Winning in Local Markets

By managing branch networks as a series of local markets, banks can improve pricing, advertising effectiveness and network expansion.

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As banks enter 2007, they are facing a revenue drought in retail banking, a pivotal line of business. Pressured by collapsing retail loan and deposit growth rates, executives must strive to wrest market share from competitors while tightening the screws on expenses.

It's an unforgiving environment, especially for major institutions with hundreds or thousands of branches. With branch banking remaining a local business, competitors must scour each market for opportunity. Winners will use local market insights to answer three crucial questions:

- Where can we capture pricing advantages?
- Where should we deploy advertising dollars for the very best sales volume?
- Where should we expand our branch network, and where can we trim?

Unfortunately, traditional management approaches do not address these issues. Many banks still manage their networks by regional or state averages, which often mask local performance improvement opportunities.

The first step in breaking out of this trap is to define markets in ways that make local opportunities more readily apparent. A bank serving California, for example, should be mindful of differences between San Jose, where deposits have been growing at a 4.5% annual rate, and Riverside, which has enjoyed a 10.7% expansion rate.

The second step is to delve within local markets to assess competitive dynamics and branch network strengths. Each market has its own unique profile, with implications for pricing and resource allocation. And by emphasizing convenient, self-reinforcing clusters of branches, competitors can boost deposit growth and profitability.

LOCAL DIFFERENCES

In large measure, the tendency to manage branch networks by state or region reflects the lingering influences of obsolete banking laws and age-old geographic definitions, some predating the Revolutionary War. It's a case of old habits masking fresh opportunities.

Consider how a statewide orientation affects a hypothetical 2007 initiative centered on "the Florida retirement market." A campaign on jumbo certificates of deposit might play well in Sarasota, where the median householder is 58 years old and well into the stage of asset accumulation. Less so in Gainesville, however, where the median householder is 44 and still midstream in the process of building savings and investments.

Instead of being blindsided by such market variations, leading banks have established systematic ways of recognizing and profiting from them. The emerging standard in branch network management is to track markets by metropolitan statistical areas, which are major urban locales with high population density.