

A Better Way to Make Branch Banking Pay by Paul Kocourek, Aditya Bhasin, and Paul Hyde

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A Better Way to Make Branch Banking Pay

For today's consumer banks, reinventing local branches as a hub to attract and retain customers is essential to profit and growth.

by Paul Kocourek, Aditya Bhasin, and Paul Hyde

Drugstore soda fountains, penny candy, and five-and-dime stores may be gone for good, but one relic of a friendlier local service era is making a comeback: the branch bank. After 20 years of letting of their costly-to-operate branch banking systems wither away, U.S. consumer banking leaders such as Bank of America (BoFA) and J.P. Morgan Chase, and aspiring national competitors such as Washington Mutual are coming to a location near you.

The recent wave of bank megamergers all include big bets on future growth in consumer banking, with the help of strong branch networks. J.P. Morgan Chase's merger with Bank One, announced last month, creates the second largest bank in the U.S., and a retail network of 2,630 branches in 17 states. The merger, analysts say, will give J.P.

Morgan Chase the scale it needs to compete in consumer markets with the likes of Citigroup and BofA. And turning branches into sales offices staffed by relationship managers who advise customers and pitch them multiple products is likely to be one

branches. Before the merger, BofA had planned to spend \$1.2 billion to open 550 new branches by 2005. Post-merger, it will build its branch network to more than 5,000 locations along the East Coast and from Texas to California.

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of the first post-merger moves.

In October 2003, Bank of America's \$43 billion purchase of the FleetBoston Financial Corporation reaffirmed BofA's strategy to accelerate revenue growth and bring higher profits by investing in its

Booz Allen Hamilton research in 2003 shows there is a good reason for this revival of branch systems: They are significant growth engines for retail banks. Indeed, up to 90 percent of customer relationships are won or lost in branches. Moreover,

the study found a high correlation between branch visits and sales.

But can the large retail banks revive the branch system without letting it become a costly drag on their profits? Absolutely, but only if they

suggesting that branches can be a first line of defense in retaining customers. Customers often provide predictable clues before they close their accounts: In our study, some made accelerated loan payments or

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reinvent the management model so it can profitably deliver what demanding consumers expect: choice, convenience, and customization. In the customer-centric, “federation” business model we propose, the branch is the hub of an integrated multichannel banking framework designed to maximize local responsiveness.

Follow the Money

In 2003, we collected data and conducted on-site observations of branch operations that show the enormous value of the branch. For example, evidence that customers favor branches over other channels for purchasing financial-services products was overwhelming. Our survey showed 12 percent of customers who were seeking a home loan obtained information over the Internet, but 49 percent closed the sale in a branch.

In one recent client study, Booz Allen found that 90 percent of a super-regional bank's new customers were acquired in a branch. Equally important, almost all accounts were closed at a branch,

sold an investment property; others complained about the branch operations. Banks spend heavily on customer relationship management (CRM) systems to predict customer defections, but a vigilant branch staffer can just as effectively use the personal touch to solve a problem and keep a customer from leaving.

Reinventing the Branch

It is not enough for retail banks simply to open up more branches that run like existing ones or to redesign them to resemble hip retail stores. The successful branch bank of the future must:

- **Be a financial-services resource center.** Financial advisors could conduct seminars after hours on such topics as managing debt, savings strategy, or how to transition from paycheck-to-paycheck banking to accumulating wealth. For the “mass affluent” customer — the person who is already saving and investing — the branch can offer “light” relationship management. For example, a bank specialist who

sold one financial product to a customer could periodically review that customer's needs and recommend other appropriate products.

- **Deliver customer solutions at the point of contact.** Tellers fulfill transactions; branch customer service representatives handle simple product sales and know when to refer customers to a branch-based specialist. Customers perceive the value of consulting a “banker,” and the bank gets more involved with customers when they are planning and optimizing their choices, not just when they're shopping for products.

- **Be stocked with advice and product packages.** To deliver consultation services economically, branches must offer a set of standardized products targeted for different life stages or for immediate needs. Banks can package existing products and information in a new way in order to focus on the 80 percent of the customers who need advice when planning for college tuitions, maximizing retirement savings, and so on.

- **Focus on local demographics.** Operating a customer-focused branch economically also requires

tailoring branch services to local market needs. This micromarket alignment is typically driven by age and income, and incorporates such factors as area population concentration, branch proximity to business centers, and customers' ethnicity. Achieving this alignment drives decisions regarding branch staffing, skills, product configurations, and customer sales/retention targets.

- **Be the hub of a multichannel offering.** Call centers and the Web are fine for routine transactions, but the branch needs to be the centerpiece of the customer's interaction with the bank because it is the best

The Federation Model

Many large banks' pursuit of scale has come at a huge loss of control over local capabilities and costs. These banks have achieved neither the cost savings of monoline banks nor the deeper “wallet” penetration and service quality of small local banks.

Booz Allen's federation model addresses these issues by striving for efficient centralized management and greater responsiveness to micro-markets. It calls for central controls at corporate headquarters that exploit product, infrastructure, and administrative scale, but the center delegates decision making to the branch manager, who knows the

The federation model can increase revenue between 35 percent and 65 percent per branch.

place to get personalized information and attention and to conduct complex banking activities. It is also the best channel to encourage customers to entrust more of their assets to the bank as their needs change.

local market and is empowered to make resource, incentive, and pricing decisions locally. The branch is accountable for its own P&L. If branch managers are offered the right inducements — for instance,

compensation and perks based on performance — we believe they will work smarter to customize their operations to be more competitive.

Applying the federation model is not merely a matter of making organizational adjustments. Nor is it the same as franchising. By giving each branch responsibility for managing its own P&L and retaining some centralized management, banks allow branch managers to run their own businesses and to leverage the brand and infrastructural power of the institution.

Four Building Blocks

Based on work with several clients, we estimate that banks using the federation model can expect to see revenue increases of between 35 percent and 65 percent per branch, depending upon market potential and current performance. This improvement stems mostly from increased product cross-selling due to the availability of financial service product packages and greater customer retention as customer satisfaction rises. There are higher costs for staff training, performance incentives, and technology investments, but much of these cost increases can be recovered through

lower staff changeover and reduced layers of management.

To implement the federation business model, action is required in four areas:

1. **People:** Hiring, training, and certification of front-line employees; significantly improving branch management; making major modifications to incentives.
2. **Internal Benchmarking:** Understanding branch performance; aligning to micro-markets; increasing readiness for change.
3. **Geographic Specialization:** Determining local resource needs and establishing a sales focus based on demographics, purchasing behavior, and the local growth trajectory.
4. **Structure:** Establishing mechanisms to coordinate local versus central decision rights; refining roles and responsibilities within the branch network.

The days of the branch bank as we've known it are over. But something

better is emerging. In creating a multiproduct, multichannel federation, retail banks have an opportunity to provide greater value to their customers and to make branch banking a profitable, winning strategy. +

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