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INSIDE

Dennis Bassett reflects on his leadership role with JPMorgan Chase in Indiana.

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Eight Steps to Improving Branch Profitability

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During the last 10 years, many consumers migrated to virtual channels, with the result that customer visits to retail bank branches dropped by 20 percent. In response, banks cut costs by closing hundreds of locations nationwide.

It is no secret that brick-and-mortar continues to be the most expensive distribution channel for financial institutions, and banks must receive the maximum return on the investment. To become more productive and profitable, Indiana banks, like those across the country, must evolve strategies and practices to cultivate the growth and revenue potential of individual branches.

The following are eight steps for bank executives to take that can help each branch focus on generating income and maximizing overall franchise profitability.

1. Focus on balancing profit, growth and risk. The best-performing banks balance the three principal drivers of franchise value—profit, growth and risk—to maximize performance and build a sustainable earnings stream. By focusing on these fundamentals, a bank can align its branches' priorities and day-to-day activities with the overall objectives of the franchise to improve performance.

To best understand how the franchise and each branch is performing requires benchmarking against peer institutions. Through comparison, a bank can uncover the primary issues that it must address to improve performance—including cost of funds, overhead efficiency, pricing, net-interest margins and excess capacity.

2. Assess the strategic fit and unique role for each branch in the network. At many community banks, the chief financial officer sets the budget and spreads it across the branches, with each location asked to meet the same percentage growth target. However this approach typically results in setting goals that some branches cannot achieve and goals that may not be aggressive enough for other branches. The more effective approach is to establish unique customer acquisition, retention and cross-selling goals based on current realities in each branch's service area.

3. Analyze the current customer

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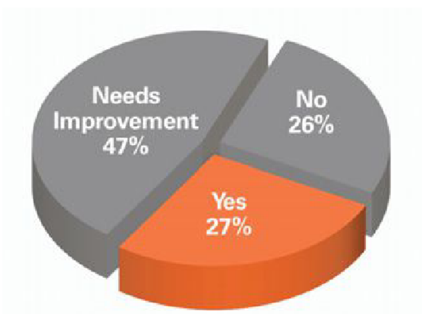
base for each branch. Banks that increase wallet share among customers can also improve retention rates. On average, a customer with a single product will stay with the institution for about 18 months. When a customer adds one more product, it extends that relationship (and income to the bank) to four years. At the three-product threshold, that relationship stretches to just short of seven years.

Yet during a recent survey, 73 percent of community bankers indicated their business development plans did not adequately recognize differences in wallet share among current customers. This finding demonstrates that bankers need analytical tools to help them pinpoint the most profitable customer segments for each branch.



Only 27 percent of surveyed bankers indicated that their business plans take current wallet share into account.

4. Identify your best new prospect opportunities. More than two out of three community bankers surveyed acknowledged that they rely mostly on current relationships and branch location, rather than on proactive outreach programs, for business development. However to attract new customers, banks should take a more data-driven, proactive approach.

To begin the process, bank executives must ask themselves two questions: Which types of customers currently gravitate to our bank? Which specific segments should our bank target and pursue as prospects? It is only by understanding the dynamics of the market that community bankers can pinpoint, pursue and profit from business and consumer prospecting opportunities.

5. Analyze the competition. Using analytical tools, bankers can identify which competitors have grabbed market share and grown deposits *vs.* those that are falling behind. Understanding the strengths and weaknesses of the competition helps banks develop effective business plans and leverage competitive intelligence into true business advantages.

6. Set specific goals by branch for business and consumer markets. It is best for banks to determine the most important goals and priorities for each branch. The goals should consider both consumer and commercial segments.

After completing the first five steps, bank executives will be equipped with the information needed to establish branch-specific goals and incentive compensation plans tied to those customer segments. This branch-specific approach produces

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much better results than setting generic goals for all branches.

7. Execute effective marketing campaigns to drive customer origination, retention and expansion. To attract new customers and sell more products to existing customers requires that banks not only establish unique goals for each branch, but also adopt a more demanding sales culture.

However more than two-thirds of surveyed community bankers revealed they lacked sufficient proactive calling programs that target specific business or consumer niches. Banks that identify each branch's most valuable customers and prospects can create opportunities to grow deposits and improve customer retention. Using branch-specific information, financial institutions can execute highly targeted marketing campaigns.

8. Redefine the bank model of the future. What's next? By using analytical tools, consumer household segmentation and customer relationship management systems, banks can improve their understanding of customers, predict in-branch behavioral patterns and spot emerging trends. Branch strategy should be evolving constantly, and it should be an ongoing process for banks to assess current position and determine how effectively staff members and branches are contributing toward maximizing franchise value.

For community banks in Indiana and across the country, the path to high-performance branches requires intense focus. By working to drive measurable results, branches can achieve unique and targeted sales goals, while contributing to the overall performance and profitability of their franchises. ♦

Bankers Complete IBA Commercial Lending School

Indiana Bankers Association hosted the 2012 Commercial Lending School at the IBA Professional Development Center in June. Graduates are (row 1, left to right): **Sarah Baker**, STAR Financial Bank, Indianapolis; **Kristy Ottinger**, Tower Bank & Trust Company, Fort Wayne; **Darla Guinn**, Bloomfield State Bank; **Marcia Schaefer**, Grabill Bank, Leo; (row 2, left to right): **Kevin Moyer**, Consumers National Bank, Minerva, Ohio; **Jeff Love**, Lafayette Savings Bank, FSB; **Mark Cowen**, Farmers State Bank, LaGrange; **Aaron Campbell**, First Merchants Bank, NA, Wabash; **Jason Spencer**, The Farmers State Bank, New Madison, Ohio; **Susan Ruch**, The Farmers Bank, Frankfort; (row 3, left to right): **Jon DeSmet**, The Fountain Trust Company, Lafayette; **Doug Baumgardner**, Lake City Bank, Warsaw; **Aaron Weller**, First Savings Bank, Salem; **Michael Belcher**, First Farmers Bank & Trust, Marion; **Dene Mattocks**, Kentland Bank; **Aaron Hines**, Alliance Bank, Francesville; **Cathy Zeider**, Kentland Bank; and **Renee Kerpash**, The Missouri Bank, Warrenton, Mo.