



Interior of the Bank of Lancaster, Burgess, Va.

MAKE THE **Best of Branching**

BY JOHN GINOVSKY

Brick and mortar banks are as important as ever, but their deployment and function are evolving rapidly.

Through this first decade of the 21st Century, the belief that the bank branch on the corner would go the way of the buggy whip pretty much has been debunked. Brick and mortar was supposed to be replaced by click and order. That has not happened, although the relationship between face-to-face banking and electronic banking – through the

Internet, mobile technology and telephone centers – definitely has matured.

That branching remains relevant can be seen through FDIC statistics. Even as the total number of banks has declined, the total number of branches has consistently increased year after year, with total branches rising from 84,290 in 1999 to 99,150 in 2008.

The strategies of placing and design-

ing branches have changed dramatically, however, as have the challenges associated with them.

Branches still need to be where the most likely customers either live or work, but with increased competition from other retail outlets, new mapping and demographic techniques need to be employed to find likely spots unclaimed by others.

Branches still need to provide traditional



services when required, but, more important, need to be designed to take maximum advantage of every personal contact with every customer.

"You can't presume that consumers will abandon the desire to use branches," said Steve Reider, president of Bancography, a branch-positioning firm based in Birmingham, Ala. "[However,] bankers need to take maximal advantage of each and every sales opportunity. Twenty years ago, we would see a customer when they opened the account. Then we'd see them the next week and the next. Today it's much more common to see them when they open the account and then not see them for six months."

Racing to Claim the Best Spots

"The fundamentals still rule. That means seeking places in high-traffic destinations. The quality of the destination point you're after is paramount," Reider said.

What has changed is that the competition for good sites has become more intense. In

addition to other banks, major drug store chains in particular are searching to expand in precisely the same locations as banks. They're doing this for much the same reasons – to service the needs of an aging population. Pharmacy business has boomed as the baby boomers have aged; banks' need for branches has grown as younger generations have grown into the need for mortgages, auto loans and retirement planning.

One silver lining, Reider said, is that the race for the best places has eased during the past two years. Now, he said, "one benefit of the economic slowdown is that if you're a healthy bank and have a good capital position, you can find good sites, and you can find them a lot more affordable than you would have been able to at the height of the boom."

How do you find the best spaces in the first place? "The worst way to find property is to have everybody pile in a van together and ride around town looking for a 'For sale' sign. No, that's the second worst way. The worst way is to have a guy on the board of directors say, 'Hey, I own this piece of property, and I think it would be a great branch site,'" Reider said.

Today it's imperative to do site selection scientifically, through geo-demographic analysis. That involves a series of steps that include: mapping the trade area; discerning the demographic aspects of the people who live and work in that area; and then charting the banking competition.

"Having done that, you understand the market demand, and you understand the competitive supply. From that you can start forecasting the balance sheet. Based on the balance sheet, you can then choose the appropriate facility," he said.

Just about any experienced banker can figure out where the top markets in the area are. The tough part is finding the best of the rest. "Once you get past the obvious ones, it really is important to base your decision on some pretty sound and thorough examination of the demographic and competitive factors," he said.

John Tomlinson, chief administrative officer of First Farmers & Merchants Bank,

Columbia, Tenn., recently did just that. Located in south-central Tennessee, the bank already had multiple branches in seven counties, and bank management saw an opportunity to expand north near Franklin. Instead of plunging ahead with a brand new building, the bank rented an office in a strip mall and operated out of that for a year.

"It's a new market to us, but a high growth market," Tomlinson said. "We entered with a rental facility with the intent to acquire land and then build, which we did. We hired the right people first to run the office. That's how we got our toehold there."

The bank had scouted out this area first. It was relatively heavily banked already, with a couple dozen or more branches. However, looking at the demographics, one particular area located near the headquarters of a major manufacturer seemed to be lacking banking services and yet showed signs of emergence. "We felt, strategically, that's where we wanted to be," he said.

Bancography's Reider pointed out that one particularly effective strategy is to concentrate branches in a given market or quadrant, or along a single corridor, rather than spreading them widely. This way they benefit from mutual reinforcement. Tomlinson's bank took that advice when it identified one relatively unbanked area near a major employer.

"We found a particular quadrant that we felt did not have enough bank service," he said. "We want to be a leader in the market whenever possible, but we're not going to go build in a cornfield."

Furthermore, Tomlinson said, "Customers, even young customers, still want a physical facility. We believe [branches] are linchpins of your entire delivery network, including electronic banking, telephone and mobile."

