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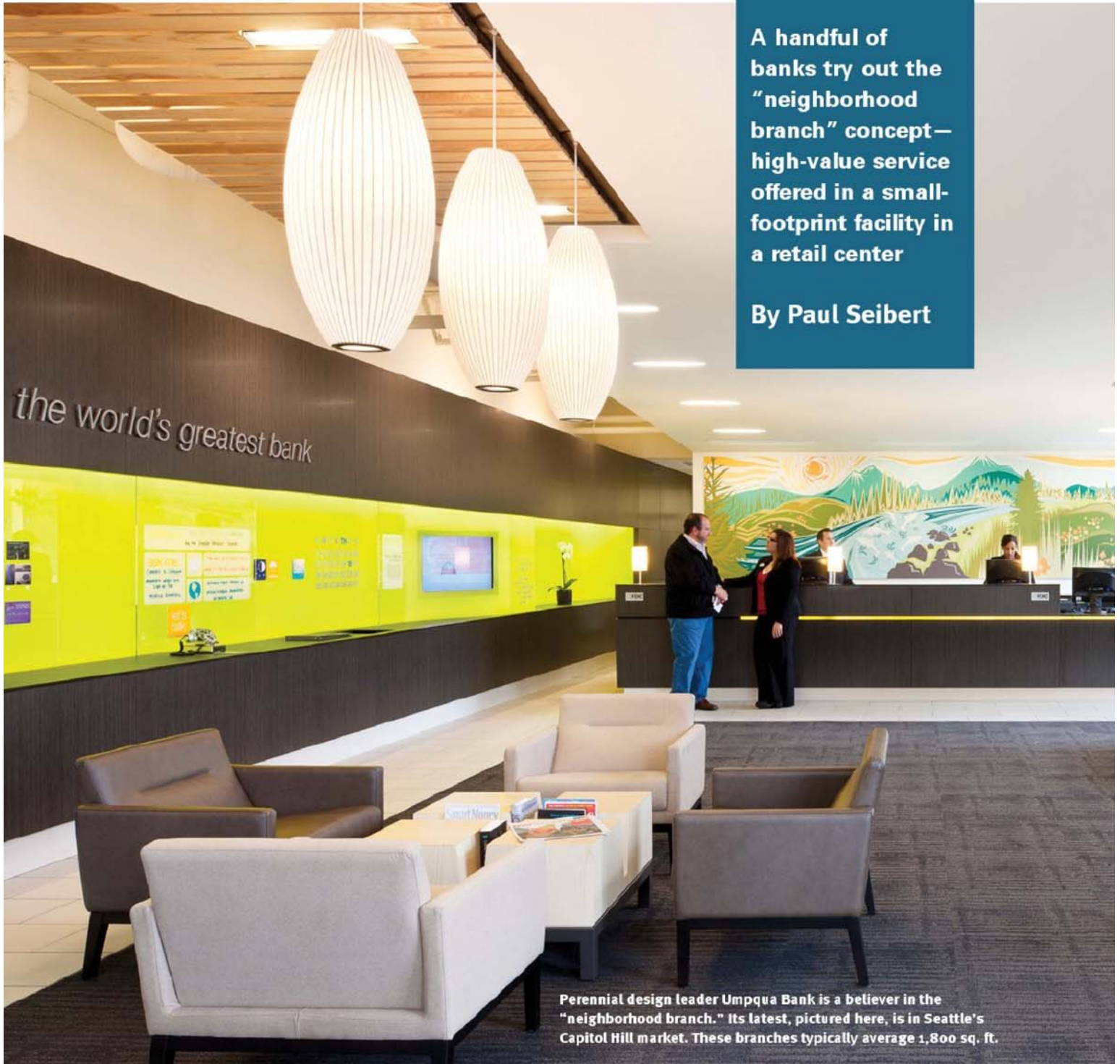




Something new in

A handful of banks try out the “neighborhood branch” concept—high-value service offered in a small-footprint facility in a retail center

By Paul Seibert



Perennial design leader Umpqua Bank is a believer in the “neighborhood branch.” Its latest, pictured here, is in Seattle’s Capitol Hill market. These branches typically average 1,800 sq. ft.

the neighborhood?



