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Where can bankers find opportunities to accrue accounts in multiples, instead of each account individually, one at a time?

Workplace Banking: A Multiplier for New-Account Sales

Bankers are continually seeking venues to bolster new-account growth. And in those efforts, a simple truth of mathematics always holds: more is greater than less. If we can amass accounts 10 at a time, that's better than one at a time. So where can bankers find opportunities to accrue accounts in multiples, instead of each account individually, one at a time?

One option lies in workplace banking, where a bank or credit union creates an offering tailored to the employees of a specific company. The premise involves developing a favorably priced offering that a participating company can position as an employee benefit; and for which the company in exchange grants the bank or credit union some level of access to its employee base.

A workplace-banking program is most beneficial when it coordinates the consumer and business sides of the institution (i.e., where the consumer offering complements a commercial depository and/or lending relationship). In that environment, the commercial relationships provide a channel for ongoing dialog with company executives, where bankers can reinforce the benefit of the workplace-banking program and address any issues arising in implementation.

The employee-facing component of the workplace-banking program can include a discounted bundle of services, anchored by a checking account, but also allowing a discount on mortgage-origination fees or a rate premium on CDs (for example). By collaborating with the employer, the financial institution can gain the ability to promote the offering in new-employee orientation packages, or via hosting financial education sessions at the worksite: for example, discussing retirement planning and IRA options, or how to buy your first home. The discounts available to the company's employees forgo some level of revenue on a per-account basis, but the institution can offset that via the greater volumes — again, by amassing accounts in multiples versus one at a time.

Any workplace-based checking relationship should mandate direct deposit, which saves the employer money (whether they process their own payroll or outsource) and time, if they process their payroll internally. The simplicity of direct deposit also reinforces a mutually beneficial relationship between the institution, the company and the employee. Further, if the workplace-linked checking account receives the employee's paycheck, then that account will presumably serve as the consumer's primary checking product; and thus more likely to see heightened debit card activity, which then augments fee revenue.

For larger employers (1,000+ workers), some banks and credit unions will place ATMs at the worksite (e.g., hospital, large manufacturing plant) to provide an added convenience. Workers who use the institution can then enjoy fee-free access to cash, while others incur surcharges, giving incentive to migrate to the employee-banking option.

One other way to bolster acceptance of a consumer-side offering is to reinforce the institution's brand on the business side by providing the business' credit card (if the firm is such that employees travel routinely and a significant number have a corporate credit card). By establishing that card relationship on the business side, the institution creates a continual reminder to the employee of the value it offers. Every time the employee purchases office supplies or takes a client to lunch, they see how their employer trusts the institution as its primary banking provider.

Credit unions have for years employed workplace banking programs via the Select Employment Group provisions of their charters. But as more credit unions have migrated to community charters, that activity has waned. On the bank side of the industry, some institutions have adopted workplace-banking programs, but the incidence remains sporadic. In both sub-sectors, the impetus for workplace-banking programs has usually arisen from the consumer side, where a branch manager or a dedicated group-banking *(continued on page 2)*

officer calls upon prospective employer-providers. However, that model neglects the greatest inroad an institution may hold with a company: their commercial lending and/or depository relationships.

