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THE ART OF POSITIONING

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BRANCH PRODUCT RESEARCH BRAND

This study surveyed banks and credit unions across the U.S. about their branch deployment plans, including number of planned branches, cost, and size of those branches.

New Branch Survey Finds Branch Square Footage and Costs Remaining Stable

In 2003, Bancography surveyed financial institutions across the U.S. about their branch construction plans. We repeated the survey in 2006, 2013 and 2016 (deferring during the recessionary years when branch construction slowed dramatically), and recently completed another iteration. The study surveyed banks and credit unions across the U.S. about their branch deployment plans, including number of planned branches, cost, and size of those branches. About 60 institutions joined the survey, evenly divided among banks and credit unions, from all regions of the country and spanning all asset tiers except the absolute largest national banks. Many thanks to all the bankers who took the time to respond to the survey. The respondents maintain networks ranging from one or two to more than 200 branches. Our findings follow.

How many branches will your institution add next year?

The survey revealed a diverse mix of plans for the responding institutions. About two-thirds of the respondents plan to add only one or two branches in the next year, but six respondents indicated plans to build five or more branches. Across the s urvey panel (including institutions that reported they were not planning any branches in 2020), planned branch additions represented 7% growth relative to current branch counts, versus 5% in the 2016 study. Although that statistic does not address net network change, as it does not consider planned branch closings by the same institutions, it suggests that expansion remains a priority for the mid-sized institutions predominant in the survey panel.

Seventy-two percent of institutions plan to build traditional freestanding branches, 36% plan to build inline branches (i.e., branches within 'strip' shopping centers), and 9% plan to build in-store branches (the proportions sum to more than 100% because some institutions plan to employ more than one format). Non-traditional branches (i.e., inline plus in-store, retirement home, and other specialty formats) represent 31% of planned new branches. The proportion of institutions planning freestanding branches remained similar to that reported in the 2016 iteration of the study; but the proportion planning inline branches declined from 40% in the prior study.

What is the average square footage of the planned new branches?

The average size for planned freestanding branches was reported at 3,400 square feet, but this was skewed by three institutions planning branches of at least 6,000 square feet. Omitting those outliers, average square footage for freestanding branches was reported at 3,000 sf with a median of 2,800 sf. This represented an increase from the 2,700 sf result from the 2016 study, but even with the 3,000 sf in 2013. In the first two iterations of the study, freestanding branches averaged 3,900 sf in 2003 and 3500 sf in 2006. The trend suggests that while today's banking environment no longer demands branches in the 4,000 – 5,000 square foot range, the industry may have reached a minimum viable size for freestanding branches in the 2,800 – 3,000 sf range, given the expense of land and site preparation. That noted, five respondents are planning branches of at least 5,000 sf.

Among the planned inline branches, the average reported size was 1,900 sf, with the median at 1,800 sf; with the former down from 2,100 sf in the 2016 survey and the latter unchanged. Planned sizes ranged from 700 sf to 4,500 sf, with three responses exceeding 3,000 sf and three respondents planning inline branches of less than 1,000 sf.

What is the average land cost of the planned freestanding branches?

Reflecting the wide regional disparities in land costs, this question always shows great variance. Responses ranged from $125,000 to $1.5 million, with both the median and average near $750,000, down from the $930,000 average in the 2016 study but above the $675,000 average in the 2013 study. Notably, land costs averaged $1.1 million in the 2006 survey during the peak of the branch-building boom, and the lower values in each subsequent survey confirm a more disciplined approach to site selection since that frenzied period.

What is the average construction cost of the planned branches *(including building, furniture, and equipment, i.e., everything but land)?*

Reported freestanding branch costs ranged from $500,000 to $4.5M (excluding a larger main office

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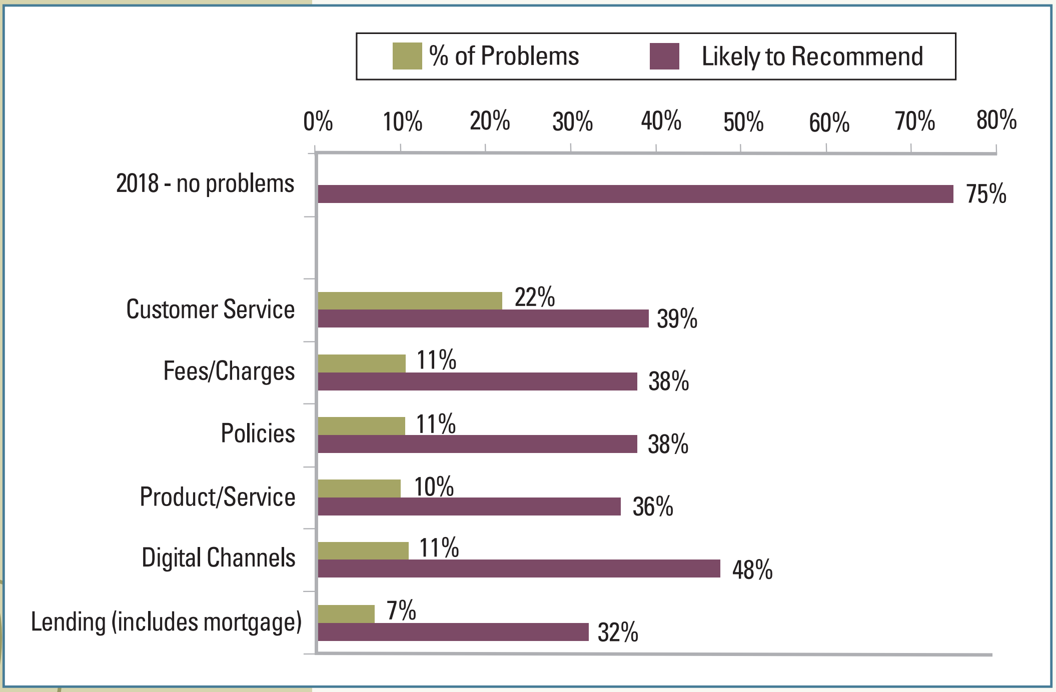
The Impact of Problem Occurrence on Loyalty

