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The Roles of the Branch:
Why Design, Placement and Merchandising are Critical to Branch Success

Renowned management theorist Henry Mintzberg, a professor at Montreal's McGill University, first published his framework of managerial roles in his 1973 book, *The Nature of Managerial Work*.

Professor Mintzberg delineated 10 distinct roles of a manager, grouped into three categories: interpersonal (figurehead, leader, liaison); informational (monitor, disseminator, spokesperson); and decisional (entrepreneur, disturbance handler, resource allocator, negotiator).

Mintzberg's role categorization provides a framework for understanding the essential functions of an effective leader, and correspondingly a framework for allocating a manager's time resources across those roles.

With credit to Mintzberg, we can position the role of the branch in a parallel framework, by considering what the essential roles of the branch are and how bankers should organize branches around those roles.

> *Just as managers carry multiple roles, so do branches, and just as managers must allocate resources across their multiple roles, so must the branch allocate resources across its multiple roles.*

In that context, the branch's existence can be framed in eight roles under three categories. Operational, Developmental and Promotional.

The developmental roles of the branch are those that enable it to directly bring the organization toward its financial goals. Developmental roles include new-client recruiter and cross-seller.

The operational roles may be what consumers first think of in their perceptions of the branch: problem solver, fiduciary security, currency and instrument exchanger.

The promotional roles are most directly related to the physical design and positioning of the branch: awareness builder, community focal point, educator.

To the banker, the developmental roles likely seem most important, as the branch provides a private and calm environment in which to conduct face-to-face conversations about clients' financial needs and aspirations. To the customer, the operational role may appear paramount, as there is an array of specific activities related to the handling of currency and other financial instruments that can occur only at a physical facility, be it branch or ATM. And even as non-branch deposit venues such as advanced ATMs and remote capture gain traction, there remain exchange functions that can occur only at the branch: opening cash orders for businesses, cashiers' checks, large-amount deposits (to name a few).

The customer also views the branch as the venue of last resort for problem resolution. When the call center and the online chat function are unable to resolve an issue, there's no better option than bringing your issues face to face with an empathetic banker.

However, the promotional role of the branch may remain overlooked. Fundamentally, the physical structure itself doesn't *do* anything – it stands unchanging year after year. And yet, no one can open an account, whether in person or online, or cash a check or withdraw cash from a bank unless they first learn that the bank exists.

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That may seem obvious, but consider someone who moves to a new city for retirement or employment. How do they decide where to shop for groceries? How they decide where to go for dinner that first night in the new town, before they've even found the grocery store to cook in their own kitchen? And yes, how do they find a bank?

You can browse online to find groceries, restaurants and bank and credit union branches. But we all also find many of our retail venues by the simple act of driving down the street and taking note of the businesses there.

Consider this: you are the CEO of a community bank in Detroit. You add an online banking platform. Should you reasonably expect a meaningful number of customers from Charlotte? A community bank's marketing budget cannot possibly compete with national brands (whether online specialists or hybrid national banks) in gathering deposits and initiating loans online.

Rather, the community bank in Detroit likely remains limited to attracting clients from … Detroit. Given that, physical prominence – expressed in positioning, design and exterior signage – merits significant attention so the branch becomes as effective of a billboard for the company as possible; something that passersby notice and retain for when their next financial services need arises.

But the awareness builder is just one of three roles of the branch's promotional dimension. The other two remain important, too. Developing the community focal point role can provide a key differentiator and build loyalty. For larger physical facilities, this may involve repurposing surplus space for use as a community room, actively promoted to local civic organizations as a place they can meet. For smaller facilities that lack sufficient space for external activities, consider community memo boards to advertise local events, or decorating the branch with works of local artists – perhaps even featuring an artist of the quarter, with works available for purchase.

Some institutions allow branches to feature a business of the month, a chance for a local business client to promote their offerings in a respectful and appropriate manner. The overriding objective: give people a reason to visit the branch beyond cashing a check or opening a CD. It will be rare for someone to attend a meeting of the community garden club or neighborhood watch and choose to open a money market account right then and there. But next time one of the attendees faces a financial need, the branch where they recently attended that meeting is likely to come to mind.

