Letters to the Editor

The '80/20' Rule Also Applies to Branch Planning

To the Editor:

"Rules of thumb" can be useful to management as long as the applicability limitations of these general guidelines or rough approximations are kept in mind. Your May 7, 1986, Marketing Management feature on various applications of the "80/20" rule in banking ["Examining the Serious Side of the '80/20' Rule," by G. Lynn Shostack, page 4] was therefore quite interesting.

After more than 10 years of specializing in branch evaluation and location research exclusively for financial institutions, we have concluded that such a rule also applies to branch planning: approximately 20% of a financial institution's branches cause 80% of its branch problems.

We have formulated two specific rules of thumb regarding that bottom 20% of branches. One rule pertains to the first or lowest 10%, and the second rule concerns the next lowest 10%. These rules apply to institutions with "virgin" branch systems — those that have been developed over the years but have not experienced any closings, sales, exchanges, or relocations.

The first rule of thumb is that approximately 10% of an institution's offices can probably be categorized as problem or serious-problem offices that may require a branch closing, sale, exchange, or relocation. This lowest 10% is usually the most clear-cut to identify, and there is often a high degree of correlation between management's "gut feelings" and the results of our analysis in this regard.

The second rule of thumb pertains to the other 10% — the next to lowest tier of branches which we designate as problem, near-problem, or potential-problem offices. The worst of them may need to be closed, sold, relocated, or swapped. However, some of the offices in this grouping may be able to be restructured in some major way to correct existing or potential problems so they can be removed from this category, a most desirable alternative if feasible.

Kenneth H. Thomas
President
K.H. Thomas Associates
Philadelphia

American Banker

May 23, 1986