For its Service, Satisfaction & Loyalty research tracking program, Bancography conducts approximately 50,000 telephone interviews of customers and members annually. Data from those interviews yielded valuable findings regarding problems experienced and their effect on loyalty.

In 2018, eight percent of consumers reportedly experienced a banking-related problem or error. The chart below illustrates the breakdown of these problems and their impact on loyalty. Of those who did not experience an issue, 75% were very likely to recommend their institution to others. For those who experienced a problem, their loyalty scores dropped significantly.

In the chart below, the largest of the six groups represents issues relating to basic ***customer service,*** such as the staff's attitude, professionalism, knowledge, and efficiency. These types of issues have always plagued branches, and can infuriate consumers to the point of prompting account closure. Institutions must conduct ongoing training to combat these traditional service quality woes.



Dissatisfaction related to ***fees, policies, or products*** comprises a collection of issues related to the customer not understanding the rules associated with their products. Too often the complaints read like accusations, i.e., the customers felt blindsided by fees, ripped off or even sold the wrong product. If this group of customers leaves the institution, they relocate to a peer institution with similar products, features and convenience. The fault usually lies with a deficient new account opening experience. A secondary group relates to digital channels such as Internet banking, mobile banking, and remote deposit

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New Branch Survey Finds Branch Square Footage and Costs Remaining Stable *(continued from page 1)*

facility); but most responses fell between $900,000 and $2.1M, with an average of $1.8M; up from the $1.7M and $1.4M of the 2016 and 2013 surveys. However, recall average square footage increased slightly from 2,700 to 3,000 sf. Accordingly, average cost per square foot remained essentially unchanged at $580, versus $570 in 2016; with a median of $530 that mirrored the 2016 finding. Costs ranged from $275/sf to six responses at more than $900/sf.

For inline branches, reported costs ranged from $200,000 to three responses at more than $1M, with an average of $675,000 (essentially unchanged from $700,000 in 2016) and a median of $540,000. Cost per square foot ranged from $120 to two responses at more than $600, and averaged $350 (median $320), compared to an average $360 and median of $290 in the 2016 survey.

What are the planned initial staff levels for new branches?

Despite the difference in average branch sizes, there was little difference in planned staff levels for freestanding versus inline branches. For freestanding branches, respondents reported an average starting staff of 5.9 full-time-equivalent employees (FTEs), with more than 80% of responses falling in the 5 – 8 FTE range. For inline branches, respondents reported an average starting staff of 4.9 FTEs, with three-quarters of responses falling in the 3 – 5 FTE range. The modest difference in staff levels across the model types suggests the larger square footage of freestanding branches is designed to accommodate non-retail business lines (mortgage, wealth, commercial, etc.) versus additional teller or customer service personnel. The average initial staff results for both facility types were unchanged from the 2016 survey.

Branching Initiatives Surge in Contrast to Recent Trends

The rise of online channels and the corresponding decline of in-branch transaction activity has led many financial institutions to reduce the scope of their branch networks in recent years. In concert with the raft of mergers precipitated by the 2008 – 2009 financial crisis, those reductions have left the U.S. with 105,000 bank and credit union branches, 8% below the peak levels of 2010. Further, U.S. branch counts have declined in eight of the last nine years; and banks and credit unions combined to shed a net 1,700 branches over the past year, and 6,200 over the past four years.

Yet amidst those trends, some of the largest banks in the U.S., many of which led the closure wave of the last decade, have announced sizable branch expansion initiatives:

- In a 2018 press release, **Chase** announced plans to add as many as 400 branches and enter 15 – 20 new markets over the next five years (*Press release*, Jan 2018).
- **Bank of America** plans to add 500 branches and 2,700 ATMs, while entering numerous new markets in the Midwest (*Reuters*, April 2019).
- **US Bank** plans to add branches in Texas and the Southeast in markets where it serves customers but offers no physical locations; and plans to add 60 – 80 branches overall by the end of 2020 (*Charlotte Observer*, April 2019).
- **PNC** has recently entered or announced plans to enter markets well removed from its current footprint, including Dallas, Denver, Kansas City, Houston and Nashville, (*American Banker*, July 2018).
- In 2018, **Fifth Third** announced plans to open 100 to 125 branches across the Southeast, such as Nashville, Charlotte, Raleigh-Durham and Atlanta (*Cincinnati Business Courier,* June 2019).
- **HSBC** plans to open 50 new retail branches in the U.S. in markets where it does not currently offer a physical presence (*American Banker*, June 2019).

