Point of View

Forget Everything You Know About the Branch of the Future

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Much has been said about the future of branch banking. In-branch activity will continue to decline as mobile transactions skyrocket. The implementation of self-service technology will free staff to fulfill more advisory roles. Lobbies and teller lines will be replaced with social spaces and iPads.

Yet, while a handful of financial institutions have been early adopters of these trends, most community bank executives are still wondering how to get from here to there – from the present situation plagued with underperforming branches and margin pressures to a more sophisticated and profitable branch network.

The problem is that most community bank leaders are approaching "the bank of the future" the wrong way. Rather than play a game of "me too" against the outsized technology, marketing and real estate budgets of their larger competitors, they need to change the game completely. They need to acknowledge that "the branch of the future" looks different for every institution, especially smaller ones.

Instead of analyzing industry prototypes and case studies, bank leaders should first understand the market opportunities and customer behaviors that are unique to their geography and institution. This is the foundation upon which a successful branch of the future can be built and maintained.

Change the Mindset

Community institutions can be just as innovative and sophisticated as the banking heavyweights. The secret is focus; understanding where and when to implement changes that will yield the most success. After all, smaller institutions have an advantage – agility.

But, before community bank leaders envision the branch of the future, and the strategies and tactics that will give them a competitive edge, they must understand the unique opportunities and competitive landscape before them. Here are five steps to guide branch planning in community institutions:

Examine Cost and Efficiency. Today, branch performance is evaluated by comparing key metrics such as branch deposits and revenue by FTE to industry averages. Yet, these metrics provide little insight without the context of operating strategy. Focusing on the right metrics for the right operating strategy is crucial. For example, the key metrics used to evaluate branch performance for a wholesale-funded community institution should be different than those used to evaluate branch performance at a core deposit-funded institution.

Understand Marketplace Capacity and Competitive Landscape. Most community bank leaders look at projected household growth to determine market growth opportunity. Unfortunately, this barometer doesn't take into account how saturated the market may be or what competitive differentiation opportunities exist. Instead, banks should look at objective data, including household and businesses per branch and peer-based market saturation, to determine additional capacity in the market.

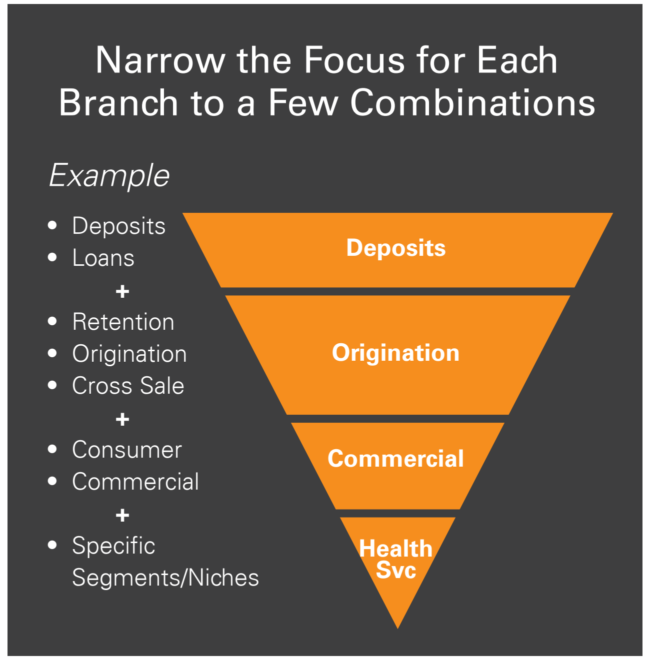
For example, a community bank specializing in small business loans wants to expand into a particular market. At first, the market appears to be over-banked with an average of 600 households/businesses per branch – far lower than the national average of 1,135. But, deeper analysis reveals there is solid current and future demand for small business loans and only a few competitors with a small business focus. This granular level of insight indicates strong growth potential for a new branch even in a highly saturated market.

Evaluate Expansion, M&A and Exit Opportunities. It's safe to say the branch of the future will require costly transformations, and not every branch will be compatible with those changes. Determining which branches should be invested in and which should be rationalized is critical. To do this, community institution leaders must evaluate branches from the standpoint of long-term viability and growth opportunity. Executives must determine which branches are underperforming compared to the competition, and if they're underperforming in areas of high or low market saturation. Underperforming branches in saturated markets may be candidates for closure or consolidation, while those in high-growth markets may require deeper analysis and investment. On the flipside, high-performing branches should also be analyzed to see if growth should be achieved through organic or acquisition efforts.

Narrow the Focus. Once armed with the objective research and analysis conducted in the previous three steps, bank executives need to narrow the focus of each branch. They need to determine which branches will be deposit-only and which will offer loan services. They need to understand which locations will be more focused on retaining customers and which will be dedicated to new customer acquisition. Even more granularly, bankers need to understand the banking habits and product propensities by customer type (commercial and consumer) and target markets (by industry or consumer profile).

Set Branch Specific Goals. In the past, banks may have demanded five percent growth from all branches. Today, executives must set goals that are branch-specific. For example, a low-performing branch may need to change the composition of its transactions to make it an attractive target for acquisition. In another scenario, a branch may need to target its products and services for a particular vertical.

One formulaic approach to determining market growth potential per branch is to divide the annualized growth in the marketplace by the number of branches in the marketplace. This formula gives banks visibility into which branches need the most attention, both strategically and financially. From there, executives can create branch-specific goals that are rooted in market context.



The Insight-driven Branch of the Future

With a clear view into the growth opportunities available for each branch, community bank leaders can understand which advancements in service and delivery will be most beneficial to their unique customer profile(s). If a branch is exclusively focused on small business loans, the branch may invest in hosting small business education seminars. Another branch located near a start-up hub may double as a shared workspace, and replace teller lines with iPad-carrying advisors.

In each of these scenarios, community institutions are taking advantage of the trends that are defining the bank of *their* future. The difference is that these actions are aligned with (and fueled by) narrowly focused, strategic branch goals. It turns out that being a trendsetter isn't nearly as risky as many community bank leaders may think.

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