determine whether your current branches are located close to your high value customers. MCIF data can also be used to evaluate the types of accounts sold through the branch as opposed to alternative banking channels such as telephone banking or PC Banking channels.

Recognise Customer Behaviour Patterns

Customers develop patterns and preferences in conducting transactions and opening accounts. Developing an understanding of these preferences can allow banks to become more skilful at identifying potential new locations for business expansion. For example, important questions to be asked include:

- How far are current customers willing to travel to conduct transactions or to open accounts?
- Do most customers typically conduct transactions at one location or several branches?
- Are there differences geographically in terms of where new account relationships are opened as opposed to existing relationships?

MCIF systems and transaction files can be used to collect this information. With this data, banks will

gain insight into issues such as trade area size (the area where a majority of existing customers are drawn from), how close new locations can be to existing branches, and where the new account growth is occurring that may justify a new branch location.

Identify Specific Site Location Opportunities.

The information collected on market demographics, competition and existing customers can now be used to identify high quality sites. For example, potential sites can be identified using the following approaches:

- Household Penetration – Identify high quality markets near existing branch offices where household penetration is low.
- Core Customer Segments – Identify concentrations of high-value customers without a convenient nearby branch location.
- High Growth/Limited Competition – Focus on areas with high household growth potential and below average competition to gain a first-mover competitive advantage.

Conduct Fieldwork.

Field evaluation provides an opportunity to gain firsthand knowledge of a market. This is where the rubber hits the road. Field evaluation tasks can include:

- Validation of all competitors
- Evaluation of traffic volumes and shopping patterns
- Review of specific site locations
- Identification of retail concentrations and shopping centres and how many financial institutions are located in these areas
- Analysis of the quality of local neighbourhoods to determine whether they are consistent with demographic information
- Meetings with local agencies such as planning departments, road commissions, and chambers of commerce for updated information on demographic projections, road projects, zoning, and new business development.

There are numerous examples of banks that have done an excellent job of selecting the right market, yet placed their branch in a location with inferior access or visibility.

Identify Site Characteristics.

We have already alluded to the impact that good (or bad) site characteristics can have on the sales performance of branch locations. While in the field, an assessment of key site characteristics for any potential locations should involve the following items:

- **Visibility** – Will the branch building and signage be clearly visible from the road?
- **Parking** – Will a sufficient number of parking spaces be available?
- **Ingress/Egress** – Can customer easily enter and exit the site? Are there medians that restrict access to the site?
- **Accessibility** – Are there major highways in the area that allow customers convenient access to the area around the potential branch location?
- **Proximity to retail shopping centres** – The presence of retail districts will draw customers into an area. Does the site have concentrations of high-quality retail nearby?
- **Safety/Security** – Does the site present potential problems for employees or customers?

Develop Final Recommendations for Senior Management.

Senior management will need to clearly understand the methodology and approach in prioritising the best locations for branch expansion. Using the data compiled in each of the steps above, a numerical score can be calculated for each site that provides the basis for ranking the desirability of each site location. This ranking should be based on key characteristics such as market size, market growth, competitive intensity, financial product demand, presence of target customer segments, field assessment, and quality of site characteristics. The resulting list of locations should include an explanation of the rationale describing the reasons why each site is recommended or rejected. And finally, using maps and tables to help illustrate why specific sites have been recommended as part of this plan can be extremely beneficial.

In summary

Winning the site selection race involves a great deal of preparation and the correct tools. Implementing the TOP 10 site selection techniques will put your organisation on the road to improved market share growth and profitability.



Corporate Headquarters

One Global View
Troy, NY 12180-8399
main: 518.285.6000
1.800.327.8627
fax: 518.285.6060
sales@mapinfo.com
www.mapinfo.com

Asia Pacific/Australia Office

Level 4
170 Pacific Highway
Greenwich, Sydney
NSW 2065
main: 61.2.9437.6255
fax: 61.2.9439.1773
australia@mapinfo.com
www.mapinfo.com.au

Europe/United Kingdom Office

Minton Place
Victoria Street
Windsor, Berkshire SL4 1EG
main: 44.1753.848200
fax: 44.1753.621140
europe@mapinfo.com
www.mapinfo.co.uk