'Bank Marketing Responses to Deregulation and Other Changes in the Financial Services Industry'

Prepared in partial fulfillment of the requirements for the University Undergraduate Fellows Program by:

Kevin McKenzie
May 1, 1985

Approved by: Steve McDaniel

Steven McDaniel

Acknowledgements

Thanks to Steve McDaniel who made this paper possible, and this year the best one of my life. He will always be my dear friend. Thanks also to Jim Kolari for his patience and guidance. My special thanks to my parents and my family. Their love has seen me through and always will.

Thank you God.

Abstract

A questionnaire was mailed to the marketing officers of 1,000 randomly selected U.S. banks. The purpose was to determine bank marketing responses to deregulation and other changes in the competitive environment of the financial services industry.

This study is concerned with bank marketing officers' attitudes toward certain marketing and sales elements, certain financial products and services and a potential competitive structure.

The most significant findings are that (1) Large banks are much more marketing and sales oriented than smaller banks, (2) Large banks tend to offer more complex and innovative products and services, than do smaller banks, and (3) the banking industry will probably be characterized by about four or five types of banks. These banks will be differentiated by their levels of marketing and sales orientation and the types of products and services they offer.

Table of Contents

List of Tables

List of Figures

Introduction

The finacial services industry is in a period of great change. The economy is more volatile than ever before. Consequently consumers' financial awareness and expectations have changed. Technological advances are constantly making possible new financial services and are making traditional services cheaper and more convenient to administer. Many non-bank institutions, such as Merrill Lynch and Sears, are entering the financial services industry full force, with all of their marketing skills and experience to back them up.

Banks are caught in the midst of all this change. And in an attempt to "level the playing field," regulators have recently begun a process of deregulation. While these regulatory amendments have broadened the competitive powers of banks, they have also forced bankers to face head-on many competitive challenges which they are not used to facing. The purpose of this study is to determine what responses bankers, and particularly bank marketers, are making to the many challenges they now face.

Background

The Great Depression of the 1930's caused a panic throughout both government and private sectors. Many blamed the Depression in part on the banking industry's excessive and irresponsible involvement in high risk investment ventures. Because of this, financial institutions, and particularly banks, became severly regulated as to the types of services they could offer, and the level of interest rates they could pay to depositors and charge creditors. However, several recent developments have dramatically changed the outlook of the financial services industry, and have caused constant shifts in the competitive equilibrium between the various types of financial service companies (Kaufman, Mote and Rosenblum 1981; CBA 1982).

Volatile Economy and Changing Consumer Needs

For over 40 years following the Great Depression, the U.S. economy remained relatively stable. But beginning in about 1978, interest rates began to fluctuate wildly and continued to do so until around 1982. The highly regulated, and thus inflexible, depository institutions had a very difficult time adjusting to these volatile interest rates (Fraser 1984; Kaufman, Mote and Rosenblum 1981; Krane 1983; Vrabac 1983).

In addition to, and partially resulting from the volatile economy, was a change in what consumers expected from their financial institutions (Berry 1982 and 1983;

Krane 1983; Laurent 1982). The Depression made people security conscious. They wanted a safe place to keep their money, and this is exactly what the financial service regulations provided (Cocheo 1980; Fraser 1984; Vrabac 1983). However, when the interest rates became so volatile, consumers developed a new set of financial priorities. They did not like seeing their money lose its value sitting in a 5 1/4 percent interest bearing account while inflation rocketed to 12 and 13 percent. Coupled with this were investors with higher levels of education and higher expectations; a new consumer had emerged. This consumer is more financially sophisticated, and therefore demands not only security, but also a high level of service and convenience, and market rate yields on his investments (Cocheo 1980; Dunn, Thomas and Young 1984; Fraser 1984; Krane 1983; Laurent 1982).

Technological Changes

The banking industry has also been affected by rapid improvements in technology. In the past, banks had a difficult time managing very many accounts. This was mainly due to the cumbersome paper-based method of information storage (Long 1984). Banks had to maintain all records on paper, and all updating was done manually. This changed with the advent of automated information storage. Banks can now service many more accounts more efficiently and faster (Dunn, Thomas and Young 1984; Kaufman, Mote and Rosenblum 1981; Long 1984).

The potential of technology does not end with improved record keeping. Many services such as automated teller machines, point-of-sale systems and telephone bill payment, are direct offsprings of this technological boom (Long 1984). By improving convenience with 24 hour availability, and providing shorter, faster service than was possible with traditional banking methods, these technologies directly address the changing consumer needs (Cox and Spies 1982; Dunn, Thomas and Young 1984; Farmer 1984; Kaufman, Mote and Rosenblum 1981; Long 1984; "New Survey . . . " 1982).

Changing Competitive Environment

Perhaps the greatest challenge today's banks face is the onslaught of new competitors entering the financial services industry. For years the strict geographic and product/service regulations over the various financial service industries prevented any real direct competition for depositors' dollars. Now however, the technological improvements combined with the higher consumer expectations have attracted many non-bank financial service institutions. Companies such as Prudential, American Express, Sears and Merrill Lynch, which had combined earnings of only a little over $100 million through financial services in 1962, earned almost $7.5 billion from their financial services by 1982 (Rosenblum and Siegel 1983).

Robert Krane, vice-chairman of Norwest Corporation, summarizes the challenges posed by what he terms these new "financial supermarkets."

"We can hardly pick up a news paper these days without reading about various financial supermarket-type companies making major moves into what we used to think of as our domain. These supermarkets can, and often do combine services offered by banks, thrifts, credit unions, finance companies, real estate firms, insurance firms, department stores, credit companies, tax attorneys, stockbrokers, travel and communications companies, financial consultants, and others. And they do so without product, price, or geographic constraints." (1983 emphasis added)

Deregulation

As interest rates rose and consumers became more investment conscious, money began flowing out of the banking industry, with its extremely low rates, and into these non-bank financial institutions. Despite repeated warnings of the banking industry's vulnerability by the Commission on Money and Credit and the Heller Committee in the 1960's; the Hunt Commission in the 1970's and the Financial Institution Act of 1975, nothing was done to remedy the situation (Fraser 1984; Vrabac 1983).

Congress finally responded in 1980 with the passage of the Depository Institution Deregulation and Monetary Control Act (DIDMCA). As table A-1 illustrates, the most important provisions of this legislation are the gradual elimination of interest rate ceilings and the establishment of the Depository Institutions Deregulation Committee (DIDC), which is empowered to create new, more market responsive accounts. These accounts should offer banks a weapon with which to battle the ever-more-powerful non-bank financial institutions. The DIDC quickly created two new accounts: the Negotiable Order of Withdrawal (NOW) account, which is an interest bearing checking account, and the Individual Retirement Account (IRA), which gives depositors a tax-deferred, market rate investment alternative.

By 1982, it became apparent that the DIDMCA did not resolve all the problems created by volatile interest rates, rapidly advancing technology, and evolving consumer needs, so that year Congress passed the Garn-St. Germain Act (Fraser 1984). This Act accelerated the interest ceiling phase-out and created the money market deposit account to combat the by then very popular Money Market Mutual Funds.

Table A-1

Regulatory Developments

1980	Passage of the DIDMCA -Extension of reserve requirements to all depository institutions -Creation of the Depository Institution Deregulation Committee Gradual phasing-out of interest rate ceilings on deposits Establishment of new types of accounts -Expanded thrifts' asset powers -Expanded mutual savings banks' powers
1981	Introduction of nationwide NOW accounts Introduction of ceiling-free Individual Retirement Accounts Introduction of tax-exempt All Savers certificates of deposit
1982	Several new accounts paying market-related rates were introduced Passage of the Garn-St. Germain Act -Assistance to thrifts -Authorization of money market deposit accounts -Increase of thrifts' powers
1983	Introduction of Super NOW accounts Elimination of ceiling rates on remaining time deposits

Source: Vrabac, Daniel J. 1983.

