MID-CONTINENT BANKER

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# Candidates for Branch Closings Identified by Consulting Firm

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FINANCIAL INSTITUTIONS have retained the services of K. H. Thomas Associates, a Philadelphia consulting firm specializing in delivery system planning, for both *individual* and *systemwide* branch/ATM projects.

Typical individual branch and ATM consulting projects, says Dr. Kenneth H. Thomas, the company's president, include feasibility analyses, location studies, applications/hearings, performance evaluations and closing analyses. Oftentimes performance appraisals are conducted on the offices of an acquisition candidate or on those offices that have been proposed to be purchased or swapped to aid management in its decision making.

The firm's *systemwide* study is known as BRANCHPLAN® System. BRANCHPLAN System is the firm's trademarked name for a two-phased analysis of a financial institution's overall existing and proposed delivery system. The term "branch" in BRANCHPLAN is broadly defined to include all traditional and electronic delivery-system vehicles.

BRANCHPLAN System is a modular approach and contains two major subsystems:

1. Subsystem I — The Branch Performance-Evaluation Model, and
2. Subsystem II — The Optimal Branch-Location Model.

The first subsystem pertains to a financial institution's existing delivery system and the second is concerned with possible additions to it. These two subsystems can be applied individually or simultaneously.

The purpose of BRANCHPLAN Subsystem I is to analyze the past, present and projected performance of all existing delivery-system facilities and make recommendations that will lead to the maximization of their profitability. Those offices that have been identified as existing or potential "problem" or "serious-problem" branches are singled out for special examination.

Many alternative strategies for enhancing the branch performance of a particular problem branch, according to Dr. Thomas, are examined in the context of this study. These range from the maintenance of the *status quo* to the possible closing, sale, or swapping of a facility. Other alternative strategies potentially include the modification of a branch marketing plan; improving existing facilities; the addition of electronic or other facilities; scaling down a full-service branch to a mini-branch; or relocating the branch to a different site in the immediate area or to a different immediate area in the primary service area.

The objective of BRANCHPLAN Subsystem II is to maximize a financial institution's return on invested capital on any planned delivery-system additions. Specific recommendations as to the optimal location, type and characteristics of proposed *de novo* branches, proprietary and shared ATMs, possible merger and branch purchase candidates, etc., are provided in this study for a five-year planning period in a designated "study area."

A case study of a BRANCHPLAN Subsystem I and II study completed a few years ago by K. H. Thomas Associates for an approximately $600-million institution with 33 offices is summarized below.

The BRANCHPLAN Subsystem I analysis of the existing office network in this particular case study demonstrates the point that problem and serious-problem branches have no standard profile that would be useful for delivery-system planners. The only common thread to these branches is their past, present and projected unprofitability.

The final performance ranking of the 33 offices in this formal analysis concluded that, while seven (or 21%) of them were problem branches, five (or 15%) were in the "serious problem" category, requiring a closing. There was no common profile for the five offices recommended for closing:

- Three of the five offices were leased and two were owned;
- Three were opened during the 1960s, and one each during the 1950s and 1970s;
- Total deposits ranged from $5 million to $11 million at each branch, for a combined level of $38 million;
- The number of employees in each ranged from four to 11, with a total of 33;
- The five full-service offices varied in size from 1,400 to 2,900 square feet, for an average of 2,200;
- Direct annual operating expenses for salary and benefits, net occupancy and other expenses ranged from $117,000 to $240,000 for the branches, for a grand total of $828,000; and,
- One of the five offices was in an inner-city area, one was near an inner-city area and the remaining branches were in middle- or upper-income areas. Several of that institution's other offices in or near inner-city areas were not in the problem or serious-problem category.

Because there was no common profile for the five "serious problem" branches, some of the initial feelings and "gut reactions" of senior management proved to be incorrect, says Dr. Thomas. For example, many branches that they felt were in this category were not; other non-locational branch performance determinants needed modification. Conversely, some of the branches that senior management thought were "average" performers turned out to be branch-closing candidates.

"Our client acted upon our advice," Dr. Thomas states, "and disposed of those five offices in accordance with our 'branch closing plan.' Now, with approximately two years of experience with those five closed branches, that institution is reporting a good overall deposit retention rate of approximately 75%, well in excess of our conservatively estimated rate of about 50%."

The bottom-line impact of those five closings is quite obvious, Dr. Thomas explains. The five closed branches represented 15% of all of that institution's 33 offices, but only 7% of all deposits. With these closings, that institution has eliminated 100% of its $828,000 direct annual operating expenses associated with those offices and their 33 employees, but still retains 75% of the deposit benefits of those offices.

The BRANCHPLAN Subsystem II study that was simultaneously conducted for this institution contained various recommendations for proposed branch and ATM additions of different types, and many of these have been and continue to be implemented.

"We believe that this comprehensive delivery system planning study," says Dr. Thomas, "has had something to do with the fact that this institution has had at least a 1% return on assets for the last several years." ● ●