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Trends In Retail Branch Design

Branch design remains varied across the financial services industry. Some institutions are adopting smaller footprint branches while others embrace the financial superstore concept. However, across the United States certain trends are emerging as prevalent among new and remodeled branches.

The aging of America has created an unanticipated damaging byproduct for US financial institutions. The increasing number of older Americans has fueled a corresponding increase in prescription drug sales, rendering the retail pharmacy more profitable than ever and allowing nationwide pharmacy chains such as CVS, Rite Aid, and Walgreens to offer excessive bids for prime corner outparcels. Bankers in any major metro can cite examples of prime branch locations falling to higher bidding pharmacy chains. In many situations, this has forced financial institutions to settle for secondary locations in new developments, a few parcels off of the prime corner.

The average branch land cost now exceeds $1.2 million. Skyrocketing land costs in emerging suburbs and redeveloping urban areas have driven banks to seek innovative solutions to finding branch locations. Often with the assistance of real estate brokers, many banks are arranging co-located branches in which the bank combines multiple parcels for a larger building and then recruits another retailer to share the structure. This can yield a lower cost for both occupants and is often the only way to viably enter a high-cost market.

Such co-located branches are often smaller than traditional freestanding facilities, and follow a general trend toward use of more small footprint facilities. Although larger branches carry lower construction costs per square foot, banks are adopting the smaller footprint models (some as small as 1,800 square feet) seeking reduced operating costs.

Within new branches, there is a continued de-emphasis of the traditional teller line. Seeking to foster sales over transactions, banks are relocating teller lines to the back of the branch, or even eliminating teller lines entirely in favor of sit-down multi-purpose workstations. This 'pod' approach to banking has been lauded as innovative in the trade press, spawning numerous imitators. But in an effort to replace the intimidating features of the traditional branch where the teller line formed a barrier between customer and employee, some banks have created an environment so unfamiliar to the customer as to be equally intimidating. Lacking any cues as to where to go for their need, some prospects may leave in frustration.

To allay this uncertainty, most new-concept branches contain a greeter stand at the front of the branch, at which a concierge directs clients to the appropriate banker. When executed properly, this concept improves service and fosters sales. However, if the greeter stand is not staffed every moment the branch is open, it can yield disastrous consequences. When unstaffed, the greeter stand imposes a barrier between the customer and the bankers and leaves the customer uncertain, wondering whether to wait for a host to return or whether to walk past seeking someone to direct them to the required employee.

continued on page 2

Attrition Benchmarks: Retail And Business

Attrition research has become very common in the past few years, as financial institutions have realized that growth means little if customers are closing accounts. Institutions have also recognized that their future growth will be adversely affected if these lost customers are dissatisfied and inform friends and family about their perceived negative experience. Before an institution can reduce its attrition, it must first understand the factors fueling account closure and the impact of those factors on the lost customer.

Attrition Benchmarks: Retail and Business compiles the findings from over 2,500 interviews analyzing retail and business attrition since mid-2004. As Bancography discovered in over two years of studying lost accounts and households, every institution had its own attrition composition that differed between retail and business; however, the motives behind the attrition affected each institution similarly. ***Attrition Benchmarks*** closely examines these attrition catalysts and offers suggestions on how to decrease their impact on the institution.

continued on page 2

THE ART OF BANK PLANNING

CONTINUED FROM PAGE 1

Trends In Retail Branch Design

Increased attention to branch design and aesthetics has led many banks to adopt aggressive in-branch merchandising programs. While promotional displays and posters can educate customers and encourage sales inquiries, these displays must be continually updated to maximize their value. Banks should rotate the content or at least the placement of merchandising posters and stands at least monthly to maintain the impact of these displays.

On the outside of the branch, the land cost and small footprint trends are reflected mostly in one emerging concept. Many new branches feature 'double stack' drive-ins, in which a drive-in lane contains two consecutive service bays (or a drive-up ATM followed by a service bay). Although on occasion the customer in the rear bay may be delayed waiting for the front bay transactor to leave, such delays are infrequent and brief since the first-arriving customer in the front bay will usually conclude first too. In addition to maximizing service throughput on small parcels, the 'double stack' approach can also circumvent local regulations governing the number of allowable drive-in lanes.