Building in the 'Wow' Factor

Blending the traditional with the cutting edge was the same kind of thinking that Bank of Lancaster, Burgess, Va., had when it decided to build its latest branch. Located in a rural, retirement-oriented part of easternmost Virginia, the bank wanted



Check-writing area, the Bank of Lancaster.

its new branch to provide excellent customer service but with fewer employees and on a very small site – less than 1,200 square feet. The outside looks just like most branches. But on the inside ...

“We wanted it to look and feel like a bank when you pulled up. But when you walked in, you went ‘Wow!’” said Richard Abbott, SVP and COO.

The inside of the branch is divided into four areas. At the entrance is what is called a “cash bar,” sort of a combination greeting station, teller site and platform office all wrapped into one. It’s designed to have bank employees interact with customers immediately as they enter, to engage them in a dialogue about their banking needs and to expedite whatever service is required.

Moving to the right – the way studies have shown that customers naturally move when entering a retail store – there’s an office, although it’s called a “hotel space.” It’s available for any staff member who needs to sit down with a client and conduct business in a more private matter.

Then there’s a check-writing area/coffee station for the convenience of customers. Finally, an “Internet café” has a computer set up for customers to learn about the bank’s electronic banking system or to simply draw up the details of their accounts.

Who’s on First? Does It Matter?

In Economics 101 the general principle is that the first to get to a given market has a distinct advantage over those who follow. New research, however, indicates that this is not necessarily true for banks seeking to place branches first in newly developed geographic areas.

“[Usually] there is some permanent lasting advantage to being the first to market. Typically that’s been talked about around product innovation or when you really, truly are breaking new ground. But there are banks everywhere. There are branches everywhere. So it’s a bit of a different circumstance when we’re looking at being the first branch in a new development,” said Brian Diepold, a researcher with PitneyBowes Business Insight, Troy, N.Y.

He identified more than 1,000 “first mover” banks that went into previously unbanked areas, primarily new housing/retail developments in the suburbs. Of these areas, 214 second-mover banks set up shop. Diepold compared all the banks’ performances over time. His conclusion:

“In the first couple of years there did seem to be some benefit to being that first branch in the market. But over time the benefit disappeared pretty quickly, within the first three or four years,” he said.

The main reason is that those second movers had the advantage of seeing how the new market actually developed, rather than relying on forecasts by developers. Also, Diepold said he was impressed at how “rationally” banks behaved in this study. Since only a fifth of the areas entered by first movers had second movers, he said, “It tells me that they were recognizing that maybe the opportunity really wasn’t there.”

—J.G.

“Everything in the flow of customer service is open. There are no barriers. As a client walks into the branch, someone is able to get up from wherever they are and go to that customer,” Abbott said.

In addition, the entire inside of the branch is geared toward promoting the bank’s products and services. A huge plasma television set hangs over the cash bar, constantly rotating product promotions. Walls are full of displays, brochures and other handouts. Electronic zip signs scroll through bank promotions. Even the wallpaper in some places is imprinted with the bank logo in eye-popping colors.

“Through design, the goal is to create a high-touch, modern-day retail experience,” said Joseph Ijjas, vice president of NewGround, a business-growth consultant firm in Chesterfield, Mo. “The goal of the experience is to engage the bank’s customers and to energize and drive sales. We want the staff not to be order takers, like they were 20 years ago in banks, but to be proactive sales people who engage their customers and help their customers optimize their financial decisions.”

The staff is a key element in the branch’s success. Not only does the small size dictate that the facility accommodate fewer employees, the whole design practically

requires each person take on several roles – the overarching one being customer service. While this approach requires extensive cross-training of each individual, the physical design of the interior makes it easier.

“The staff is trained and encouraged to get to know their customers, have them feel at home, to provide a very comfortable and inviting environment,” Ijjas said. “The support items, like the digital messages and static displays, are all geared toward eliciting questions from customers about products and services.”

In the 16 months since the branch opened, customers have expressed their approval. Not only have more than a few said “Wow!” but most of the customers who used to drive 12 miles to the main office now prefer the modern branch, Abbott said.

It’s still about the branch of the future, though, with the recognition that Internet banking not only is here to stay, but is growing.

“It’s hand in glove. The branch design is really focused on technology and what technology can do for the customer,” Abbott said, adding, “Once they come in and open checking accounts, we want them to leave with an online banking relationship as well.” **B**