What is prompting these ambitious expansion efforts at a time of apparent branch contraction overall? Foremost, the economic recovery of the past ten years has revived loan growth, creating a corresponding demand for deposit growth, and traditional branches remain the most effective means of raising low-cost funds.

But beyond the absolute deposit growth imperative, in some cases the expansion efforts reflect a reallocation of resources rather than overall network growth. For example, even as Bank of America, US Bank and Fifth Third have announced branch-expansion plans in certain markets, each has also pared significant numbers of branches in other markets. Across the industry, such rebalancing efforts impound one of two strategies: either a reallocation of assets from low-growth to high-growth markets (e.g., for Fifth Third, from the Midwest to the Southeast); or an exit from markets where the bank maintains limited presence to concentrate resources in selected strongholds.

That latter focus reflects the network effect, the phenomenon under which large branch networks capture a disproportionate share of market deposits. Explained in detail in the *Bancology* April 2017 issue, the network effect implies a 'get-big or get-out' strategy for large banks – that they should pursue market-leading franchises in a few markets rather than toehold presences in multiple markets – and many large-bank expansion efforts are focused on building dominance in core markets and funded by exit from less-successful markets.

That noted, some large-bank expansion efforts are targeting the loan potential in middle-market commercial hubs, versus traditional retail/deposit-driven expansion; especially since those deployments require fewer branches and can be less costly to implement. Finally, some of the largest banks foresee an 'end game' with a handful of nationwide franchises that can leverage national advertising and branding campaigns. For these banks, offering some level of presence in markets that house 80% or 90% of American consumers will maximize the efficiency of national marketing efforts.

In sum, the branch landscape in the U.S. continues to evolve, and even as overall branch counts may have peaked, competition in the largest and most economically robust metros will increase as traditional regional banking boundaries erode. As such, smaller institutions may find greater growth potential in second-tier metros, those beyond the top 50 or so in population size; and may also face an imperative of increased marketing costs to maintain current share positions in the largest metros.

The survey also addressed various equipment and configuration elements:

- **Image-enabled ATMs** are prevalent but not ubiquitous, with 71% of respondents planning to use the technology in *most* or *all* new branches, down slightly from 80% in the 2016 survey.
- **Teller cash recyclers (TCRs)** are becoming standard equipment: 77% plan TCRs in *most* or *all* new branches; and only 8% have *no plans* to use TCRs.
- Only 35% of respondents plan to install **safe deposit boxes** at *any* new branches, with 19% planning boxes for all branches and another 16% planning to install boxes in *some* new branches. These statistics mirrored the levels found in the 2016 study.
- **Video remote teller** implementation may have reached a plateau. Twenty-six percent of the surveyed institutions will use video remote tellers at all new branches, up slightly from the 22% level reported in the 2016 study; and 19% will use the technology at *some* new branches. But that leaves 45% of respondents still with *no plans* for video tellers, the same level as in 2016.
- The **universal agent model** is emerging as the dominant operating model at U.S. branches: 63% of respondents plan integrated teller-CSR (universal agent) workstations in all new branches, up from 49% in 2016 and 42% in 2013; and only 17% plan to install traditional teller lines in all new branches, down from 22% in 2016 and 30% in 2013. The remaining institutions (20% of respondents) plan a mix of operating models.
- Thirty-eight percent of respondents plan to out source at least some proportion of **branch construction projects** to design/build firms, turnkey providers that manage all aspects of the construction process. Twenty-five percent will utilize design/build firms for *all* branch projects, 62% will hire and manage their architects and general contractors internally, and 13% plan a mix of construction management methods.

NEWS

Kimberly Clay presented *The Brand Truth* at the **Kentucky Bankers Association's Marketing Forum** on August 15 in Louisville.

Bancography will exhibit at the **American Bankers Association Marketing Conference** September 22-24 in Austin. Please visit us at Booth 310.

The Impact of Problem Occurrence on Loyalty (continued from page 2)

capture, as the rise in use of these touchpoints has resulted in heightened problem occurrence. A professionally executed onboarding transaction that educates the user not only on the new products and banking policies, but also the associated electronic services, would prevent confusion, build loyalty and bring referrals.

Lending issues can also damage loyalty. Comments by customers who experienced lending problems primarily fall into two sub-categories: refused for the loan or the process was onerous and challenging. Verbatim explaining the latter cited lack of communication between the officer, the applicant and the back office, and the failure to meet expectations at closing. In that these issues will also undermine referral likelihood, it is important for institutions to examine loan origination processes and training to forestall potential customer dissatisfaction.

Financial institutions cannot eliminate errors, but they can train their staff to improve the account opening process and minimize the occurrence of such errors, in turn improving customer loyalty and the likelihood of receiving favorable referrals.

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