Present Study

The purpose of this study is to explore how the various changes discussed above will affect the banking industry. The study will concentrate on three aspects of the industry: (1) the industry's perceived importance of having a marketing and sales orientation, (2) the products and services that will most likely be offered by various sizes and types of banks over the next five years, and (3) a possible new industry structure.

Marketing and Sales Orientation

Before deregulation and the other environmental developments in the financial service industry, banks enjoyed a very protected market position. Most of the services banks offered were only available at banks. Now however, the economic, competitve, technological and especially regulatory changes have blurred the lines between traditional banks and other financial service companies. Consequently, banks will no longer enjoy the protective blanket they once had, and as a result, competition between banks and non-bank financial companies promises to heat up considerably (Cocheo 1980; Dince and Boulton 1983; Dunn, Thomas and Young 1984; Rosenblum and Siegel 1983; Stanley and Little 1983).

Nearly all industry analysts agree that in order to remain competitive banks will have to adopt a much higher level of marketing orientation than currently exists in the industry (Cocheo 1980; Berry 1982 & 1983; Dince and Boulton

1983; Dunn, Thomas and Young 1984; Krane 1983; Laurent 1982; Stanley and Little 1983). Consider the following remarks made by several bank insiders:

> ". . . a bank can no longer expect to maintain its share of total deposits and lending simply by being there." (Krane 1983)

> "From the customers viewpoint, there are now effective substitute products for what used to be bought at banks." (Dunn, Thomas and Young 1984)

> "I see these external forces of consumer desires, of broader competition, of legislative and regulatory developments moving to make marketing's role continue to grow in significance . . . each individual bank will have to focus much harder on marketing strategy and a marketing plan in building an identity of that institution." (Wanders from Cocheo 1980)

In the past, the most valuable competitive tool available to bankers was sales promotion in the form of free gifts to attract and retain customers; banks simply had no other way to differentiate themselves (Dince and Boulton 1983; Dunn, Thomas and Young 1984). Today, banks must replace those types of gimmicks with a much more sophisticated, organized and well-rounded marketing strategy.

Related to this idea of an increased marketing awareness, Berry and others suggest that banks will need to develop a sales orientation (Cocheo 1980; Berry 1983 & 1984; Dunn, Thomas and Young 1984; Krane 1983). But exactly what do they mean by "developing a sales orientation?"

Essentially a sales orientation recognizes the need to physically go out an sell the product. The companies which have entered in to the traditional banking industry -

companies like Merrill Lynch, Sears and General Motors - are experts at the art of selling products and services. On the other hand the banking industry's selling prowess has atrophied over 50 years of regulatory protection. If banks are to survive, they must re-develop their capabilities.

The first part of this study examines bank executives' perceived importance of various marketing and sales functions.

Bank Product and Service Offerings

Prior to deregulation, all banks offered the same basic services, and very few banks offered anything more, because the regulations would not permit them to do so. Now however, there is a veritable smorgasbord of new financial products and services available to banks. Consequently, bank executives will have to decide which products and services they can offer profitably (Cox and Spies 1982; Farmer 1984; Management Analysis Center, Inc. 1983; "New Survey Offers. . ." 1982). The second part of this study examines the types of products and services that various banks are likely to offer within the next five years.

In addition to looking at products and services currently available from banks, the study also explores banking industry attitudes toward some potential new bank products and services which were proposed by the Commercial Bankers Association in a recent legislative proposal (CBA 1983).

The New Structure of the Banking Industry

In his article "Deregulation and the Banking Industry," Donald Waite described three types of "winner firms" that are likely to emerge from the evolving banking industry. Waite based his three-tiered structure on a study conducted by McKinsey and Company, Inc., which explored the effects of deregulation on industries such as securities brokerage, business terminal equipment, telephone systems, airlines, trucking and railroads. According to Waite, in order to survive the increasingly competitive environment caused by deregulation, banks will have to adopt one of these three competitive structures, which he calls: "National Distribution Company", "Low Cost Producer" and "Specialty Firm" (McKinsey and Company, Inc. 198 ; Waite 1982). He describes the structures as follows:

> National Distribution Company:
> Banks which offer a very broad range of products and services to a diversified customer base. Often these banks are positioned for rapid geographic expansion both nationally and internationally.
>
> Low Cost Producer:
> Banks which offer a narrow range of simple commodity type products. These banks provide minimal services at relatively low prices, and therefore attract the highly price-sensitive customers.
>
> Specialty Firm:
> Banks which target specific segments of the market, or niches. These banks are able to provide highly specialized services because of their knowledge of the specific needs of the customer niche.

Waite predicts that, because of the extensive capital requirements and need for a broad area of expertise, only a few well organized, large banks will emerge as National

Distribution Companies. Low Cost Producers will mainly be new entrants to the banking industry, according to Waite. This is because existing banks have built up major structural costs which cannot be reduced enough to allow discounting of products and services. Most of the remaining successful banks will be Specialty Firms. Banks which realize their specific competitive advantages and do not try to become all-things-to-all-people stand a very good chance of not only surviving, but thriving in the new financial services arena.

In addition to the three types described above, Waite and other industry analysts agree that some banks may successfully combine the features of more than one type of bank (Berry 1983 & 1984; Krane 1983; Waite 1982). The most likely of these structural hybrids, according to Waite, is one which is part National Distribution Company and part Specialty Firm. However others could also emerge.

In the final section of this study, a profile of the potential new banking industry structure, based on Waite's three tiered classification, is developed.

Methodology

Questionnaire and Sample Design

A questionnaire was developed to explore the attitudes of bank marketing officers toward the rapidly changing industry. The questionnaire is shown in appendix A. A stratified random sample of 900 FDIC insured banks was selected. The banks were stratified along the eight asset categories, four organizational structure categories and two location categories listed in table D-1, for a total of 64 strata. In addition, the largest 100 U.S. banks by asset size, according to the 1984 edition of _The Rand McNally International Bankers Directory_, were included in the sample. The largest banks were included to ensure their adequate representation in the final sample, because under the stratification procedures very few large banks were included.

Two mailings were made to the 1000 banks, and they were addressed to the "Marketing Officer" of each bank. Included in each mailing was a copy of the four-page questionnaire and a cover letter. In an attempt to increase response, each respondent was offered a copy of the results.

Table D-1
Bank Stratification Criteria

Eight Asset Size Categories

Under $10MM	$100MM to $300MM
$10MM to $25MM	$300MM to $500MM
$25MM to $50MM	$500MM to $1B
$50MM to $100MM	Over $1B

Four Organizational Structure Categories

Independent unit bank
Independent branch bank
Holding company affiliated unit bank
Holding company affiliated branch bank

Two Location Categories

SMSA
Non-SMSA

Marketing and Sales Orientation

To measure the perceived importance of marketing, respondents were asked to rate the importance of eight marketing mix elements in achieving their bank's "overall strategy over the next five years" (Question A2 on the questionnaire). The marketing mix elements of concern are shown in table D-2. Respondents rated each element on a scale of one to seven, with one being "Not Important" and seven being "Extremely Important."

Table D-2
Marketing Mix Elements Examined

Advertising
Location of bank and other facilities
Marketing research
New product development
Personal selling
Pricing of products and services
Public relations
Sales promotion (e.g., free gifts)

To determine the level of sales orientation that can be expected in the banking industry, the respondents were asked to estimate the likelihood that their bank would be using each of nine sales support aids five years from now (Question A4). The respondents then checked either a "Less than 50%" likelihood or "More than 50%" likelihood box corresponding to each sales support aid. The list of sales support aids used, shown in table D-3, was adapted from a similar list in Leonard Berry's 1982 article, "The New Marketing: Realities in the Banking Environment."

Table D-3

Sales Support Aids Examined

Sales training to all employees who come in contact with customers
Sales manager(s) to supervise sales personnel
Point-of-sale material to communicate service features and benefits to customers (e.g., posters pamphlets, flipcharts)
Educational seminars for customers and prospects
Packaged services to encourage customers to buy multiple services
Computerized customer information systems
Segmentation of the market with different strategies directed at each market
Direct mail advertising
Telephone solicitation

Bank Product and Service Offerings

To determine which products and services will most likely be offered by which banks, the respondents were given a list of 14 retail, 18 commercial and 6 automated bank products and services (Question B2). They were again asked to estimate the likelihood that their bank would be offering each product or service over the next five years by checking the appropriate box, either "Less than 50%" or "More than 50%," corresponding to each product and service. Tables D4, D5 and D6 show the retail, commercial and automated products and services examined.