Recent studies tell us that brand experience and physical convenience are the primary selection factors when people choose financial institutions. This is motivating banks to make substantial investments in rebranding the customer experience. Among them is Huntington Bank, which invested \$72 million in branch renovations, as well as others who are creating unique and differentiating environments for their customers and staff. But what's being done to enhance "face-time convenience"—the human relationship between customer and staff?

A new market placement trend is emerging: the "neighborhood branch." On the surface, this looks like the morphing and reapplication of the urban branch concept to non-urban markets. In part this is correct, but it goes deeper. Counter to Bank of America's strategy of replacing community branches with ATMs—relying on technology to deliver transaction convenience, and concentrating high-value service delivery in large centralized branches—a few banks are moving into the core of small neighborhood markets to focus on building personal and business relationships in very specific targeted markets.

The impetus for this article is the observation of growing competition among financial institutions for a very limited number of neighborhood branch sites. What is unique and vexing about these sites is that there are so few opportunities in each market. To be successful, these branches must be placed in a pedestrian retail center where people walk from store to store for services and where communities gather. Further, these sites must be located to serve a high concentration of target households and businesses within 0.6

to 2 miles—the same hot locations Starbucks is looking to lease.

"The limited number of good sites in small communities means that banks need to be first to market to gain the best locations" says Kenneth Thomas of branchlocation.com. Further, he notes: "Some small towns and villages may want to restrict the number of banks in the pedestrian core as demand grows. Hoffman Estates, Ill., outside of Chicago was one of many communities that passed a temporary moratorium on new bank branch development a few years back (recently lifted). Banks are no longer the prized tenants they once were." And lastly, Thomas warns: "Be careful. Just because a bank was the previous tenant or owner does not mean [a location] will be successful for you. Many vacant bank sites were closed for good reasons—they are dogs. Locate for your reasons alone to ensure a productive branch."

Finding the right site quickly can be a challenge. Vacant retail locations in successful pedestrian cores are very limited. Why are some banks and retailers successful in finding great sites while others are frustrated by the process? The primary factor is the attitude of the acquisition team. Are they just watching the multiple listings and waiting for a space to become available or creating opportunities where they do not appear to exist? Realtor motivation is a key factor. It can take a lot of work to create a location, while the commissions for small retail sites are low when compared to other endeavors.

Realtors should be asking business owners if they would like to get out of their lease or if they have too much space and are willing to sublet. A few years ago we worked with an



exceptional Realtor that “got it.” Our client needed locations adjacent to specific high-volume retailers, but there was no availability. Our Realtor convinced Kinko’s to sublet half the space and a highly productive location was created. Bank staff must drive the effort and motivate their Realtors by sharing their business objectives, and being organized and able to take quick action when a site becomes available.

But, before you start looking for sites, let’s look at the neighborhood branching strategy. Kim Hval, senior vice-president/director retail sales and services for Rabobank, Fresno Calif., says that “neighborhood branching is not a defined strategy for our organization, rather it is a natural outcome of acquiring small community banks and growing personal and business hometown banking relationships.” Hval further shares: “We recently took over a vacated Starbucks location in Tulare. It is positioned for high pedestrian access and connects to the community by adjacency to a farmers market. This market positioning supports our customers’ desire to come in, have a cup of coffee, and share life.”

“As technology continues to replace branch transactions, our new branches must be lean and highly productive” states Mark Nelson, executive vice-president, chief operating officer, Columbia Bank, Tacoma, Wash. “Neighborhood branches are smaller with fewer staff that is highly knowledgeable. We expect our staff to develop an intimate knowledge of each community and use the neighborhood branch as a platform for referral of high value services.”

Umpqua Bank, Portland, Ore., is well known for its creation and constant refinement of its neighborhood store model. Lani Hayward, executive vice-president creative strategies



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— Lani Hayward, Umpqua Bank

explains that Umpqua staff enters a potential neighborhood market months in advance of moving in. “We ask: What is working and what is not in the community? Then we become a force for positive change. Each location must have the potential to become a community hub, providing banking services plus events and amenities to share with our neighbors,” says Hayward.