Attrition Benchmarks: Retail And Business

CONTINUED FROM PAGE 1

Attrition Benchmarks includes the sections outlined below. Each section was examined by line of business and the motive for account closure.

- Attrition categories: All reasons for account closure fell into one of three categories; those that the institution probably could not control, issues that the institution could most likely control and reasons that indicated the account holder was still a customer.
- Actual reasons causing retail and business attrition
- Account relocation: Once the respondents disclosed the motive for account closure, respondents were asked whether they only closed the account or if they relocated it to another institution.

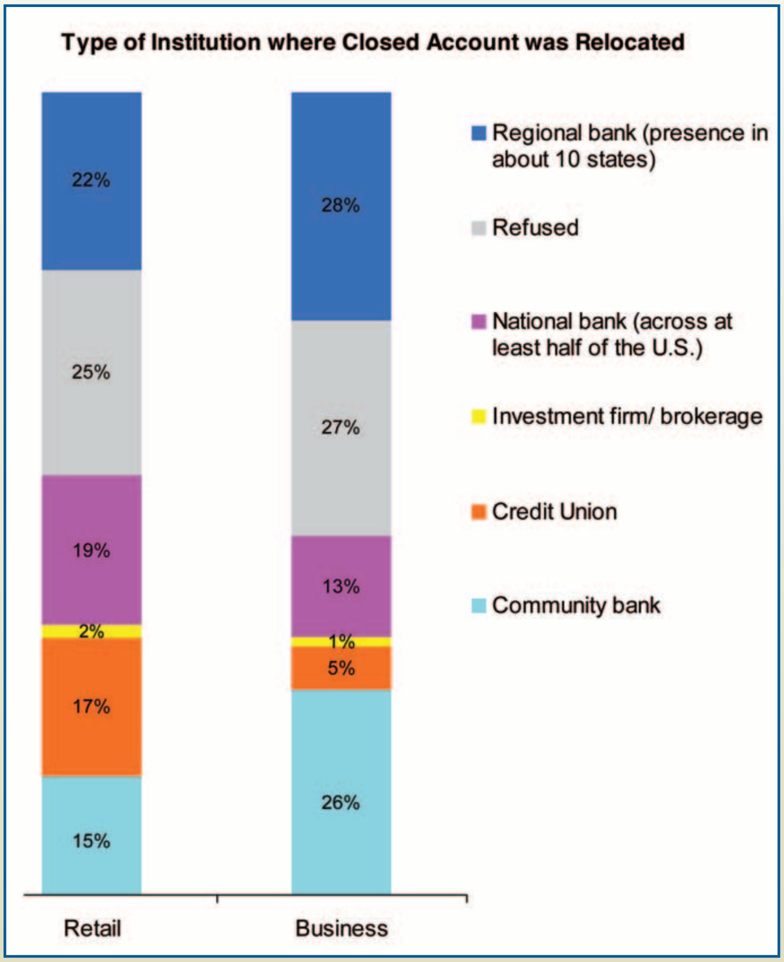
  Respondents were asked where they moved the accounts. These institutions were grouped according to type, such as credit union, community bank, etc.

  - Account closure process
  - How account was closed
  - Staff inquiry into reason for closure
  - Staff attempted to prevent closure
- Consider utilizing institution again: The final question in an attrition interview measures the severity of the situation. The respondent was simply asked whether he would consider utilizing the institution again.

Attrition Benchmarks identifies attrition factors and presents ways to mitigate their effect. By purchasing this study, an institution will be able to understand the causes of its attrition and will learn how to control its attrition rate.

Excerpt from *Attrition Benchmarks: Retail and Business:*

Lost customers who relocated their account were asked to identify the institution. Responses were grouped by type: credit union, community bank, etc. Businesses were almost twice as likely to relocate their closed accounts to a community bank than their retail counterparts. Further, businesses were three times less likely to move accounts to credit unions.



How To Prepare For A Branch Closing

While revenue growth remains the lifeline of any institution's financial success, at times it is necessary for a bank or credit union to close a branch. Poor financial performance, overlap with acquired branches, or even uncontrollable external factors such as a nonrenewable lease may all precipitate branch closures. Every closure will provide some disruption to the bank's employees, customers, and balance sheet, but several processes can mitigate that disruption.

