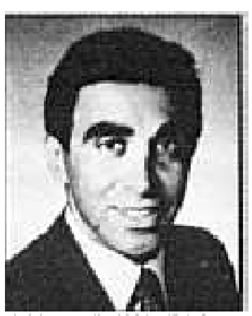
Location Factor Still Key, Says Thomas



Kenneth H. Thomas, Ph.D., is president of K. H. Thomas Associates, a bank consulting firm based in Miami, FL. His firm, established in 1975, provides branch planning services on a nationwide basis. Dr. Thomas is a frequent speaker and writer on the banking and thrift industries and is currently writing a book on bank delivery systems.

Location has long been considered the primary determinant of branch performance. We think of the time-tested adage "location–location–location" as representing the three components of a location: the actual site, the immediate area in the vicinity of the site, and its primary service area or market area. A focus on just the site (as in "market–market–market") or any other single component clearly understates the importance of location.

Each of the three locational factors are multidimensional. Important site characteristics include size, actual (and perceived) accessibility, visibility, overall appearance, interior layout and design, and, of course, parking, drive-in and ATM facilities.

The immediate area or locale about the site is rated in terms of its demand and supply (i.e., competitive) characteristics. The most attractive immediate areas are usually major commercial and employment "demand" centers with substantial "convenience drawing power." An inferior site in terms of visibility, accessibility or convenience considerations within a very desirable shopping center is not a good location.

The primary service area or market area of an office is also evaluated in terms of demand and supply factors. Key demand factors include the wealth, income, age and density of an area's resident, employment and shopping base. A branch in the "right" market but at the "wrong" site and/or immediate area to serve that market would likewise not be a good location.

The evaluation of the supply or competitive factor is much more complicated than simply applying a negative weighting to increased competition. In fact, the reverse is true in cases where the best location may be adjacent to an area's largest competitors. In addition to the synergism of a financial center, a branch in the midst of other competitors also may benefit from overflow or lost business.

For example, a New York City bank was able to get upwards of 10% of a competitor's deposit business on the basis of customer dissatisfaction alone just by establishing a branch next to them. This was not an insignificant finding considering that New York City has approximately 400 branches with deposits in excess of $100 million.

A competitive evaluation must look beyond the numbers. The most difficult competitors are well managed and strong ones with an identical target market segment. The most dangerous competitors are under-capitalized ones that have adopted seemingly irrational deposit pricing strategies. "Sleepy" or ineffective competitors, however, may serve the purpose of preempting additional market entrants merely by their presence because an area may appear "overbanked."

All three location factors collectively represent but one determinant of branch office performance. Besides this "place" factor we have the other familiar marketing "Ps," namely pricing, product and promotion. Additional nonlocational determinants include personnel and other factors such as office hours and the bank's image.

A branch in the "right" location but with the "wrong" product mix or personnel will be an underperforming one. A branch with favorable locational and nonlocational factors will be a high-performing one.

Most nonlocational determinants of branch performance can be changed in the short run and indeed often are after a branch sale or merger. What remains is the long-term intrinsic value of a branch network, and this "franchise value" is primarily determined by location–location–location. ■