Table D-4

Retail Products and Services

Savings/time deposits	NOW accounts
Checking accounts	Mutual funds
Discount brokerage	Tax return preparation
Credit cards	Home mortgages
Credit life insurance	Disability insurance
Fund management	Financial planning
Tax planning	Trust and estate planning

Table D-5

Commercial Products and Services

Business checking accounts	Business NOW accounts
Commercial night deposits	Direct payroll deposits
Pension/IRA administration	Short term loans
Payroll preparation	Freight payment services
Sweep services	Tax filing services
Commingled pension investments	Secured accounts receivable
Cash management services	Venture capital
Leveraged leasing	Pension plan formulation
Management consultation	Leveraged buyouts

Table D-6

Automated Products and Services

Automated teller machine
Telephone bill payment
Retailer point-of-sale-device
Full service home banking
Corporate cash management
Drive trough bank

The respondents were also asked to express their views on the likelihood that their bank would offer the, presently prohibited, products and services proposed by the CBA, if these products became legal (Question B5). Table D-7 list these potential bank products and services.

Table D-7

Potential Products and Services

Municipal revenue land underwriting
Investment company sponsorship or operation
Complete brokerage services
Property and casualty insurance underwriting or brokerage
Life insurance underwriting or brokerage
Real estate brokerage
Complete investment advisory services

The New Structure of the Banking Industry

Determining which of Waite's bank classifications best described each bank presented a problem, since the three classifications - National Distribution Company, Low Cost Producer and Specialty Firm - are probably not well known to most bankers, and are certainly perceived differently by those bankers who are familiar with them. To remedy this, a brief definition of each type of firm was given on the questionnaire (Question C1). Following these explanations, the respondent was asked to rate how well each type of bank described what their bank was trying to become over the next five years. The respondent rated each bank type on a seven point scale, with one being "Does not describe" and seven being "Does describe."

Analysis

Bank Asset Size

In the analysis, the banks were divided by asset size, which was determined by the response to question D4. In order for valid statistical tests to be run, the seven asset categories in question D4 were collapsed into three asset categories. The new asset categories are "small," which contains those banks with less than 50 million dollars in assets; "medium," banks with between 50 million and one billion dollars in assets, and "large," which contains the respondent banks with over one billion dollars in assets.

Once the respondent banks were divided into the three asset categories, their responses to the questions relating to marketing and sales orientation, and likely product and service offerings were compared to determine whether or not there is any difference between the three asset size banks along these critical areas.

For question A2, relating to the importance of the various marketing mix elements, a mean importance rating for each element was calculated, for each asset size group. For example, the mean importance rating for "advertising" may be 5.5 for small banks, 5.9 for medium size banks and 6.5 for large banks. These means were then compared using a general linear model in a canned Statistical Analysis Software (SAS) package, to determine if there was any significant difference between the mean ratings of the three bank sizes. In using the general linear model, the data was assumed to be interval. While this assumption is debateable, it is felt that in this case, because of the questionnaire design, the assumption is valid.

For question A4, the percentage of each size bank which is likely to use each of the sales support aids within the next five years was determined. For instance, 40% of the small banks may say that they are "More than 50%" likely to use "direct mail advertising" within the next five years, as compared to 52% of the medium size banks and 75% of the large banks. To determine whether of not there was a significant difference between the percentage of each asset size bank likely to use the various sales support aids, a chi squared analysis was conducted using the same SAS program.

The same procedure was used on question B2 and B4 to determine the percentage of banks in each asset category likely to offer each product and service.

Bank Type

The respondent banks were also divided into groups according to their response to question C1, which relates to Waite's industry structure model. Recall that the question asked the respondent to rate, on a seven point scale, how well each of the three bank types described what their bank was trying to become over the next five years. In analyzing the responses, a bank was considered to have the characteristics of any bank type which received a rating of five or higher from that bank. For instance, if the respondent circled a "6" for National Distribution Company, a "2" for Low Cost Producer and a "5" for Specialty Firm, that bank was considered to have the traits of both a National Distribution Company and a Specialty Firm, but not those of a Low Cost Producer.

Once the banks were divided into the appropriate bank type categories, the same analyses were run on the bank types as were run on the three bank asset size groups. That is, the responses to the questions relating to marketing mix elements, sales support aids and products and services were compared across bank types.

Results

Of the 1,000 questionnaires mailed, 310 useable ones were returned. Although this 31% response rate may seem low, it is a little better than can be expected from a survey of this length and complexity.

Results by Bank Asset Size

Forty-one percent (128) of the 310 responses are from banks with less than 50 million dollars in assets, another 44% (135) are from banks with between 50 million and one billion dollars, and the remaining 15% (46) are from banks with over one billion dollars in assets. As stated earlier, the larger banks were intentionally overrepresented in the sample so that meaningful conclusions about the large banks could be made.

Marketing and Sales Orientation of Different Size Banks

As table E-1 indicates, respondents from the larger banks consider most of the marketing mix elements to be significantly more important in achieving their overall strategy than do either the medium or small asset size respondents. The element which received the most significant rating difference is marketing research, which received an average rating of 5.5 from the large banks compared to 4.9 from the medium size banks and 3.8 from the small. Advertising, bank location and personal selling also received significantly higher scores from the large banks than from the smaller banks. But as table E-1 shows, all three asset size bank groups consider personal selling very important. The only marketing element that had the highest average rating from the small bank group is public relations. And, as expected, none of the bank groups think that sales promotion in the form of free gifts will be very important in achieving their banks overall strategy. It received an average rating of only 3.3.

Table E-1

Importance of Various Marketing Mix Elements to Different Size Banks

Marketing Mix Elements	Overall Mean	Mean by Bank Size Small	Medium	Large	Significance Level	F Value
Advertising	4.8	4.4	4.9	5.4	.001	12.5
Bank Location	5.0	4.7	5.2	5.3	.05	4.4
Marketing Research	4.6	3.8	4.9	5.5	.001	28.0
New Product Development	5.4	4.9	5.7	5.6	.001	11.6
Personal Selling	6.1	5.8	6.2	6.6	.001	9.1
Product/Service Pricing	5.8	5.8	5.8	5.9	NS	.2
Public Relations	5.6	6.1	5.5	4.7	.001	23.8
Sales Promotion	3.3	3.3	3.2	3.3	NS	.1

The responses of the three asset size groups to the question relating to sales support aids is also very revealing. In every case, the percentage of banks likely to offer any particular sales support aid increases as the bank asset size group increases. This relationship is most significant in the cases of market segmentation, direct mail advertising and telephone solicitation. For example, as shown in table E-2, 87% of the large banks are likely to use market segmentation strategies over the next five years, compared with 63% and 34% of the medium and small banks, respectively.

Table E-2

Percentage of Banks in Each Asset Size that are Likely to Use Each of the Following Sales Support Aids

Sales Support Aid	Percent by Bank Size Small	Medium	Large	Significance Level	Chi-Square Value
Sales training to all employees who come in contact with customers	73%	86%	96%	.001	14.8
Sales managers to supervise sales personnel	19	38	39	.001	13.8
Point-of-sale material	67	84	89	.001	14.6
Educational seminars	39	65	72	.001	24.4
Packaged services	49	66	83	.001	18.1
Computerized customer information systems	52	69	87	.001	19.7
Market segmentation	34	63	87	.001	45.6
Direct mail advertising	49	76	87	.001	30.9
Telephone solicitation	27	38	72	.001	28.1

Product and Service Offerings of Different Size Banks

Over 80% of all banks are likely to continue offering the traditional retail products and services such as savings and time deposits, checking accounts and NOW accounts. However, as is probably expected, a higher percentage of large banks, than of either medium or small, are likely to offer the more complex retail financial services such as fund management, financial planning, tax planning and trust and estate planning. Interestingly, only 18% of all small banks are likely to offer mutual funds in the future, while 42% of the medium banks and 67% of the large banks intend to sell this relatively simple investment product. Table E-3 summarizes the data relating to retail products and services.