First, when assessing the impact of the closure, examine not just the balances booked at the branch but also the balances serviced at the branch. A branch with low balances may still be performing transactions for customers of other branches, even though those customers would not show on the closing branch's customer file. It is critical to understand all customers affected by the closure in order to develop effective communication lists.

Confer with your properties or corporate facilities department to learn any ongoing consequences from the closure. If a leased facility, will all future payments come due immediately if the branch is closed? Is there a 'dark clause' that prohibits a cessation in operations? If owned, will there be likely losses on disposition? Are you willing to allow sale of the facility to another financial institution and if so, how long of a closed period must precede the sale?

Before announcing the closure, determine if any services will remain at the branch or in its vicinity. For example, the drive-in could remain open for a transitional period, or an ATM could be deployed in a nearby grocery or convenience store.

Communicate first to the staff at the affected branch, and then to the entire employee base. Review top customer lists and any ongoing issues with staff at the branches that will receive transferred customers. Prepare a timeline and checklist for notification of internal departments denoting what responsibilities need to be fulfilled. Finally, communicate the impending closure to all employees, since every employee is an ambassador of the institution. When a customer runs into an employee friend at the grocery store and mentions "I hear you're closing the Westside branch", you don't want your employee to reply: "Really?".

Anticipate that as soon as the closure is announced internally, it will be discussed externally. Implement a media communications plan to address inquiries from newspapers, and instruct all employees to refer any media inquiries to the bank's spokesperson rather than responding directly. Also prepare for inquires from community groups in the affected areas and prepare talking points that address how the institution is insuring that services remain available in that community. Direct meetings with community groups can mitigate the ill will that can arise from branch closings.

Although regulations dictate the timing and scope of customer communications, those rules only designate the minimum required notification. For commercial customers and top consumer customers, face to face meetings and phone calls should supplement the standard required notifications. And all affected customers should receive a reminder postcard or e-mail outlining the nearest alternate branches in the week immediately prior to the closing, although this is not a regulatory requirement.

Some affected customers will complain to branch or call center staff about inconveniences that will arise from the pending closure. Identify concessions the bank is willing to grant to maintain affected customers. If a top customer cites the lack of a fee free ATM as the reason for closing an account, grant rebates of foreign fees for six months. If a commercial customer laments the lack of a convenient drive-in, offer a courier service for a transitional period or permanently. Of course, any concessions offered should remain in line with the value of the overall relationship.

The above list is not comprehensive, but it provides a framework around which to implement branch closings. Add other tasks specific to your institution to yield a process that will minimize the disruptions associated with branch closings.

Bancography: Five Years and Many More

On July 16, Bancography will celebrate its fifth anniversary. Since our launch in 2001, we have completed hundreds of projects across the US and Canada on assignments as diverse as branching strategies, market awareness studies, and product line assessments. And over 70 institutions now use our *Bancography Plan* branch planning software tool.

Throughout our journey we've met innumerable wonderful bankers. Thank you to all of our clients, colleagues, and friends in the industry, and especially to those who embraced this venture from the start.

Your encouragement and trust have enabled Bancography to reach this milestone. If we weren't so damn respectful of client confidentiality we'd name each of you, but you know who you are. And for those who we've met recently, we'll strive to reward your confidence with our products and research.

We've enjoyed these five years immeasurably and we eagerly look forward to the ensuing years, both with our loyal friends and clients and with those we'll meet in the future.

Credit Union Management Magazine (published by Credit Union Executives Society) featured Bancography and two of its clients in the May 2006 article: **"Mapping It Out."** Visit *www.cues.org* to read the article, which focuses on ways to pinpoint profitable branch locations.

Bancography wrote **"The Branching Boom"** article for the June issue of **Kentucky Banker**, the official magazine of the Kentucky Bankers Association.

Steven Reider contributed to the **American Banker Online** article: **"Minding the Branch (Not the Store) at JPM Chase."**

Bancography will exhibit or present at the following upcoming conferences:

- **Kentucky Bankers Association Annual Convention**, Louisville, September 9 - 11
- **American Bankers Association Marketing Conference**, Chicago, September 10 -12
- **Community Bankers Association of Illinois Annual Convention**, Indianapolis, September 14 – 16

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