



Room for Improvement

Instead of growing their branch networks, a recent study indicates credit unions are focusing on increasing efficiencies within their existing branches for growth in a down economy. Here's how to do it.

By Paul Seibert, CMC

Early in 2009 CUES and EHS Design completed a survey of 109 credit union managers from institutions ranging in size from \$35 million to \$5.5 billion in assets. In the study we asked: "How productive and market efficient do you consider your current branch network?" A small percentage said their markets were underperforming, the majority said their markets were moderate or good performers and about 27 percent said their markets performed very well. These responses suggest much room for improvement exists, even among the largest credit unions.

Today, many branches remain oversized for the market potential; 5,500-square-foot branches are rarely needed. Branch sizes, level of investment and the decision to lease or own should be based on market potential rather than a single delivery standard. Branch and alternative delivery systems decisions must be based on real market potential, driven by accurate member and market analysis and

rational recommendations concerning branch size, staffing, delivery type, timing, cost and market/network evolution over a five- to seven-year planning cycle. By completing this level of research, a credit union can select the right branch strategy for each location and right-size the investment, branch and staffing, matching cost to potential ROI.

Enhancing the Member Experience

Community and regional banks and credit unions are capitalizing on the poor image of big banks by clearly expressing how they are stable, personable and share the same values and interests as their members. Now is the time to enhance your existing member experience through all delivery methods and specifically in branches where there is physical contact and social engagement. Does your branch provide a rich and competitive member and staff experience? Do your employees wait for members to

initiate conversation or do they take charge and engage every member? Is your staff cross-trained to provide a wide range of services and information? Does the interior and exterior of your branch project the desired image?

Even small changes can enhance the member and staff experience and increase satisfaction and share of wallet. Examples: rearranging the desks for better visibility and engagement; improving lighting to focus on specific areas and messaging; changing the member path through the branch to promote engagement and visibility to key communications areas; removing clutter and enhancing merchandising and messaging.

One of the biggest and lowest-cost positive impacts to productivity can be improving merchandising and messaging. We conduct member exit surveys before and after new merchandising elements and programs are applied. These surveys typically show



that before a new merchandising program, member awareness of key products and services, like mortgages and investments, will range between 10 percent and 40 percent. After installation, awareness rises to between 30 percent and 75 percent. We know there is a correlation between product awareness and use. Combined with cross-selling, the benefits can be measurable and substantial.

Consolidating functions can help reduce branch staffing and space use. Most credit unions have consolidated loan processing and phone answering functions, which for some institutions has saved 10 percent to 20 percent in space usage. Many branches do not need a full-time financial advisor or small business representative or even a mortgage representative. If branch staff is cross-trained to introduce and initiate selling these products, follow-up on-site sales development can be provided in a shared office/conference room or "hoteling" station by visiting staff. This move toward greater staff efficiency provides a burgeoning opportunity. Staff has the ability to become "universal advisors," helping members become aware of high-value products that are right for their lifecycle needs.

The number of average branch transactions is declining even as membership grows at many branches due to remote delivery options. This reduction in transactions suggests that a branch that has 10 or 12 stations today could reduce the number to six or eight, and the traditional teller line could be converted to pods or multi-functional desks for teller service and cross-selling.

New and low-performing branches can increase revenue through shared branching. A shared branch can generate income from each non-member transaction as well as increase your CU's exposure to non-members. On occasion credit unions have decided to close a low-performing branch in a market where their members can access a shared branch.

Technology is providing many ways to reduce operating cost. Cash dispensers and recyclers reduce teller transaction and balancing time, increase focus on member development and reduce robberies. "Smart" ATMs, automated-teller kiosks and remote-teller systems can replace tellers or in-lobby presence and reduce costs.

Be careful when and where you replace tellers. Ask: "Does automation deliver our desired brand experience or will our target members be offended and switch to another institution?" Replacing tellers with automation has worked for many credit unions. Be cautious, though, as it has also failed at others.

Saving money in operating costs is certainly a way to increase branch performance. When combined, small changes can produce rewarding cost reductions. Consider changing the light switches so they turn off the lights when staff leave a room, add a control to