Table E-3

Percentage of Banks in Each Asset Size that are Likely to Offer the Following Retail Products and Services

Retail Products and Services	Percent by Bank Size Small	Medium	Large	Significance Level	Chi-Square Value
Savings/Time deposits	89%	90%	87%	NS	.5
NOW Accounts	85	85	83	NS	.2
Checking accounts	88	89	85	NS	.6
Mutual Funds	18	42	67	.001	39.9
Discount brokerage	48	62	74	.005	11.2
Tax Return preparation	23	26	39	NS	4.7
Credit cards	59	77	78	.005	11.7
Home mortgages	77	84	78	NS	2.3
Credit life insurance	82	86	72	NS	4.8
Disability insurance	74	76	65	NS	2.3
Fund management	44	61	67	.005	11.4
Financial planning	56	71	76	.05	9.2
Tax planning	32	47	67	.001	17.8
Trust and estate planning	41	72	83	.001	38.2

As is the case with the retail products and services, the simple, traditional commercial products, like business checking and NOW accounts, commercial night depositories and direct payroll deposits, are all likely to be offered by at least three-fourths of all banks (see Table E-4). Also in line with the retail products and services trends is the indication that larger asset size banks are the most likely to offer the more complex commercial products and services. Some of these complex commercial services, such as secured accounts receiveables, venture capital and leveraged leasings and buyouts, are probably only feasible for larger banks because of their extensive capital requirements. However, commercial services such as Sweep services, tax filing and payroll preparation could most likely be offered by more smaller banks, without much additional capital expenditure.

Table E-4

Percentage of Banks in Each Asset Size that are Likely to Offer the Following Commercial Products and Services

Commercial Products and Services	Percent by Bank Size Small	Medium	Large	Significance Level	Chi-Square Value
Business checking	87%	90%	85%	NS	.9
Business NOW	80	85	80	NS	.9
Commercial night deposits	79	88	78	NS	4.1
Direct payroll deposits	77	85	78	NS	3.4
Pension/IRA administration	78	86	78	NS	3.2
Short term loans	84	89	83	NS	2.0
Payroll preparation	29	51	70	.001	27.0
Freight payment services	5	13	48	.001	47.9
Sweep services	23	46	72	.001	37.5
Tax filing services	14	18	46	.001	21.9
Commingled pension investments	13	35	67	.001	50.4
Secured accounts receiveable	36	54	70	.001	17.7
Cash management services	39	61	76	.001	23.2
Venture capital	17	35	61	.001	31.4
Leveraged leasing	20	32	63	.001	29.7
Pension plan formulation	19	46	74	.001	48.2
Management consultation	35	46	48	NS	3.8
Leveraged buyouts	6	22	50	.001	41.8

The implications of the data relating to automated products and services are a little different. As table E-5 shows, there is still a tendency for a higher percentage of large banks to offer more complex and revolutionary automated products and services, like retailer point-of-sales devices and corporate cash management. On the other hand, medium size banks are the most likely to provide the, now pervasive, automated teller machines and drive through banks.

Table E-5

Percentage of Banks in Each Asset Size that are Likely to Offer the Following Automated Products and Services

Automated Products and Services	Percent by Bank Size Small	Medium	Large	Significance Level	Chi-Square Value
Automated teller machine	62%	87%	80%	.001	23.1
Telephone bill payment	40	46	30	NS	3.8
Retailer POS device	25	51	70	.001	33.5
Full service home banking	29	35	50	.05	6.7
Corporate cash management	31	57	70	.001	27.0
Drive through bank	70	87	76	.005	11.6

The data in table E-6 indicate that none of the "potential" bank products and services proposed by the CBA appear to be very popular with any asset size group. Of the seven proposed services, only municipal revenue land underwriting is likely to be offered by over 26% of any one asset size group, if it were deregulated. Perhaps the respondents had difficulty determining the potential of a financial services which banks can not yet offer.

Table E-6

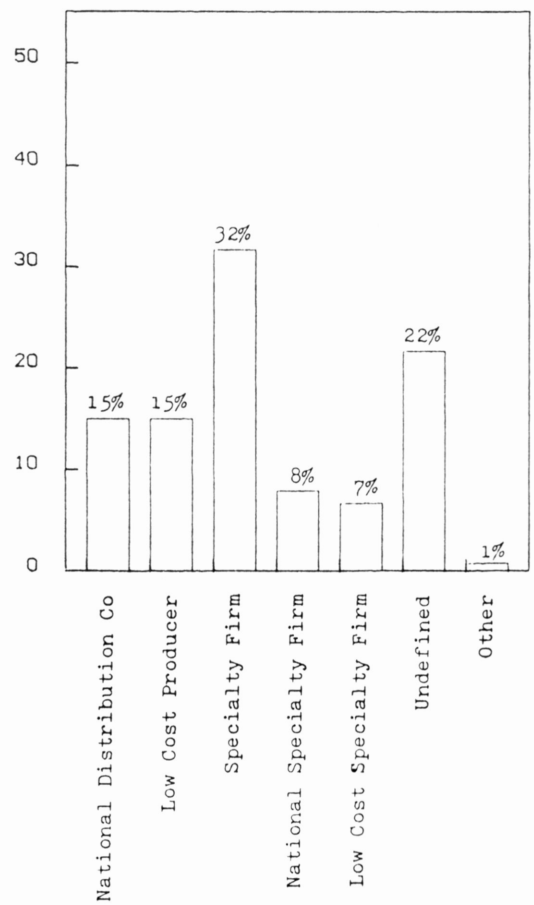
Percentage of Banks in Each Asset Size that are Likely to Offer the Following Potential Bank Products and Services (if they were permited to)

Potential Products and Services	Percent by Bank Size Small	Medium	Large	Significance Level	Chi-Square Value
Municipal revenue land underwriting	29%	34%	20%	NS	3.4
Investment company sponsorship	22	21	15	NS	.9
Complete brokerage service	22	18	22	NS	.8
Property / Casualty insurance	16	12	17	NS	1.3
Life insurance	17	10	13	NS	2.7
Real estate brokerage	23	19	26	NS	1.3
Complete investment advisory service	16	14	10	NS	.9

Results by Bank Type

According to the criteria described in the methodology section, there are eight possible bank types. Almost all the respondents feel that their bank is described best by one of the following six types: National Distribution Company, Low Cost Producer, Specialty Firm, a combination of National Distribution Company and Specialty Firm (National Specialty Firm), a combination of Low Cost Producer and Specialty Firm (Low Cost Specialty Firm), and lastly, some respondents do not think any of the descriptions fit their bank (Undefined). Figure F-1 shows the percentage of banks of each type.

Figure F-1
Percentage of All Banks in Each Type Category



As indicated, 15% of all respondents consider their banks to be primarily National Distribution Firms. Another 15% liken their banks to Low Cost Producers. Thirty-two percent of the banks are described as Specialty Firms. Fifteen percent think their banks will become either a National Specialty Firm (8%) or a Low Cost Specialty Firm (7%). And a fairly substantial 22 percent of the respondents do not think any of the descriptions fit what their bank is going to become over the next five years. The remaining one percent of the firms will not be considered in this analysis.

Types of Banks by Asset Sizes

The percentage of large asset size banks in each type category is illustrated in figure F-2. Almost all respondents from large banks think their bank will become either a National Distribution Company (31%), a Specialty Firm (29%) or a National Specialty Firm (22%). Only two percent of the large banks are characterized as Low Cost Producers, and 16% are Undefined.

