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Improving Branch Profitability: We Ask the Experts

By: *Naomi Snyder, managing editor for Bank Director* | NOVEMBER 20TH, 2015

The reports of the impending death of the bank branch over the last several decades have been greatly exaggerated, but that doesn't mean that plenty of banks couldn't use a reboot when it comes to the profitability of individual bank branches. Bank Director asked bank consultants the number one thing they think banks should do to make branches more profitable. Many said that banks should start with a data-driven analysis of individual branch profitability.

What's the no. 1 thing banks should do to improve the profitability of their branches?

Bank management must make data-driven decisions. Consumer and small business trends have changed the role of the branch, and bankers have four main moves to consider as they adapt their branch networks to stay in step with those trends: which branches to close, which to move, which to reconfigure and new markets to consider. Branch footprint changes are emotional and may have brand impact and regulatory implications. It is absolutely essential to build a quantifiable model to inform these decisions. This model should be comprised of key performance indicators, including revenue per branch, revenue per FTE and transaction deposits per branch, along with segment, saturation and growth projections for each branch. This allows management to evaluate the franchise as a whole and determine a stacked rank for each branch. Franchise value is management's responsibility and that requires making many forward thinking and tough decisions based on solid data.

*—**Andy Grinstead,** senior vice president, Bank Intelligence Solutions, Fiserv*

With branch traffic down significantly, costs up per transaction and branches serving fewer people, **banks would be best served by building robust online and mobile banking delivery channels to better meet the shifting needs of their customers, especially on the retail side.** Rather than focusing on branch profitability, they should focus instead on bank profitability by transitioning customers from branches to electronic delivery through active incentives and education programs. Online/mobile banking is more beneficial to both banks (lowest cost delivery) and their customers (faster, easier and more convenient). By reducing the necessary number of branches, the fewer remaining offices should become more profitable through reduced facility and staffing costs.

*—**Joseph H. Cady,** managing partner, CS Consulting Group LLC*

Our new analysis of bank networks has identified highly skewed branch performance. Fifty percent of the branches operated by most banks have less than their "fair share," measured by the deposits they have captured relative to competitors in each micro-market. More disconcerting is that in 70 percent of branches, the situation is getting worse. Shoring up the performance of such laggard branches has tremendous profitability upside, with a typical impact of 20 percent to 30 percent in retail banking revenues and even higher profit upside.

Consequently, banks should determine the fair share ranking of each branch and address the causes of below-parity performance. Typical causes are: branch manager quality, training of branch personnel related to the needs of important segments such as affluent and small business, service quality and relationship-oriented performance. It is important to note that if a bank operates some branches with high fair share, this provides the empirical evidence that the bank's products are sufficient to accomplish this outcome if the bank's personnel are performing.

*—**Jim McCormick,** president, First Manhattan Consulting Group*

On average, branch operating costs comprise 50 percent to 60 percent of a bank's overall expense base. **Given the change in customer preferences, and lower foot traffic in the branches, rethinking branch utilization strategies should be a top consideration of bank executives today.** The overall improvement in branch profitability should be targeted to reducing branch real estate. This reduction can come through consolidating or closing locations, and shrinking overall branch square footage. Shift customer transaction activity from human interaction to self-serve terminals or kiosks (similar to the process adopted by the airlines), and create regional and mobile concierge banking services, minimizing full time equivalent needs in the branch. Reallocate branch overhead expenses into more online services and targeted ad campaigns so as to preserve and promote "the brand" that is often created by the physical locations.

*—**Collyn Gilbert,** analyst, Keefe, Bruyette & Woods*

To both drive branch profitability and position the bank for the digital future, unlock the value potential by bringing branch-based sales and customer engagement into the data age. Drive a focus on purposeful growth, directed through actionable analytics and fueled by an appropriately aligned incentive system. This means pulling together both internal and external data to better understand potential and existing customers, applying predictive analytics to understand likely needs, and using those insights to drive outreach and selling efforts. This also involves tailoring growth strategies (covering the array of loan and deposit products for both retail and small business) that reflect the characteristics of the local markets served at the branch level. Also, to be sustainable, incentive programs need to be sufficient to generate and maintain focus. We have seen significant value generation through the deployment of analytics-based growth strategies (e.g., customer acquisition rate improvement of 30 percent and up-sell or cross-sell increase of more than 20 percent).

*—**Toby Kilgore,** a principal with Deloitte Consulting*

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