Finally, consider the educator role. Can a building educate? Absolutely. Keep in mind, every square foot of floor space, every inch of wall space, is an opportunity to present messaging that educates the consumer about the institution's offerings. Even absent any contact with an employee, the physical environment of the branch can provide education to consumers.

In its simplest form, this can involve basic informational merchandising: the poster on the wall that illustrates the new home equity product; the kiosk that includes marketing collateral; the closed-loop television screen showing stories of branch staff engaging in local volunteer efforts. In more complex forms, this can progress to interactive kiosks and touch-screen wall displays where consumers can compare product options, or test drive the bank's mobile and online banking platforms.

The overarching goal remains to increase consumers' knowledge of the institution's offerings. If that occurs, it will eventually manifest in additional product sales, even if those results occur with a lag from when the branch visitor first engages with the branch's educational content.

Just as managers carry multiple roles, so do branches, and just as managers must allocate resources across their multiple roles, so must the branch allocate resources across its multiple roles. Bankers tend to focus on the interpersonal branch roles, of business development and operational functions. This is sensible; after all, consumers visit the branch specifically for direct interactions with other humans. However, the building itself, although immobile and non-sentient, nonetheless plays a critical role, too. A well located and thoughtfully defined structure serves as a billboard to build awareness of the institution, provides a focal point for community engagement and educates visitors about the institution's offerings, even before any interpersonal interaction needs to occur.

For years, many bankers were content to deploy classic Colonial-style buildings with a large lobby teller area, a rate board in the center of the floor and some paintings of fox hunts and such on the walls. Today, it is imperative to consider every aspect of the site, and every floor and wall surface of the building, to maximize signage, visibility, awareness, community traffic and visitor absorption of information – to optimize the substantial investments branches entail. An array of architects, designers and merchandising consultants serve this very function in our industry, and bankers should avail themselves of such resources to maximize branches' execution of their promotional roles.

When the Dam Breaks: The Mortgage Market Gets Unstuck

The low mortgage rates that followed the financial crisis of 2008/2009 fueled a robust market of home sales in the U.S. that peaked during the pandemic, when a combination of cash inflows to consumers (stimulus payments and similar) and changes in location preferences joined with those low rates to accelerate home buying.

As the economy recovered in the post-COVID years, the Federal Reserve Board abandoned the zero-interest-rate policy (ZIRP) that undergirded its pandemic response, with the Federal Open Market Committee raising the target federal funds rate 11 times between March 2022 and July 2023 in an effort to tamp down inflation. The post-COVID recovery saw unemployment plummet to 50-year lows amidst robust economic growth; but this also brought the threat of a wage-price spiral, underscoring the need for the Fed to raise interest rates.

Predictably, the interest rate increases reduced the pace of home sales, and by December 2023 U.S. home sales (existing and new) sat at an annualized pace of 4.5 million units per year – down about 35% versus the 7.1 million unit per-year pace in January 2022.

The increases in market interest rates also eliminated the benefit of refinancing for most homeowners. After millions of homeowners either acquired new homes or refinanced current residences at rock-bottom interest rates during the ZIRP years, the nation stood at a point where more than 95% of current mortgages sat at rates below current market rates. Thus, for the overwhelming majority of homeowners, there was no longer benefit from refinancing a mortgage; and there was a disincentive to consider moving to a new home, as moving would require trading a low mortgage rate for a higher one.

That is, many homeowners now find themselves somewhat locked into their homes, reticent to move even if they'd otherwise wish to do so, unwilling to incur an increased mortgage rate.

As a result, banks and credit unions suffered a drastic slowdown in mortgage originations, to the point where many institutions instituted layoffs in their mortgage-banking divisions. However, the months since that most recent FRB rate hike in July 2023 have seen significant changes that may now cause the previously torpid mortgage market to come "unstuck."

Major U.S. homebuilders have already responded to falling rates, with most offering promotional interest rates in new homes below 6%; with a few offers even below 5%. And as rates for existing homes fall too, the flow of home sales and corresponding mortgage applications will likely revive, as the dam of high rates breaks and the market starts coming unstuck.