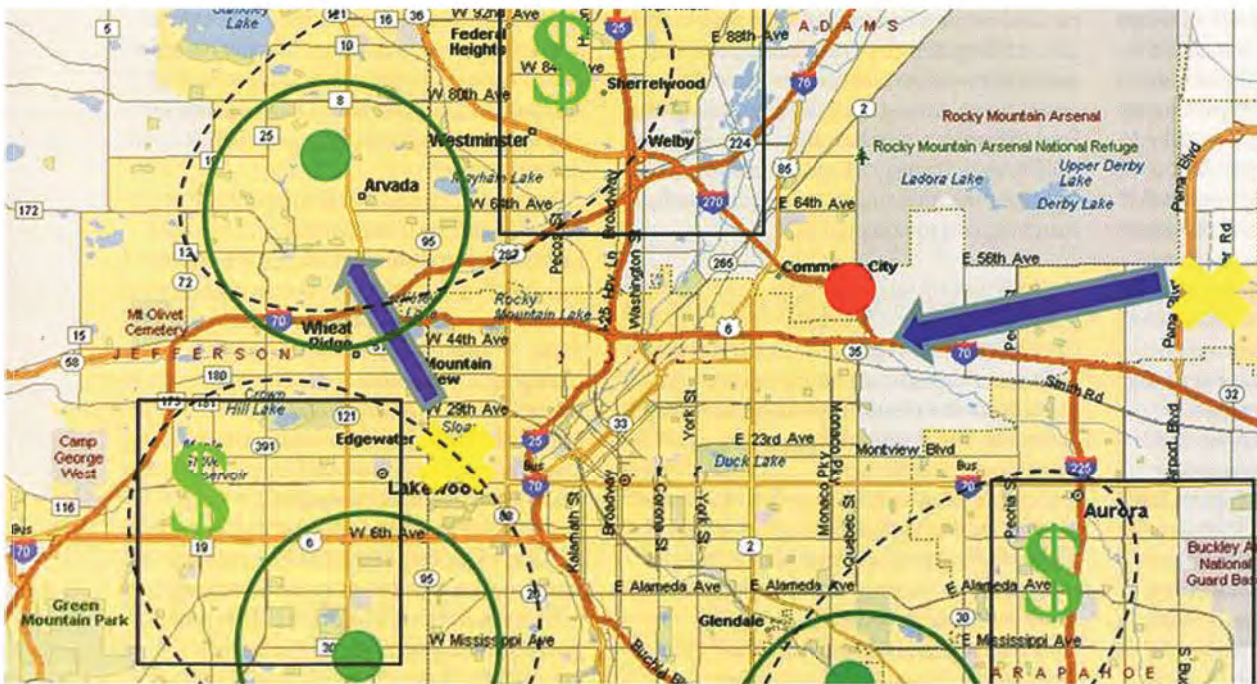
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Converting a blank, high-traffic entry wall into a brand statement at Aloha Pacific Credit Union, Honolulu.

the sprinkler system that turns off the water during rain, replace bottled water with filtered water and check the heating and cooling system filters to ensure they are clean.

Reducing branch hours can also save costs if it's done right. Different markets may dictate different hours. For instance, it may make sense to open at 9 a.m. so you can stay open until 6 p.m. to provide commuter convenience. A branch at a select-employee group may be able to open early in the morning and close early if the shifts match. Credit unions with large, diverse branch networks may be able to close some branches early or on weekends, providing evening service at a few locations. If a network includes both in-store and free-standing branches, the in-store branches can provide Saturday and Sunday service while the free-standing branches can be closed.



Mapping market, product usage and member characteristics is a powerful tool used by branching strategists to score markets in terms of greatest opportunities. Here is an example of a "solution map" illustrating how a credit union can re-engineer its branch location strategy to maximize branch and network efficiency and productivity over a three- to five-year period driven by detailed market and member analysis and goals in terms of growth and ROI.

Big cost savings can be found by better utilizing existing space in a branch. Some credit unions own large legacy branches they do not want to relocate. They may be able to downsize a branch and lease the remaining space or sell the facility and lease back a portion under an extended option agreement with first right of buy-back.

Branch Network Enhancements

Even as online and phone banking expands, the need for branches remains strong. Recent research conducted by Applied Research Institute of the California and Nevada Credit Union Leagues indicated that 33 percent of consumers opened a new checking account because they wanted better convenience, and online users still conduct an average of 2.3 branch transactions per month. This research confirms that consumers want their financial institutions to offer a convenient network of branches close to home, work and shopping. Operating a network of branches is expensive and should be optimized to maximize member convenience and mining of target markets. This must be accomplished with the fewest possible branches at the lowest possible cost.

In a 2008 credit union growth study conducted by Glenn Christensen of CEO Advisory Group (ceoadvisory.com), the two greatest contributing factors to growth were adding branches and competitive pricing. While growth through branching is a desirable goal, the focus must be on creating a profitable branch network that mitigates risks over the short and long term. Branch network re-engineering requires accurate branch performance and market data analyzed by savvy credit union staff or consultants. Data costs are high and developing analytical expertise takes time, so many credit unions and banks outsource this task. The results of this analysis may result in closing underperforming branches, relocating to better markets or service areas, downsizing or increasing branch size to match market potential, selling and leasing back, or purchasing land at a low cost for future locations. The cost of performing branch network analysis is not cheap but the return in performance can be substantial.


Adding products and services is a way to add income to the branch network and branches. Small business banking remains a viable method of increasing branch growth and profitability.

Wealth management has long been considered the territory of banks because credit unions generate the majority of their business from lower to upper middle income households. But wealth is shifting and many members will find themselves inheriting their parent's assets and need help. Credit unions can position themselves to provide expert service.

Some credit union network performance is restricted by a limited field of membership. A branch may be well located in a great market but only able to serve 40 percent of the nearby households. If it is culturally acceptable to serve more than a limited field of membership, such credit unions can acquire an association charter which allows people who join an organization to become a member. This small action can enhance a restricted branch's performance.

Mergers with credit unions that have the right branch, member or employer group locations can improve network performance, growth and efficiency. This is a relatively low-cost method of acquiring branches and members. If market efficiency is one of the key merger goals, study merger

partner locations and their service areas so you limit redundancy.

Evolving with markets by developing new branches will be an important driver of growth for many years to come, but right now the cost may be too high for many credit unions. By re-engineering toward highly efficient and productive branches and networks, credit unions can glean new members and grow relationships from their existing markets without having to spend millions in branching. 

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