

# Branch Network Optimization

## *Survey and Report Findings*



# Paul Seibert, CMC



- Strategic Branch Plans
- Strategic Growth Plans
- Branch Business Model Development
- Architecture & Interior Design
- Operations Occupancy Strategies
- Six Financial Industry Books

# Mark Weber, CEO



- Branding
- Market Analysis
- Branch Merchandising
- Naming
- Gen Y Marketing
- Advertising
- Sales Campaigns

# Introduction

Facing challenging banking industry trends, a brutal economy, new restrictions on fee income and changes in market dynamics – suggests financial institutions need to make a significant shift in optimizing their branch networks and new market planning approaches.

Yet in recent years, few banks have given much consideration to optimizing the performance and efficiency of the branches and networks they currently have in place. This blind spot is costing some FI's millions in operating losses and even greater lost growth opportunities every year.

EHS Design, Weber Marketing and Momentum Inc. presented their body of work and the results of a survey of financial industry participants in the Branch Network Optimization webinar sponsored by Bankerstuff on March 17, 2010.

To establish a current and relevant foundation for this presentation, the team conducted a survey through Bankerstuff to gather information about how banks and credit unions are utilizing their branch networks today. Following is a brief review of the findings and our summary insights.

# Branch Utilization Survey

## 1. How important is maximizing branch network performance?

Very important – Critical 100%

Every participant confirmed the importance of maximizing network performance, while the table below show that most networks remain inefficient and under -perform.

## 2. How efficient is your current branch network?

Nearly 1/3 feel their networks are only 50% efficient and 3/4 feel they could improve by 30% or more. This suggests significant opportunity to enhance ROI and profitability.

Efficiency	% of Participants
50%	31%
60%	15%
70%	38%
80%	0%
90%	15%
100%	0%

# Branch Utilization Survey

## 3. How often do you assess entire branch network efficiency and productivity?

61% actively assess networks, but 85% feel their networks are 70% or less efficient.

More than once a year	38%
Once every two years	23%
Once every five years	8%
Do not assess entire network	31%

Nearly 1/3 never assess their branch network! The losses from a lack of awareness or productivity enhancements have proven substantial in our studies.

## 4. Will your branch network be larger or smaller in five years?

0 - 10% Larger	46%
10 - 30% Larger	23%
30 - 50% Larger	23%
0 - 10% Smaller	8%
10 - 50% Smaller	0%

92% said they will have a larger network in 5 years. This growth demands ongoing assessment to maximize ROI. Focus may be on new branches rather than network optimization. Both should be in play.

# Branch Utilization Survey

5. Do you plan to acquire additional branches or branch networks, next 5 years?

Yes	46%
No	8%
Depends on opportunity	46%

Will these new branches increase market efficiency and network ROI or increase cost per customer?

6. Do your branches provide the desired level of productivity?

Yes	15%
No	85%

Significant improvement needed in the vast majority of branch business models.

7. Do your branches provide the desired branch image and experience?

Yes	50%
No	50%

The brand experience is one of the key factors in building strong and deep customer relationships. Only half measure up.

# Branch Utilization Survey

8. What is the average size of your newer branches in terms of square feet?

2,000 sf. or less	18%
2,000 – 3,000 sf.	45%
3,000 – 3,500 sf.	27%
3,500 sf. or greater	10%

Average size has dropped from 5,000 sf. in the 70's to 2,000 – 2,500 sf. in lease space and 3,500 for freestanding buildings. Smaller and more efficient. More branches serving smaller markets – driving greater target market penetration.

9. What is the average branch sf per FTE?

Average of all respondees	427 sf.
Lowest	163 sf.
Highest	700 sf.
Most common range	325 sf. – 450 sf.

High average sf. is driven by oversized and poor “retail use ratios\*”. Highly efficient and productive branches should be 325 to 375 sf./FTE.

\*Retail use ratio is the difference between branch space that supports customer and staff interaction and back office space. Typically the ratio we find is 65% - when it should be 85%.

# Branch Utilization Survey

10. What lines of business do you deliver through your branches today and what will you deliver in 3 years?

<i>Business Line</i>	<i>Today</i>	<i>3 Years</i>
Consumer Banking	92%	100%
Small Business Banking	92%	100%
Commercial Banking	73%	82%
Private Banking	42%	58% (+38%)
Wealth Management	58%	73% (+26%)

Often the customer and staff experience is in the way of new products or service success. The business model must be studied and realigned to promote new and additional product priorities.

Changing or expanding business focus requires market reassessment to maximize product performance. Is the branch network or individual branch location likely to prevent success?

# Branch Utilization Survey

## 11. What is your mix of branch types? (Average of all respondees)

Freestanding	88 %
Strip Mall	6 %
In-Store	2 %
On Work Site	4 %

Owning freestanding branches is often the best financial real estate solution long term, but a mix of delivery alternatives will often increase speed to market, market development and flexibility resulting in faster growth in the right markets as they evolve.

## 12. What is the percentage of owned branches?

75% Owned

### A few real estate strategy options:

- Keep all real estate in play.
- Work with savvy and hungry Realtors.
- Purchase cheap, but strong land now for future development.
- Cautiously consider sell and lease back.
- Purchase a large site and then work with a developer for best site position and profit from the transaction.
- Partner with a large retailer with a matching customer segment base (e.g. Starbucks, FedEx/Kinkos).
- Create branch sites in premier markets where none exist.

# Branch Utilization Survey

## 13. What are the critical factors that will drive future branch network success?

### *Factor*

Branch network efficiency and productivity

Application of technologies

Branch model optimization

Expansion of customer relationships

Marketing

Branch network expansion

Training

Customer retention

### *Ranking*

#1

#1

#2

#3

#3

#3

#4

#5

All of these factors were noted as important. Making the branch network and individual branches highly productive with technology and better relationship development will be the foundation of future branch success and optimization

# Five Key Survey Insights

1. With 85% of FI's reporting low productivity of branches, there is significant room to improve branch network performance through assessing and re-engineering branch network positioning, efficiency and new models to drive optimization of operations, ROI and brand experiences.
1. The vast majority of existing branches are considered under-performing (30-50%) and cannot grow to full market potential. Branch business models and performance ratios need to be carefully evaluated with sound market data and product demand to drive the development of new models and customer and staff experiences that will maximize productivity and ROI.
2. The planned addition of savvy new products and services the next 3 years requires accurately predicting how they will perform within existing branch locations and what needs to change to be successful.
3. A variety of branch delivery types need to be developed to match widely varying and dynamic market opportunities.
4. Financial institutions are losing millions in potential deposits and loans through inefficient branch networks. The importance of network optimization of performance should be an elevated priority.

# Thank You



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