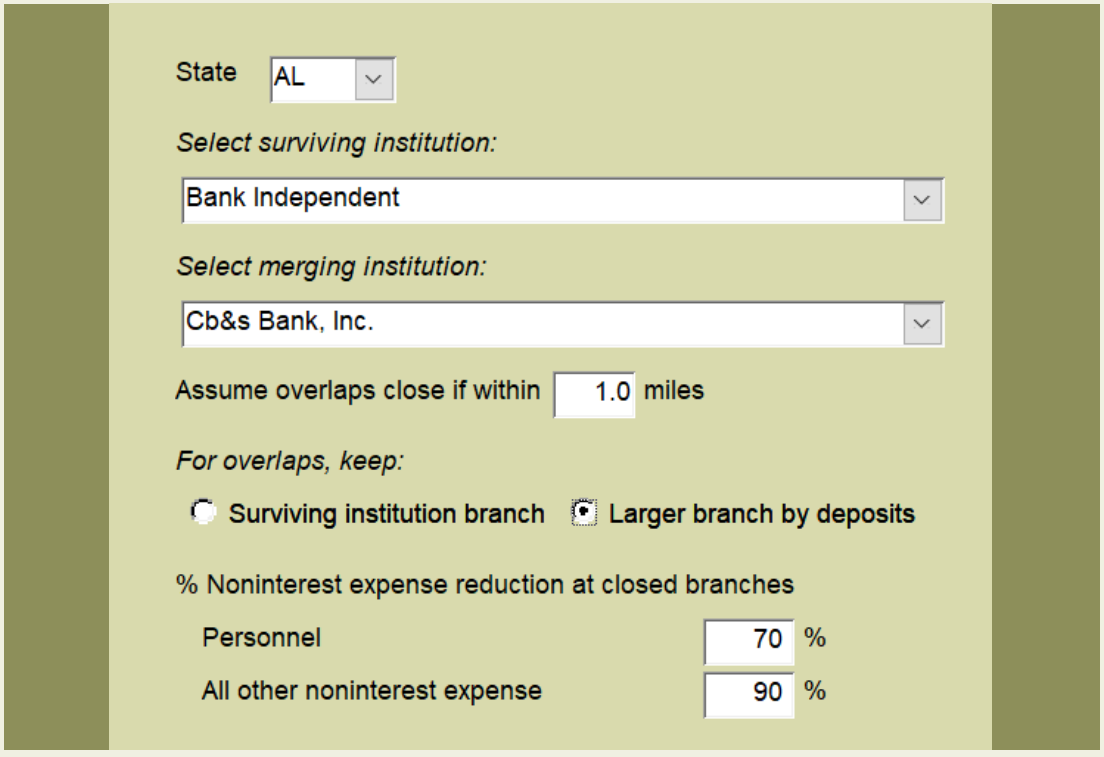
Accordingly, to implement a widescale workplace-banking program, institutions must provide training to business bankers and commercial relationship managers, and create accompanying product collateral. In that manner, the workplace-banking offering joins other ancillary services (such as remote capture and positive pay) as one more offering to tout when presenting the benefits of a holistic relationship with the bank. And if the company perceives the workplace-banking offering as a valuable part of its banking relationship, it will support those key cross-promotions in employee welcome kits, periodic email reminders and educational sessions – fostering the goal of creating that efficient channel where the institution can add multiple relationships from a single sales effort.

Bancography Plan's New Features

Bancography Plan now allows financial institutions to evaluate potential merger candidates, recommending which branches to keep or close and the corresponding financial implications for those decisions – including forecasted runoff at the closed branch, based on distance to surviving branch and surrounding density. It displays full pro forma financial impact, before and after branch closures, and warns if the transaction is dilutive. Bancography Plan also shows efficiency ratio and return on assets under various assumptions of non-branch cost reductions, which are important indicators of merger viability.

In addition to the merger piece, Bancography has enhanced its demographic offering with county-level demographics, allowing users to compare a new branch site's demographics in relation to county averages/medians. For example, determining whether the trade area around the proposed site shows a higher income than the county overall (or vice versa); or what percentage of the county's households reside in the trade area under consideration.

For more information on these new features, visit our website: *https://bancography.com/new-features.*



The Brand Truth: Power of Consistency

The following article is an excerpt from Bancography's upcoming white paper: The Brand Truth.

An institution's brand is one of its most valuable intangible assets. Since its inception, the institution has invested tireless energy to shape its brand, including the creation of strategic goals and initiatives in support of the brand. Unfortunately, a misstep or hearsay could tarnish the brand beyond recognition. Scandals will quickly unravel years of building a reputation and telling a story. In these cases, the institution cannot leverage its brand for growth, as management is focused on damage control, which can be expensive and time consuming. All the while, the competition takes advantage.

A healthy and strong brand will survive miscues. Just like human nature, forgiveness accompanies loyalty. But at some point, a reputation or brand will not survive a reoccurring onslaught of problems. Eventually, the apologies feel hollow.

Knowing where you stand versus where others perceive you is the key in managing a brand. If your reputation is on target, then you are poised to utilize your brand for growth. The quandary is knowing if your brand is on mark. If it is not, growth strategies could be undermined by further investment in selling a brand's position that is positioned wrongly. Quite often a brand is advertised as one persona, when in fact it is not. Marketing has been instructed to sell something that the front line is ill equipped to deliver on, because sales training was not involved or product management and IT did not stress test the systems. In this all-too-common situation, dollars and time are allocated for damage control. Further, resources will have to be assigned to combat churn and attrition.

The following case study illustrates the effects of a brand misstep. A $100B bank introduced a new service that would process business loan applications in 24 hours. The bank launched a massive advertising campaign, and that campaign was so successful that the branches, lenders and underwriters were overrun with traffic they could not handle. In the first three months, less than half of the applications were processed in 24 hours due to this excess volume. The majority of those applications were turned down, as the promotion attracted more high-risk applicants than the bank normally experienced.