Figure F-2
Percentage of Large Size Banks in Each Type Category

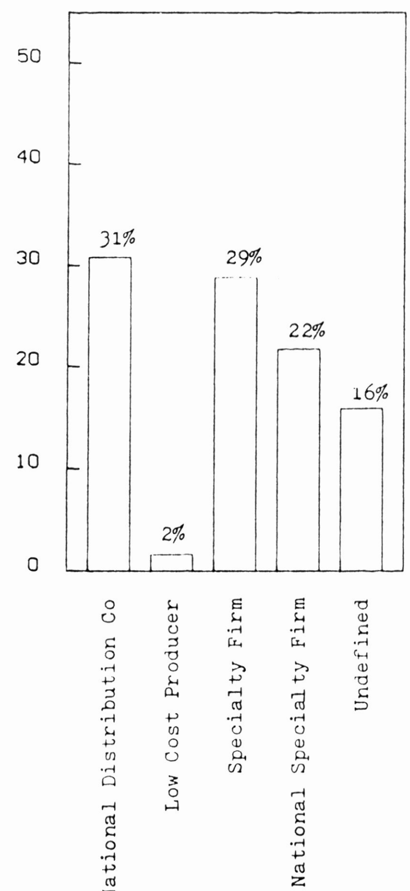
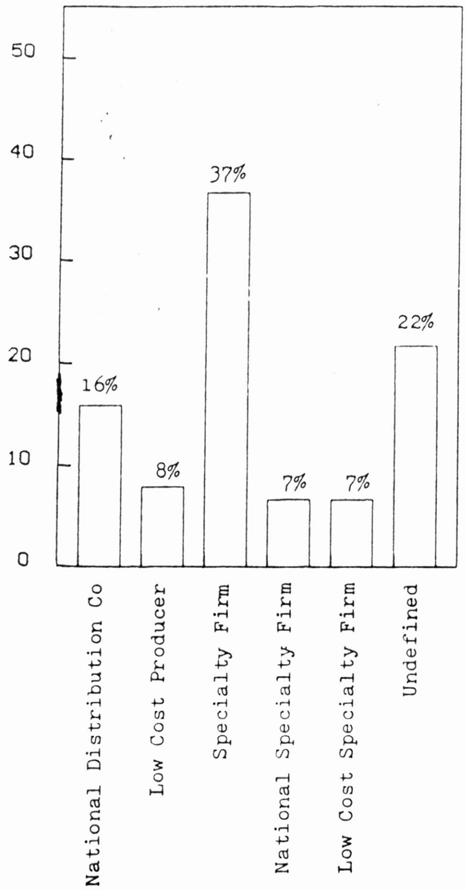


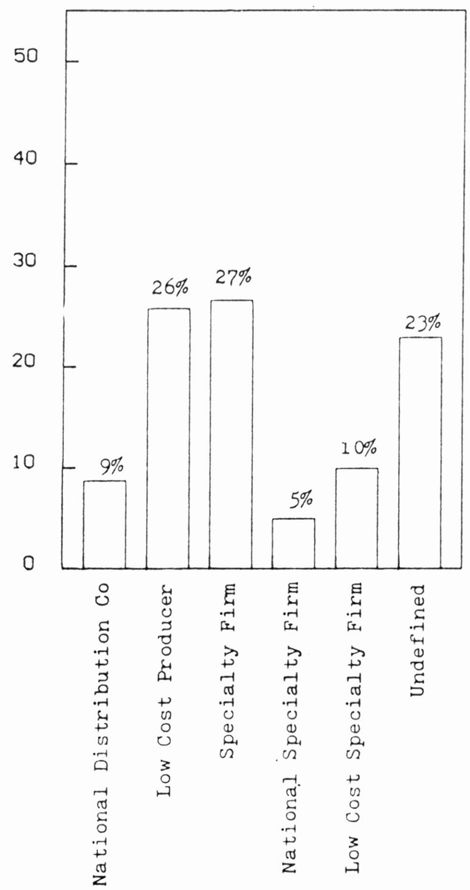
Figure F-3
Percentage of Medium Size Banks in Each Type Category



The majority of medium size banks, as seen in figure F-3, are classified as Specialty Firms (37%), National Distribution Companies (16%) or are Undefined (22%). Eight percent of the respondents from medium asset size banks think the Low Cost Producer description fits their bank the best. And National Specialty Firms and Low Cost Specialty Firms were each specified by seven percent of the medium asset size bank respondents.

The responses from the small banks presented some surprises. Only 27% of them consider their banks to be Specialty Firms, while nine percent of the bankers whose banks had less than 50 million dollars in assets think their banks will someday become National Distribution Firms, and another five percent think the National Specialty Firm combination describes their bank most accurately. Also unexpectedly, 26% of the small bank respondents predict that their banks will become Low Cost Producers and 10% said their banks will transform into Low Cost Specialty Firms following further deregulation. It is doubtful that a small bank can become a Low Cost Producer, because of the economies of scale and large customer base needed to support such an organization. Figure F-4 summarizes the replies of small bank respondents to the bank type question.

Figure F-4
Percentage of Small Size Banks in Each Type Category



Marketing and Sales Orientation of Various Type Banks

Tables F-1 and F-2 summarize the responses of various types of banks to the marketing and sales orientation questions. The data indicate a distinct tendency among certain bank types. It appears that the respondents who consider their banks to be either National Distribution Companies, Specialty Firms or a combination of the two, also consider many of the marketing mix elements and sales support aids to be more important than do any of the other bank types. For instance, the average ratings for marketing research, new product development and personal selling are significantly higher from these bank types than from the Low Cost Producers, Undefined firms and to some extent the Low Cost Specialty firms.

Table F-1

Importance of Various Marketing Mix Elements to Different Type Banks

		Mean by Bank Type							
Marketing Mix Element	Overall Mean	National Distrib. Company	Low Cost Producer	Specialty Firm	National Distrib.& Specialty	Low Cost & Specialty	Undef.	Signif. Level	F Value
Advertising	4.8	5.1	4.4	4.8	5.1	4.8	4.7	NS	1.5
Location	5.0	5.4	5.1	5.0	5.4	5.1	4.8	NS	1.6
Marketing research	4.6	4.7	3.9	4.8	5.4	4.6	4.1	.001	4.5
New product development	5.4	5.3	5.1	5.4	6.2	5.5	5.1	.05	2.8
Personal selling	6.1	6.4	5.8	6.2	6.7	5.8	5.8	.001	4.48
Pricing	5.8	5.8	6.0	5.7	6.0	6.0	5.7	NS	.9
Public relations	5.6	5.4	6.1	5.6	5.1	5.9	5.7	.05	3.0
Sales promotion	3.2	3.3	3.2	3.3	3.2	3.7	3.0	NS	.8

Similarly, a significantly higher percentage of the respondents from National Distribution Companies, Specialty Firms and National Specialty Firms think that their bank will be using such sales support aids as educational seminars, computerized customer information systems, market segmentation strategies and telephone solicitation. The most significant of those elements is market segmentation, which is likely to be used by 70% of the National Distribution Companies, 59% of the Specialty Firms and 81%

of the National Specialty Firms, versus only 33% of the Low Cost Producers, 45% of the Low Cost Specialty Firms and 43% of the Undefined firms.

Table F-2

Percentage of Banks of Each Type that are Likely to Use the Following Sales Support Aids

Sales Support Aids	Percent by Bank Type: National Distrib. Company	Low Cost Producer	Specialty Firm	National Distrib & Specialty	Low Cost & Specialty	Undefined	Significance Level	Chi-Square Value
Sales training	83%	80%	88%	92%	68%	76%	NS	8.7
Sales managers	37	31	35	42	9	22	NS	10.0
POS material	87	76	79	81	76	72	NS	4.3
Educational seminars	63	40	68	65	55	40	.005	19.4
Packaged services	74	56	61	73	64	51	NS	8.4
Computerized customer info system	80	56	74	77	45	51	.001	21.9
Market segmentation	70	33	59	81	45	43	.001	24.5
Direct mail advertising	78	53	68	81	68	57	.05	11.7
Telephone solicitation	48	27	44	58	27	30	.05	12.8

Product and Service Offerings of Different Type Banks

As expected, most of the Low Cost Producers and Low Cost Specialty Firms are likely to offer only simple, commodity type products in the future. The responses summarized in tables F-3 and F-4 indicate that nearly all the banks will offer services such as checking accounts and NOW accounts. However, significantly fewer Low Cost Producers and Low Cost Specialty Firms, than National Distribution Companies, Specialty Firms and National Specialty Firms, are likely to offer the more complex retail and commercial services. This is especially true for retail services such as financial planning, tax planning and trust and estate planning, and for commercial services like pension plan formulation, management consultation and leveraged buyouts.