“The purpose of the store is to support relationship building,” she continues. “To do this we need a different kind of banker. We look for outstanding people with a spark in their eye. We can teach banking, but we cannot teach atti-

tude and passion for community engagement.”

Neighborhood stores target areas where people live, work, and play. They require lower development and operating cost than traditional freestanding branches and average 1,800 square feet. Limited square footage, plus standardized branch components and a build-out time of 45 days allows the bank to break even in less than a year in most locations. Hayward says, “While our stores are small, they have the same delivery bells and whistles of our larger flagship stores, and provide access to all high-value services.” Products, services and neigh-



neighborhood information can be found on interactive touch screens, and in some locations associates facilitate “live video chat” conferencing between the customer and specialists from the bank’s mortgage, small business and investments divisions.

Umpqua stores go well beyond providing a great place to bank and work. They are a community center. In their Alberta store in Portland, a large garage door opens onto a pedestrian plaza where events extend outside the branch. Lobbies are open spaces that can be easily configured for community events. Rather than waiting for the community to come to them, Umpqua actively promotes in-branch activities to engage personal and business interests.

Inviting the community in is essential to the success of neighborhood stores. This means open visual access to the store’s interior, staff, and activities. Many institutions are tempted to place large posters on windows that restrict visibility. This is counterproductive as it blocks visibility and inhibits sharing the branded experience. Hayward feels that “if you’re

going to build a bank branch, you need to give people a reason to go in. Building space that is transparent and accessible allows us to foster and build community relationships.”

Where you operate matters

Is neighborhood branching right for every bank? No. It depends on market characteristics. One of the most critical elements is target household density. Generally, neighborhood branching occurs in high density communities on the west and east coasts. It is different in much of the Midwest. This is why Huntington Bank, headquartered in Columbus Ohio employs another strategy: in-store branches.

“We do not have the same concentration of households surrounding pedestrian retail areas as you find on the two coasts,” states Norman Bertke, senior vice-president, director of corporate real estate and facilities. “In Ohio we, have formed an exclusive 15-year alliance with Giant Eagle Grocery stores. These in-store branches offer more customer touch points and added convenience through extended hours;

the entry cost is low and we have more access to households than we would with a neighborhood branch in our markets. With a unique, full service model and staff trained in relationship development,” Bertke continues, “we are able to generate significantly more deposits and loans than other traditional in-store models.”

Branching is necessary and expensive. Before spending another dollar on branching, banks should evolve their branch business model, staff culture, and remote delivery methods to ensure they are delivering a consistent, powerful, and productive brand experience through all delivery channels. The neighborhood branch is proving to be one of the winning components of successful delivery networks.

Fair warning: plant your flags ASAP! ■

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Seven core branching principles

What makes a neighborhood branch successful?

Anthony Klick, a partner in the financial services practice at PwC’s Diamond Advisory Services unit, states: “There has been a significant shift in branching over the past few years. Whether it’s a large, freestanding bank or a small neighborhood branch, it is no longer about designing around products; instead, it’s about designing around relationships, convenience and the customer experience.”

“The secret sauce is blending and orchestrating all delivery channels,” says Klick, who goes on to explain; “Retail banks have been facing challenges stemming from a confluence of regulatory and market-driven forces that are making it harder for them to compete and connect with customers. Neighborhood branches can be one of the solutions if they are a platform for connecting all other delivery channels to customers and communities.”

Klick shares some key observations about successful neighborhood branching:

1. Retail banking has been organized around product-

based silos, but needs to shift to a delivery philosophy that is integrated across products and channels and is consistent in brand and actions.

2. A focus on the customer means that banks need to improve the customer experience by shifting from thinking of themselves as just retailers to becoming providers of a complete consumer service model.

3. The right people, trained in and passionate about the service, must be on the ground to deliver on the brand promise.

4. Branches must have adequate space for communications and increased interaction.

5. Deep and accurate market intelligence must be used to drive decisions about all aspects of operations, including branch siting and service choices.

6. Branches should be positioned to meet community need rather than simply to locate at the most available sites.

7. The most effective way to drive innovation is to develop select branch labs to experiment, train and evolve.

— Paul Seibert