Although the front line was aware of the promotion, they did not know the timing of mailings, commercials and radio. The contact center was not informed of the promotion; therefore, they could not handle the surge in volume and the ensuing questions or complaints. There was plenty of blame to be shared for the over-zealousness of marketing and product management. The bank immediately stopped advertising, and retained Bancography to measure the subsequent business attrition and its effect on service quality and loyalty.

> *Evaluating a brand's position is essential for building growth strategies before implementing advertising or expanding the distribution network.*

Bancography's research illuminated the effects of business attrition on the consumer base, with a spike in consumer account closures. This was not surprising, as Bancography data informs us that more than half of business owners maintain their personal accounts at the same institution. When there is business attrition, half of these business owners will move their personal relationships as well. In response to Bancography's research, the bank initiated intensive product training for the front line, including the contact center. Once completed, the bank launched a new campaign, targeting businesses whose loan applications were more likely to be approved.

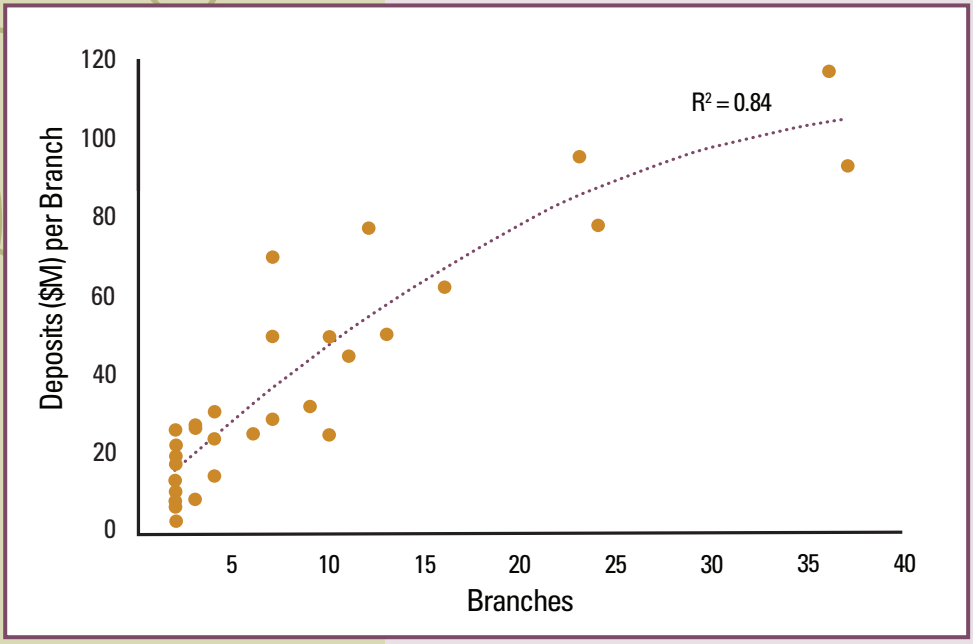
An institution's brand message must also grow or evolve. All facets of the brand must align for the message to be clear; else, it is a brand lie. Combating brand confusion requires extensive advertising investments, leaving few resources for product or service campaigns.

An example of a brand at odds with itself due to a disconnect between the brand's identity and its promise resulted from an internal visionary struggle. A $2.5B affinity-based credit union that originally served only teachers obtained a community banking charter, which allowed it to expand its branch network and open its doors to all. Despite the board of directors' support and approval of this change, they would not agree to update the name, logo or existing messaging. Regardless of this impasse, management proceeded to green light the marketing plan to promote the change in structure. All efforts failed to attract new members to the credit union. Bancography concluded that the confusion between the established name, suggesting exclusivity, and the reality that the credit union is now inclusive were not aligned; thus, the public did not understand.

Managing a brand requires time, money, energy and effort. Monitoring the strength of this asset is a necessity to ensure its safety. Evaluating the brand's position is essential for building growth strategies before implementing advertising or expanding the distribution network. Measuring customer feedback is vital in maintaining a level of service quality that will fuel cross-sell, upsell and loyalty. These efforts are perpetual, rather than episodic. These are the methods used to comprehend the Brand Truth. In the next issue of *Bancology*, we'll provide details of how to most effectively measure brand strength.