Table F-3

Percentage of Banks of Each Type that are Likely to Offer the Following Retail Products and Services

Retail Products & Services	Percent by Bank Type: National Distrib. Company	Low Cost Producer	Specialty Firm	National Distrib. & Specialty	Low Cost & Specialty	Undefined	Significance Level	Chi-Square Value
Savings/time deposits	93%	89%	89%	88%	86%	90%	NS	---
NOW accounts	91	84	83	81	82	85	NS	2.3
Checking accounts	93	91	83	88	82	90	NS	5.1
Mutual funds	59	13	36	54	32	27	.001	26.7
Discount brokerage	80	47	65	69	45	36	.001	30.1
Tax return preparation	41	13	33	27	18	18	.05	14.5
Credit cards	85	62	69	88	62	63	.05	13.3
Home mortgages	89	78	80	81	68	78	NS	4.6
Credit life insurance	87	89	80	77	77	81	NS	3.5
Disability insurance	83	80	72	73	50	73	NS	9.3
Fund management	70	40	55	77	55	45	.01	15.9
Financial planning	80	49	71	77	59	55	.01	16.6
Tax planning	57	29	46	73	41	30	.001	21.7
Trust and estate planning	78	44	63	77	59	48	.01	18.7

There was no significant difference in the percentage of each type of firm likely to offer automated teller machines or telephone bill payment. However, the National Distribution Companies, Specialty Firms and National Specialty Firms are much more likely to operate retailer POS devices, full service home banking and especially corporate cash management services. As table F-5 shows, corporate cash management is likely to be available at approximately 65% of the National Distribution Companies, while only about 29% of the Low Cost Producers will offer this service.

Table F-4

Percentage of Banks of Each Type that are Likely to Offer the Following Commercial Products and Services

Commercial Products & Services	Percent by Bank Type: National Distrib. Company	Low Cost Producer	Specialty Firm	National Distrib & Specialty	Low Cost & Specialty	Undefined	Significance Level	Chi-Square Value
Business checking	91%	91%	87%	88%	73%	88%	NS	5.6
Business NOW	89	80	80	85	77	84	NS	2.7
Commercial night deposits	87	84	82	85	68	82	NS	4.0
Direct payroll deposits	85	76	82	81	73	82	NS	2.3
Pension / IRA administration	89	82	79	81	77	81	NS	2.6
Short term loans	89	87	84	88	77	87	NS	2.3
Payroll preparation	59	33	44	65	36	39	.05	12.1
Freight payment services	24	4	14	31	14	13	.05	11.7
Sweep services	48	29	43	58	41	31	NS	9.3
Tax filing services	28	9	20	35	14	18	NS	9.6
Commingled pension investments	39	16	35	50	18	19	.005	17.5
Secured accounts receiveable	63	38	48	69	32	45	.05	13.3
Cash management services	70	49	57	58	50	40	NS	10.7
Venture capital	37	22	32	46	27	30	NS	5.3
Leveraged leasing	43	18	36	50	23	24	.05	14.4
Pension plan formulation	61	22	42	65	9	24	.001	37.5
Management consultation	61	36	46	46	36	28	.05	13.7
Leveraged buyouts	33	7	17	38	5	19	.005	19.2

Table F-5

Percentage of Banks of Each Type that are Likely to Offer the Following Automated Products and Services

Automated Products & Services	Percent by Bank Type: National Distrib. Company	Low Cost Producer	Specialty Firm	National Distrib & Specialty	Low Cost & Specialty	Undefined	Significance Level	Chi-Square Value
Automated teller machines	87%	67%	79%	81%	73%	66%	NS	9.5
Telephone bill payment	35	47	42	54	41	40	NS	3.0
Retailer POS device	59	18	46	69	23	39	.001	28.2
Full service home banking	48	40	32	54	27	24	.05	12.6
Corporate cash management	67	29	52	77	23	36	.001	32.5
Drive through bank	89	76	79	81	50	79	.05	13.7

The results of the questions relating to potential products and services are very puzzling. Only two of these services, complete brokerage service and real estate brokerage, show a significant difference between the various bank types. In both cases, the bank type that is most likely to offer the services is the Low Cost Producer. For example, 40% of the Low Cost Producers are likely to offer real estate brokerage services if it is deregulated. This is 18% more than the next highest bank type, Specialty Firms. Even more curious is the fact that 33% of the Low Cost Producers think they would offer complete brokerage service, if given the opportunity. This is a little odd since only 47% of the Low Cost Producers are likely to offer the much more simple discount brokerage service (see Table F-3).

Table F-6

Percentage of Banks of Each Type that are Likely to Offer the Following Potential Bank Products and Services (if they were permited to)

Potential Products & Services	Percent by Bank Type: National Distrib. Company	Low Cost Producer	Specialty Firm	National Distrib & Specialty	Low Cost & Specialty	Undefined	Significance Level	Chi-Square Value
Municipal revenue land underwriting	30%	27%	34%	31%	32%	21%	NS	3.5
Investment company sponsorship	24	29	19	8	23	16	NS	5.8
Complete brokerage service	22	33	23	12	14	11	.05	11.3
Property / casualty insurance	15	24	11	12	18	10	NS	5.9
Life insurance	7	18	14	19	23	9	NS	6.2
Real estate brokerage	17	40	22	19	9	15	.05	13.5
Complete investment advisory service	15	20	16	12	14	9	NS	3.2

Conclusions

For the first time in over 50 years the fate of banks lay with the bankers themselves. Their prosperity now depends on the decisions they make and strategies they pursue. No longer will all banks survive by offering only the traditional bank services. Instead, the banks that will prosper are those with the most clearly defined goals and strategies, those which know the needs of their markets, and satisfy those needs.

This survey attempted, in a very broad way, to determine how bank marketing executives are responding to the dynamic financial services environment. The most significant findings are:

1. Marketing directors from large asset size banks appear to be much more marketing and sales oriented than those executives from smaller banks. It may be that smaller banks have carved out a niche in their community which their officers feel is secure. However, as geographic restrictions continue to erode and larger banks start expanding, their superior marketing abilities may overwhelm the small community banks.

2. Larger banks are also more likely to offer many of the more innovative and profitable (but also risky) services. Perhaps larger banks are the only ones which have the capital to support these complex financial services. Or maybe smaller bankers are too conservative to innitiate the less traditional bank services. Whatever the reason, the

prosperity of a bank depends on the ability of its management to identify and implement all potentially lucrative services.

3. The banking industry is evolving, as Donald Waite predicted, into an industry characterized by several types of firms. One type, the National Distribution Company, is very marketing and sales oriented. As expected, this type of firm will offer a broad range of products and services, and is very likely to offer the more complex services.

A second common bank type will be the Specialty Firm. Banks of this type do not appear to be quite as marketing oriented as the National Distribution Companies will be. They will have more limited product and service offerings, but will still tend to offer many of the more complex and innovative financial services.

Finally, a higher percentage of existing banks than expected will attempt to evolve as Low Cost Producers or Low Cost Specialty Firms. These banks do not rely heavily of marketing or sales functions, and will try to survive by offering a very limited line of very traditional bank services. At this point, it is doubtful whether many of these potential Low Cost Producers will survive in the new banking industry.

Appendix

BANK MARKETING QUESTIONNAIRE

A. MARKETING AND PROMOTION STRATEGIES

1. In your opinion, how does top management of your bank view the marketing function, compared to the other functional areas of the bank, in achieving the bank's overall strategy?

Not Important		Moderately Important			Extremely Important	
1	2	3	4	5	6	7

2. Over the next five years, how important do you think each of the following marketing elements will be in achieving the bank's overall strategy?