Inflation has slowed drastically, leading to declines in interest rates. The average 30-year mortgage rate peaked in October at 8.03%, but declined by nearly 150 basis points in the months that followed, bottoming near 6.6% before bouncing back toward 7.0%. Financial markets, in the form of bond futures, are now reflecting a high probability of rate cuts by the Federal Open Market Committee, likely in mid-2024.

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Although a 100 basis point reduction would still leave mortgage rates well above peak ZIRP years, there is reason to believe that such a change would fuel a significant uptick in buying. First, the perception of "normal" rates may have changed: after more than a year of rates in the sixes and sevens, the fives may sound surprisingly attractive to consumers. And second, there may be latent fears that the declines in rates will be temporary, causing consumers to act quickly lest they miss a window of lower rates that precedes a return to higher levels.

There is strong empirical evidence for the belief that pending rate declines will herald increased mortgage activity. The graph on page 4 shows how new-home sales activity responds to changes in interest rates, comparing the annualized percentage change in new-home sales[1] for each six-month period to the basis point change (i.e., absolute change, not percentage) in the average 30-year mortgage (continued on page 4)

[1] The study uses new-home sales rather than total home sales, simply because new-home transaction data are more readily available from government sources than existing-home sales data, at least for the time period under study. However, other data sources confirm a high correlation between new and existing home sales; so total home sales volume will show a similar relationship to interest rate changes.

rate in that period. The graph charts activity over a period dating to 2011, the start of the post-financial-crisis era.

On average, every 25 basis point decline in mortgage rates brings a 2.25% increase in new home sales; and every full percentage point decline brings an 11% increase in new home sales. The graph shows an r-squared value of 0.42 – not lockstep correlation, but still a strongly indicative relationship in the noisy environment of real-world variables versus a more controlled statistical experiment.

Note that a one percentage point decline in rates would bring the 30-year mortgage average squarely into the fives, allowing more aggressive pricers to offer options in the fours – i.e., below 5% – which would seem to give perceptual fuel to the 11% gain in home sales predicted by the relationship shown above.

There is a lesson from the 2008/2009 financial crisis that bears relevance in how bankers should prepare for the likely resurgence in home sales.

In the years following the financial crisis, many institutions remained hesitant to revive lending, even after signs that the worst of the economy's challenges had abated. Rather, bankers stayed in a protective mode, emphasizing workouts of distressed loans and prevention of portfolio deterioration, even at the expense of pursuing a reviving commercial lending market. As a result, the subset of banks that were poised to act gained a marked advantage, regrowing their portfolios while competitors sat stagnant, gaining a reputation of lenders unwilling to lend.

Bankers must take care not to cede similar momentum in mortgage lending as the current rate-driven slowdown abates. Rather, now is the time to reevaluate product features, fees and available options (e.g., conventional, adjustable, FHA/VA) so that advertisements, websites and marketing campaigns are ready to launch as soon as your institution's local housing market turns unstuck.

To the extent banks and credit unions may have furloughed mortgage personnel, both in originators and operations, now may be an opportune time to repopulate those staff positions, too. When the dam breaks and the mortgage market becomes unstuck, it may occur in a big way, letting loose a year's worth of pent-up demand. In the event that occurs, bankers must be ready to capitalize, lest they miss the early window of the recovery as so many did with the commercial-lending revival that followed the 2008/2009 financial crisis. And once competitors seize that mantle of a market's most willing lender, it can be difficult to catch up, rendering it imperative to arrive early to the revived mortgage-lending arena.

New-Account Customer Experience by Age

For its New-Account Customer Experience research tracking program, Bancography conducts thousands of email interviews of bank and credit union clients who opened an account at a branch. Data from those interviews yields valuable insights into the service delivered during the process and its impact on loyalty and service quality.

