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How does your marketing budget compare to industry averages?

A September 2023 article in *The Financial Brand* by Steve Cocheo, 'Do Banks That Outspend Their Peers on Marketing Grow Faster?', examined the 2022 marketing expenses of banks with total assets between $2 billion and $5 billion. The information he assembled provides us with examples of the investments financial institutions are making in their promotional and brand development efforts. We encourage you to read the article even if your bank is smaller than the banks examined.

A significant percentage of banks do not disclose their advertising and marketing expenses in their call report information. This creates some constraints when applying the performance averages to all institutions. That said, having a smaller sample still reveals trends and insights.

Larger Community Bank Results

The group of banks researched in Steve's article showed that 52% (149 institutions) of the banks in the designated asset range reported their marketing expense. For the banks that reported their expenses, a statistic was developed comparing the marketing expenses to the organization's total non-interest expenses. A simple ratio reflecting advertising and marketing expenses as a percent of total non-interest expense provides an easy way to compare financial institutions. The banks with assets between $2 and $5 billion had an average marketing expense ratio of 2.80%.

Banks $100 Million To $1 Billion

Because many of our community bank clients have less than $2 billion in total assets, we decided to examine the 2023 reported marketing expenses for banks with assets between $100 million and $1 billion. The results were very interesting.

First, only 7% of the 2,899 banks in the targeted asset range reported their marketing expenses in their call report. The 203 reporting institutions generated an average marketing expense ratio of 2.09%. That falls in a range not far from the 2.80% average revealed by the banks with more assets.

Note in the statistical highlights below, the majority (60%) of banks in the $100 million to $1 billion asset range have a marketing expense ratio less than 2%. Raising the ratio to 3% integrates an additional 19% of the reporting banks. Basically, 80% of these banks spend less than 3% of their non-interest expense on marketing and advertising. It is highly likely your bank's ratio will be less than 3%.

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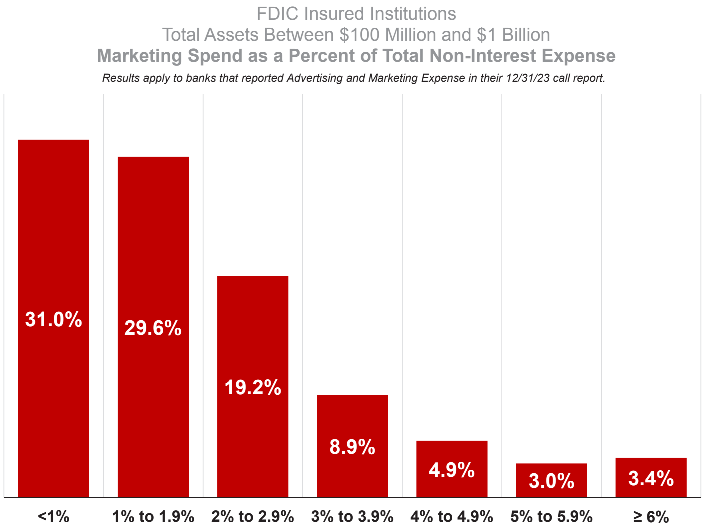

Highs And Lows

Among the 203 banks that reported their marketing expense, the ratio ranged from a low of .03% to a high 14.64%. This wide range could be explained if extraordinary expenses for a name change or merger communications were experienced by an institution. There is also the impact of donations and sponsorships that might or might not be included in the marketing budget.

Rather than spending time on the outliers in the sample, use the average as a benchmark to provide a context for your marketing investments.

How close are you to the 2.09% average?

Correlations To Profit

The examination of the $2 to $5 billion institutions tied the marketing spend with the bank's growth performance. In our sample of smaller banks, we decided to determine if there is a strong correlation between the marketing expense ratio and the bank's pre-tax return on asset performance. Here is what we discovered.

Marketing Expense Ratio

77 of the banks (38%) had a marketing expense ratio above the average of 2.09%.

Pre-Tax Return On Assets

The average pre-tax ROA for the sample of 203 banks was 1.50%.

92 of the banks (45%) had an ROA above the average.

We then identified how many banks with an above average marketing expense ratio also had an above average pre-tax return on assets. Only 32 banks met both parameters. That means that only 41% of the banks with an above average investment in marketing produced an ROA that was also above average.

Your Results Will Vary

Our limited review of the reporting institutions does not reveal a simple correlation between a bank's marketing spend and the organization's profitability. Clearly, the effectiveness of the marketing investment is an important factor when connecting marketing activities and marketing results. Conducting a full analysis of each promotion, campaign, and important marketing expense is the best way to evaluate your success. Don't rely on industry averages to tell your story.