	Not Important			Moderately Important			Extremely Important
a. Advertising	1	2	3	4	5	6	7
b. Location of bank and other facilities	1	2	3	4	5	6	7
c. Marketing research	1	2	3	4	5	6	7
d. New product development	1	2	3	4	5	6	7
e. Personal selling	1	2	3	4	5	6	7
f. Pricing of products/services	1	2	3	4	5	6	7
g. Public relations	1	2	3	4	5	6	7
h. Sales promotion (e.g., free gifts)	1	2	3	4	5	6	7

3. Regarding advertising by your bank, how extensively do you think your bank will use each of the following types of advertising over the next five years?

	Not very extensively				Very extensively
a. Image advertising (advertising which conveys the intangible benefits of your bank)	1	2	3	4	5
b. Price advertising (advertising which compares your prices and yields with those of competitors)	1	2	3	4	5
c. Informational advertising (advertising which explains specific tangible benefits, other than prices and yields of your products and services)	1	2	3	4	5

4. Please answer the following questions regarding sales support aids at your bank.

SALES SUPPORT AIDS	Place an [x] beside the sales support aids your bank **does not** currently utilize.	How important do you feel each of the following sales support aids will be over the next 5 years in achieving your bank's overall strategy? Not important		Moderately important		Extremely important	Estimate the likelihood that your bank will be using each of these 5 years from now? Less than 50%	More than 50%
a. Sales training to all employees who come in contact with customers	[ ]	1	2	3	4	5	[ ]	[ ]
b. Sales manager(s) to supervise sales personnel	[ ]	1	2	3	4	5	[ ]	[ ]
c. Point-of-sale material to communicate service features and benefits to customers (e.g., posters, pamphlets flipcharts)	[ ]	1	2	3	4	5	[ ]	[ ]
d. Educational seminars for customers/prospects	[ ]	1	2	3	4	5	[ ]	[ ]
e. Packaged services to encourage customers to buy multiple services	[ ]	1	2	3	4	5	[ ]	[ ]
f. Computerized customer information systems	[ ]	1	2	3	4	5	[ ]	[ ]
g. Segmentation of market with different strategies directed at each segment	[ ]	1	2	3	4	5	[ ]	[ ]
h. Direct mail advertising	[ ]	1	2	3	4	5	[ ]	[ ]
i. Telephone solicitation	[ ]	1	2	3	4	5	[ ]	[ ]

5. Over the next five years, how important do you feel each of the following factors will be to customers in their bank selection?

	Not important		Moderately important		Extremely important
a. Convenient location of bank building	1	2	3	4	5
b. Convenient access to external facilities (e.g., ATM's, drive-in facilities)	1	2	3	4	5
c. High level of personal service	1	2	3	4	5
d. High yields on investments	1	2	3	4	5
e. Low fees for services	1	2	3	4	5
f. Low rates on loans	1	2	3	4	5
g. Bank image	1	2	3	4	5

B. PRODUCTS AND SERVICES

1. From what types of products and services do you expect most of your business will come over the next 5 years?

Mostly from products/services we now offer			Mostly from new products/services we don't now offer	
1	2	3	4	5

2. Please answer the following questions regarding products and services offered by your bank.

	Place an [x] beside the product/services which your bank **does not** currently offer.	How important do you feel each of the following products/services will be in contributing toward overall bank profitability?					Estimate the likelihood that your bank will be offering each of these 5 years from now.	
RETAIL PRODUCTS/SERVICES		Not important		Moderately important		Extremely important	Less than 50%	More than 50%
a. Savings/time deposits	[ ]	1	2	3	4	5	[ ]	[ ]
b. NOW accounts	[ ]	1	2	3	4	5	[ ]	[ ]
c. Checking accounts	[ ]	1	2	3	4	5	[ ]	[ ]
d. Mutual funds	[ ]	1	2	3	4	5	[ ]	[ ]
e. Discount brokerage	[ ]	1	2	3	4	5	[ ]	[ ]
f. Tax return preparation	[ ]	1	2	3	4	5	[ ]	[ ]
g. Credit cards	[ ]	1	2	3	4	5	[ ]	[ ]
h. Home mortgages	[ ]	1	2	3	4	5	[ ]	[ ]
i. Credit life insurance	[ ]	1	2	3	4	5	[ ]	[ ]
j. Disability insurance	[ ]	1	2	3	4	5	[ ]	[ ]
k. Fund management	[ ]	1	2	3	4	5	[ ]	[ ]
l. Financial planning	[ ]	1	2	3	4	5	[ ]	[ ]
m. Tax planning	[ ]	1	2	3	4	5	[ ]	[ ]
n. Trust and estate planning	[ ]	1	2	3	4	5	[ ]	[ ]
COMMERCIAL PRODUCTS/SERVICES								
a. Business checking accounts	[ ]	1	2	3	4	5	[ ]	[ ]
b. Business NOW accounts	[ ]	1	2	3	4	5	[ ]	[ ]
c. Commercial night deposits	[ ]	1	2	3	4	5	[ ]	[ ]
d. Direct payroll deposits	[ ]	1	2	3	4	5	[ ]	[ ]
e. Pension/IRA administration	[ ]	1	2	3	4	5	[ ]	[ ]
f. Short term loans	[ ]	1	2	3	4	5	[ ]	[ ]
g. Payroll preparation	[ ]	1	2	3	4	5	[ ]	[ ]
h. Freight payment services	[ ]	1	2	3	4	5	[ ]	[ ]
i. Sweep services	[ ]	1	2	3	4	5	[ ]	[ ]
j. Tax filing service	[ ]	1	2	3	4	5	[ ]	[ ]
k. Commingled pension investment	[ ]	1	2	3	4	5	[ ]	[ ]
l. Secured accounts receivable	[ ]	1	2	3	4	5	[ ]	[ ]
m. Cash management services	[ ]	1	2	3	4	5	[ ]	[ ]
n. Venture capital	[ ]	1	2	3	4	5	[ ]	[ ]
o. Leveraged leasing	[ ]	1	2	3	4	5	[ ]	[ ]
p. Pension plan formulation	[ ]	1	2	3	4	5	[ ]	[ ]
q. Management consultation	[ ]	1	2	3	4	5	[ ]	[ ]
r. Leveraged buy outs	[ ]	1	2	3	4	5	[ ]	[ ]
AUTOMATED PRODUCTS/SERVICES								
a. Automated teller machine	[ ]	1	2	3	4	5	[ ]	[ ]
b. Telephone bill payment	[ ]	1	2	3	4	5	[ ]	[ ]
c. Retailer point-of-sale device	[ ]	1	2	3	4	5	[ ]	[ ]
d. Full service home banking	[ ]	1	2	3	4	5	[ ]	[ ]
e. Corporate cash management	[ ]	1	2	3	4	5	[ ]	[ ]
f. Drive through bank	[ ]	1	2	3	4	5	[ ]	[ ]

3. How do you (or will you), gain access to each of the following automated service mechanisms?

	Do not offer or plan to offer	Our own independent system	Access through a network service	Joint venture with one or more banks
a. Automated teller machine	[ ]	[ ]	[ ]	[ ]
b. Telephone bill payment	[ ]	[ ]	[ ]	[ ]
c. Retailer point-of-sale device	[ ]	[ ]	[ ]	[ ]
d. Full service home banking	[ ]	[ ]	[ ]	[ ]
e. Corporate cash management system	[ ]	[ ]	[ ]	[ ]

4. What do you think will be the overall level of automated service delivery versus personalized service delivery at your bank over the next five years?

Mostly automated				Mostly personalized
1	2	3	4	5

5. Several products and services which banks are currently prohibited from offering may soon be legalized. Please answer the following questions regarding your bank's attitude toward these potential products and services.