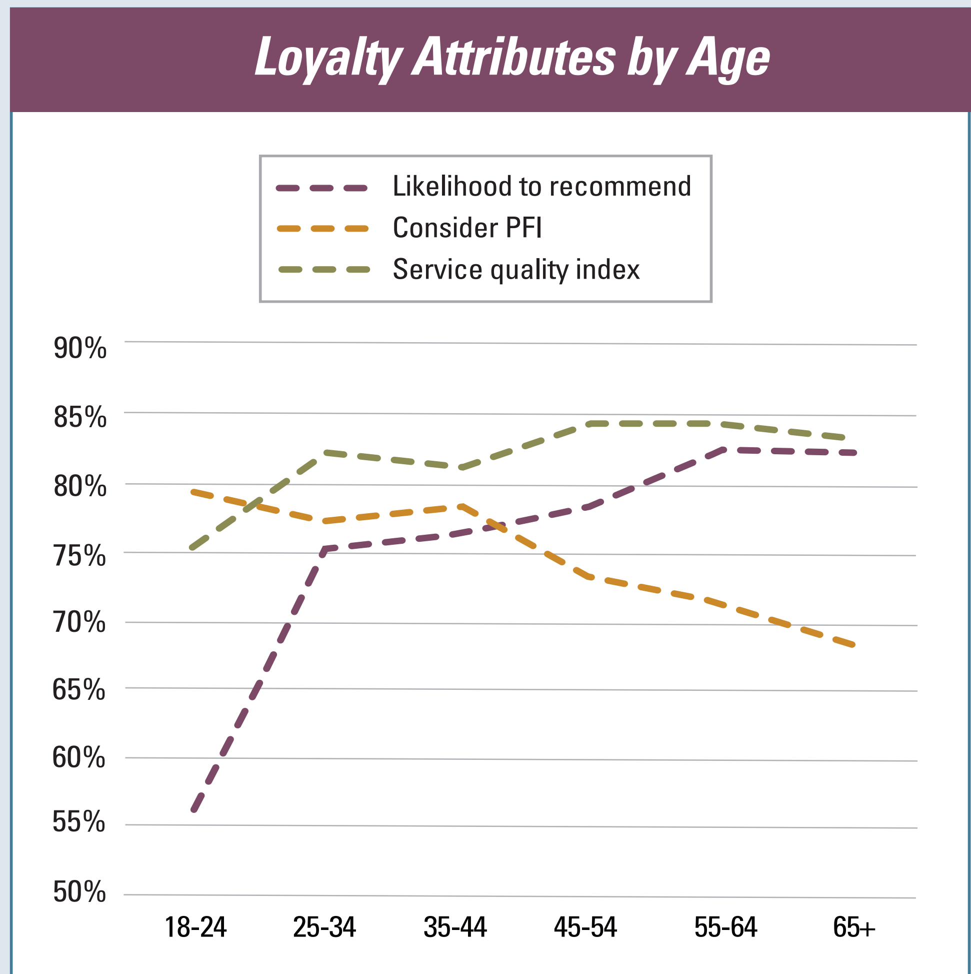
The age of the survey respondent impacts the new-account opening process. The survey includes a group of attributes measuring the service quality delivered during the onboarding process by the branch staff. The scores from these questions are averaged to form an index, which is illustrated by the gray dashes in the cart below.

The younger age breaks provided the lowest scores. The difference is not necessarily a result of bias in the service offered; rather, a difference in attitude and perception.

Respondents were asked their likelihood to recommend the institution to friends and associates, illustrated by green dashes. Only 56% of those between 18 - 24 years old were willing to recommend, versus 82% for those older than 55 years.

The survey inquired whether the respondent considers the sponsoring institution to be their primary financial institution (PFI), as illustrated by the orange dashes. As the client ages, they are less apt to deem their institution as their PFI – despite their willingness to recommend it to others.

The inverse was more intriguing, in that the youngest demographic is far more likely to consider the institution as their primary – despite waning motivation to recommend and a lower regard of the service delivered during the account-opening process. The youngest clients are not loyal; yet they require basic banking services provided by only one institution. The breadth and complexity of product needs tend to increase with age or life stage; thus, increasing the opportunity to open accounts from additional financial institutions.



Most interestingly, the above correlations and conclusions did not vary by client, regardless of asset size or geography.

For more information about Bancography's customer experience program, contact us at (205) 251-6227 or *research@bancography.com.*

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