Revisiting the Network Effect: Despite the Rise of Alternate Channels, Dense Branch Networks Still Win the Day

Bancography clients and other regular readers of *Bancology* are likely familiar with our enduring interest in the network effect, the phenomenon wherein large branch networks capture a disproportionate share of market balances.



This graph illustrates the upward sloping relationship evident in every large market, where deposits per branch increase as a function of the number of branches. The curve is upward sloping but concave down, indicating that at some point in each market, the marginal gain in average deposits from adding branches dissipates. This example shows the Grand Rapids, Michigan market.

Historically, the network effect was empirically demonstrable, in that larger branch networks captured greater balances *per-branch* than smaller networks within a given market.

Framed another way, an eight-branch network gained *more than* twice as much in deposits as a four-branch network, and a 16-branch network *more than* twice as much as an eight-branch network. With consumers valuing the perceived convenience of broader networks, each successive branch provided a mutually reinforcing, synergistic lift to the other branches in the network.

Bancography last published a study of the network effect in 2017 *(https://bancography.com/ology/Bancology0417.pdf).* That study found the upward-sloping relationship between deposits per branch and number of branches to be statistically significant in 47 of the 50 largest metro areas (by household count) in the U.S., including significant at the 0.01 level in 41 of those metros.

Since that last study, electronic channels have matured, and the COVID pandemic forced even historically branch-dependent consumers to consider non-branch channels, raising the question of whether the network effect still holds in today's banking environment; and if so, have the aforementioned developments weakened the effect?

The answers to these questions carry critical implications for bankers. If the network effect still holds, then branch deployment remains a metaphoric arms race of which institutions can build the broadest network in a market. But if the effect no longer holds, or even just shows signs of weakening, then it would justify branch-light distribution strategies versus striving for ubiquitous physical presence.

To measure the network effect, we studied the correlation between deposits per branch and number of branches in each of the 50-largest metropolitan statistical areas in the U.S., prepared to reject a null hypothesis of no correlation with evidence of an expected positive correlation. The study measured the correlation between the two variables using Spearman's rank correlation coefficient, and controlling for main-office biases and other outlier effects. The Spearman's statistic measures the degree to which the rankings of each variable (as opposed to the values) align; this helps minimize the effect of outliers.

If the network effect holds, we would expect a high correlation. If perfectly correlated, the institution with the greatest number of branches in a market would show the highest deposits per branch; the owner of the next-largest branch network would show the second highest deposits per branch, and so on.

Even with the rise of electronic channels and the COVID-driven inducement to utilize non-branch channels, the study found the network effect persists, with correlations significant at the .01 level in 48 of the 50 largest metros in the *(continued on page 5)*

nation, and at the .05 level in the other two. The average correlation between deposits per branch and branch count across the top-50 metros edged upward from 58% in the 2017 study to 65% in this most recent study.

Further, the Spearman's correlation coefficient increased in 34 of the 49 metros that appeared in both the 2017 and 2024 studies (New Orleans dropped out of the top-50 list in that timeframe replaced by Grand Rapids). That is, in two-thirds of the markets, the network effect is now stronger than seven years ago. This suggests that as consolidation has reduced the number of institutions in a given market, there is even more of a premium on network scale. If the middle tier of institutions in a market are acquired away, with the surviving institutions combined into larger entities – even after consolidation of overlaps – then scale becomes an even more prominent attribute in the eyes of the consumer.

That noted, examining the markets with lesser correlations reveals alternate paths to realizing top-tier deposits-per-branch, other than via network ubiquity. In both of the markets where the Spearman's coefficient was significant only at the .05 level but not at the .01 level, the banks able to defy the prevailing trend (i.e., attain high balances per branch even with a smaller branch network) employ specialized versus general consumer-focused operating models.

In Austin, four of the top seven banks by deposits per branch maintain networks of only two to six branches, in a market where the leading networks contain about 50 branches. And in Seattle, three of the top four banks by deposits per branch and four of the top eight maintain networks of only two to four branches, in a market where the leading networks contain about 100 branches.

In each market, the counter-example banks employ a specific target-segment approach. In Austin, specialists such as Independent Bank and Horizon Bank focus on middle-market commercial banking, and in Seattle, specialists such as Cathay Bank, East West Bank and Bank of Hope focus on subsegments of the Asian-American community. In each case, the banks are forgoing the benefits of marketwide coverage, instead striving to dominate a specific product- or affinity-driven segment.

However, for the general retail-banking practitioner, the ongoing consolidation of the industry has yielded an environment more dependent than ever on scale. The absorption of mid-tier competitors has left many U.S. markets approaching a competitive landscape similar to the Canadian environment: a handful of dominant, marketwide providers, and then a host of smaller community-based providers (in Canada these are near exclusively credit unions) filling geographic niches.