PRODUCTS/SERVICES UNAVAILABLE TO BANKS AT PRESENT	If you were permitted to offer this product/service, how important do you feel it would be in contributing toward the overall profitability of your bank?					What is the likelihood that your bank would offer this product/service if it was legalized?	
	Not important		Moderately important		Extremely important	Less than 50%	More than 50%
a. Municipal revenue land underwriting	1	2	3	4	5	[ ]	[ ]
b. Investment company sponsorship or operation	1	2	3	4	5	[ ]	[ ]
c. Complete brokerage services	1	2	3	4	5	[ ]	[ ]
d. Property and casualty insurance underwriting or brokerage	1	2	3	4	5	[ ]	[ ]
e. Life insurance underwriting or brokerage	1	2	3	4	5	[ ]	[ ]
f. Real estate brokerage	1	2	3	4	5	[ ]	[ ]
g. Complete investment advisory service	1	2	3	4	5	[ ]	[ ]

C. BANK STRATEGIES

1. Banks can generally be categorized as one of three types:

National Distribution firm--Banks which offer a very broad range of products and services to a diversified customer base. Often these banks are positioned for rapid geographic expansion both nationally and internationally.

Low Cost Producer--Banks which offer a narrow range of simple commodity type products. These banks provide minimal services at relatively low prices, and therefore attract the highly price-sensitive customers.

Specialty firm--Banks which target specific segments of the market, or niches. These banks are able to provide highly specialized service because of their knowledge of the specific needs of the customer niche.

How well do you think each type of bank describes what your bank is trying to become over the next 5 years?

	Does not describe						Does describe
National Distribution Firm	1	2	3	4	5	6	7
Low Cost Producer	1	2	3	4	5	6	7
Speciality Firm	1	2	3	4	5	6	7

2. What do you personally feel is the likelihood that within the next 5 years your bank will:

	Very unlikely				Very likely
a. Merge with another bank?	1	2	3	4	5
b. Acquire another existing bank?	1	2	3	4	5
c. Open an additional bank?	1	2	3	4	5
d. Acquire a non-bank financial institution (e.g., insurance agency, brokerage firm ...)?	1	2	3	4	5
e. Be acquired by another bank or bank holding company?	1	2	3	4	5

3. How important do you think each of the following types of customers will be to your bank over the next 5 years?

	Not important		Moderately important		Extremely important
a. High net worth retail customers	1	2	3	4	5
b. Medium and low net worth retail customers	1	2	3	4	5
c. Large income businesses (Fortune 1000)	1	2	3	4	5
d. Medium and small income businesses	1	2	3	4	5
e. Agricultural customers	1	2	3	4	5
f. Real estate customers	1	2	3	4	5

D. BANK DEMOGRAPHICS

1. How would you classify your bank?
   [ ] Independent unit bank   [ ] Holding company affiliated unit bank
   [ ] Independent branch bank   [ ] Holding company affiliated branch bank

2. How many full-time employees does your bank have?
   [ ] Less than 25   [ ] 50-99   [ ] 200-300
   [ ] 25-49   [ ] 100-199   [ ] Over 300

3. How many full-time <u>marketing</u> employees does your bank have?
   [ ] None   [ ] 4-6   [ ] More than 10
   [ ] 1-3   [ ] 7-10

4. What are your banks total assets?
   [ ] Under $25 million   [ ] $50-$100 million   [ ] $300-$500 million   [ ] Over $1 billion
   [ ] $25-$50 million   [ ] $100-$300 million   [ ] $500 million-$1 billion

5. Which one of the following descriptions most closely fits your bank compared to other banks in the industry? (Please consider your bank as a whole and note that none of the types below is inherently "good" or "bad".) Place a check in the appropriate box.

[ ] Type 1: This bank attempts to locate and maintain a secure niche in a relatively stable product or service area. The bank tends to offer a more limited range of products or services than its competitors, and it tries to protect its domain by offering higher quality, superior service, lower prices, and so forth. Often this bank is not at the forefront of developments in the industry--it tends to ignore industry changes that have no direct influence on current areas of operation, and concentrates instead on doing the best job possible in a limited area.

[ ] Type 2: This bank typically operates within a broad product-market domain that undergoes periodic redefinition. This bank values being "first in" in new product and market areas even if not all of these efforts prove to be highly profitable. The bank responds rapidly to early signals concerning areas of opportunity, and these reponses often lead to a new round of competitive actions. However this bank may not maintian market strength in all areas it enters.

[ ] Type 3: This bank attempts to maintain a stable, limited line of products or services, while at the same time moving out quickly to follow a carefully selected set of the more promising new developments in the industry. This bank is seldom "first in" with new products or services. However, by carefully monitoring the actions of major competitors in areas compatible with its stable product-market base, the bank can frequently be "second in" with a <u>more cost-efficient</u> product or service.

[ ] Type 4: This bank does not appear to have a consistent product-market orientation. This bank is usually not as aggressive in maintaining established products and markets as some of its competitors, or is it willing to take as many risks as other competitors. Rather, this bank responds in those areas where it is forced to by environmental pressures.

6. In the previous question, you selected a particular description of your bank. Which bank description (i.e., Type 1, 2, 3, or 4) best fits your bank for the period:
   1-5 years ago ________
   1-5 years from now ________

THANK YOU FOR YOUR ASSISTANCE!

References

Berry, Leonard L (December 15, 1982). 'The New Marketing: Realities in the Banking Environment'. Vital Speeches of the Day, pp 150-4.

________ (November 1983). 'Serving the New Consumer-A Marketing / Communications Perspective'. The Ohio Banker, 76, pp 8-12.

Cocheo, S (July 1980) 'Bank Marketing Challenges in a New Regulatory Climate'. ABA Bank Journal, 72, pp 78-85.

Cox, Edwin R and Sandra Spies (July-August 1982). 'Messages From the Marketplace'. Bankers Magazine, 165, pp 22-25.

Dince, Robert R and William R Boulton (January-June 1983). BMA School Emphasizes Strategic Planning'. Bank Marketing, 15, pp 15-16.

Dunn, Daniel T, Jr. Claude A Thomas and Robert F Young (January-March 1984). 'Banking: The Marketing Battle Heats Up'. Business, pp 3-12.

Farmer, John Haywood (Spring 1984). 'The Effects of Service Automation on Bank Service'. Business Quarterly, 49, pp 55-59.

Fraser, Donald R (March 21, 1984). 'Deregulation and the Financial System: Past, Present and Future'. Presented at Texas A&M University.

Jones, Colin L (July-August 1982). 'Know Thy Niche'. The Bankers Magazine, 165, pp 32-35.

Kaufman, George, Larry Mote and Harvey Rosenblum (Spring 1983). 'Implications of Deregulation for Product Lines and Geographic Markets of Financial Institutions'. Journal of Bank Research, 14, pp 7-24.

Krane, Robert A (July 1983). 'Let's Plan Our Future Not Stumble Into It'. ABA Bank Journal, 75, pp 43-7.

Laurent, C R (July-August 1982) 'Marketing's Role in Banking'. The Bankers Magazine, 165, pp 26-30.

Long, Donald G (January 23, 1984). 'Technological Change and the Small Depository Institution'. Proceedings of a Conference on the Future of Small Depository Institutions in an Era of Deregulation, Financial Innovation and Technological Change. Board of Governors of the Federal Reserve System, pp 25-46.

Management Analysis Center, Inc (1983). The Impact of Deregulation on Small and Medium Sized Texas Banks. A report prepared for the Texas Bankers Association.

'New Survey Offers Wealth of Data on New Deposit Services'. (March 1982). ABA Banking Journal, 73, pp 44-6.

Rand McNally International Bankers Directory (First 1984). Rand McNally Company, Inc., Chicago, pp 105-6.

Rosenblum, Harvey and Diane Siegel (1983). Competition in Financial Services: The Impact of NonBank Entry. The Federal Reserve Bank of Chicago Staff Study, 83-1.

Stanley, Thomas O and Elden L Little (May-June 1983). 'Marketing and the Profit Potential'. The Bankers Magazine, 166, pp 37-42.

Vrabac, Daniel J (Spring 1984). 'The Effects of Service Automation on Bank Service'. Business Quarterly, 49, pp 55-59.

Waite, Donald C, III (January-February 1982). 'Deregulation and the Banking Industry'. The Bankers Magazine, pp 26-35.

CBA (1983).