If one-time electronic differentiators quickly become homogenized minimum thresholds of expectations, then that leaves other factors, including brand awareness and perceived accessibility as key choice determinants – attributes impounded in the breadth of a bank's branch network.

Notably, electronic channels are not an equalizer for smaller banks in the U.S. Although the ability to open an account outside of a branch should in theory level the proverbial playing field between large and small banks by reducing the need for costly physical branches, the empirical evidence shows the larger branch networks still capturing a disproportionate share of market deposits. Keeping in mind that correlation is not causation, it is possible the observed results reflect a secondary effect; perhaps we're seeing "large banks can afford superior digital channels, which they use to accrue greater deposits per branch" rather than "large branch networks simply attract more customers."

However, that seems counterintuitive, in that breadth of physical presence is an observable point of differentiation across banks, whereas online capabilities are largely homogenous: nearly every bank of even mid-tier size offers a standardized suite of electronic-banking capabilities such as online bill pay, mobile alerts and similar. Historically, one-time differentiators in the banking industry quickly get arbitraged down to "table stakes" (i.e., a minimum cost of entry). Whereas a generation ago, a consumer might have affirmatively cited a 24-hour call center as a choice determinant, that soon became the minimum condition for consideration: "I chose Metro Bank because it offers 24-hour live service" quickly evolved to "I would not consider any bank that doesn't offer 24-hour live service."

And that pattern has been replicated over the years in each successive new channel the industry has introduced: "I wouldn't consider a bank unless it offered online bill pay," for example. And if one-time electronic differentiators quickly become homogenized minimum thresholds of expectations, then that leaves other factors, including brand awareness and perceived accessibility as key choice determinants – attributes impounded in the breadth of a bank's branch network.

Accordingly, we can still summarize an effective distribution strategy as "get big or get out." That is, bankers must continue to pursue broad market coverage to maximize efficiencies of their branch networks, and toehold or one-off *(continued on page 6)*

presences in scattered markets are unlikely to prove effective. Framed another way, given the capital to deploy four branches in Ohio, a bank would fare better choosing one market in which to concentrate all four branches versus placing one each in Cleveland, Columbus, Dayton and Cincinnati, since the concentrated deployment model could leverage the network effect.

In practice, this suggests bankers should review any limited-scope deployments outside their primary markets and consider paring those branches, reallocating those capital and noninterest expense dollars into core markets. Alternately, bankers should consider segment-specific and/or line-of-business-specific models in markets where they cannot afford to pursue broad geographic coverage. Such models include specializing in wealth management, mortgage banking or middle-market commercial banking.

Absent that type of alternate model, bankers can pursue a general retail-banking model, but at the corridor- versus overall-market level, as the network effect holds even in sub-corridors of a region. For example, in the Washington DC metro area, this could dictate concentrating branches in the northern Virginia suburbs, while ceding the city of Washington and the Maryland suburbs.

Otherwise, smaller institutions may need to accept lesser revenue-side efficiencies (as measured by deposits per branch) as an inherent penalty of their lesser reach; and seek to offset that by creating greater expense-side efficiencies, such as reducing the cost of branch construction and/or operations.

Even as electronic channels have expanded the geographic reach of every bank, deposit gains continue to accrue disproportionately to those banks with the broadest branch networks. The branch may be waning as a transaction channel, but so long as branch-network breadth remains a determinant of institution choice, the channel will remain relevant. And bankers will need to tailor strategies accordingly, concentrating deployments in markets where they can leverage the network effect, while paring investments in markets where there is no foreseeable path to reaching the branch density levels that would enable top-tier efficiencies in deposit gathering.

BANCOGRAPHY NEWS

Bancography has been selected to demo at **FinovateFall 2024** in New York September 9 - 11. Steve Reider will demonstrate Bancography Plan, our market analysis and branch planning tool, with an in-depth look at the new merger analysis feature. FinovateFall showcases cutting-edge banking and financial technology through short-form demos and key insights from industry thought leaders. Visit *https://informaconnect.com/finovatefall/* for more information.

Steve Reider will present **The Branch is Dead – Long Live the Branch!** at the ABA Bank Marketing Conference, taking place October 6 - 8 in Chicago. Visit the following link to view the program guide and to register for the conference: *https://aba.social/3wSEEc7*. The Girl Banker Brunch returns for a second year, along with other topical, engaging content.

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