

*Retail branch banking has entered a period of radical change. Comprehensive strategies, as permitted by staff mapping, will be needed to transform the branch workforce.*

## The New Formula for Branch Productivity

BY DARRYL DEMOS

**A**fter years of dodging online banking and the decline of the paper check, the traditional retail branch has finally run out of room to maneuver. No longer can banks afford to maintain forests of transaction-oriented branches and the extensive staff required to support them.

The reasons are many, including recent sharp acceleration in customer online migration; a steepening decline in paper check usage; heavy regulatory impact on major fee revenue streams connected with the checking account; and a changed lending environment where, instead of high-volume origination, branches will need to emphasize in-depth customer interaction, both to cultivate and properly underwrite new business.

As a consequence, over the next three to five years, the banking industry will potentially require a one-fourth (25%) reduction in full-time branch staff, including a potential 50% reduction in teller staff. Sharp productivity gains will be needed as well, enabling surviving branches to generate significantly higher revenues per

person and also handle much higher transaction volume per person. This is not an incremental adjustment from the current state of branch banking. It is a radical shift that will require a strategic re-orientation for the entire network.

Fortunately, there are many productivity levers that will assist banks in this journey. These include improved cross-training for full time branch staff; innovative uses of specialist expertise; flex-staffing arrangements that tap a rich pool of part-time workers; and increased technology substitution in a climate of customer self-service.

But pulling such levers will require careful orchestration. Along with delicate staff transitions, there will be significant variations in the requirements for various local markets, in line with local market opportunity and customer composition. Winning banks will take a three-part approach to transform the branch workforce:

- ❖ *Multi-year forecast* – The starting point is a rigorous, scientific analysis of the branch franchise, leading to a multi-year forecast of the revenue potential and workload for each local market. This exercise is essential in determining the amount and type of staff resource that will be needed for each branch across the network.

- ❖ *HR/Retail collaboration* – An innovative collaboration is needed between the retail banking and human resources teams. The focus is on creative programs that address

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all of the major factors – roles, recruiting and training, incentives, management, systems and tools, etc. – involved in migrating the workforce.

❖ *Staged handoff* – Managers in local markets will need playbooks and tools to support the multi-year span of field decisions needed to build and maintain a desired staffing configuration.

This three-stage “staff mapping” approach is critical at a time of great change in retail branch banking. Bankers know how to cut costs in trying circumstances. But the situation is different this time around, given the pressing need to adapt to a radically changed market. Staff mapping provides a constructive way to anticipate and manage the sweeping workforce changes that lie ahead.

### TIPPING POINT

The evidence is clear that retail branch banking has reached a tipping point. In a perfect storm of converging trends, the branch not only has lost economic footing with core products, but also has lost considerable customer relevance for a variety of basic banking transactions.

1) *Multi-year migration away from paper transactions* – Paper check transaction volume continues to erode as consumers embrace electronic payment alternatives. Last year, for example, debit cards accounted for roughly 20% of the dollar volume of U.S. payments, according to Novantas research. People are making greater use of direct deposit and automated teller machines as well.

As a result, branches have been experiencing a roughly 5% annual decline in transaction volume in recent years. This decay far outstrips the roughly 1% to 2% annual pace at which the industry has been able to reduce staff headcount. Unless banks take action, the disparity could actually widen as the pace of customer online migration accelerates.

2) *Accelerating customer online migration* – According to a recent Novantas national survey,

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consumers now view online banking as the primary channel for basic activities, such as researching products and services (70% prefer online); verifying current deposit balances (68% preference); and transferring funds (60% preference).

Even for financial advice, a major gateway to consultative sales, consumers increasingly are looking beyond the branch, with 35% of survey respondents saying they first turn online or to the call center. While the branch still is important to consumers – two-thirds wouldn’t choose a bank without nearby branches – the purpose of the branch is changing at an unprecedented pace.

3) *Shifting checking economics* – Two major fee revenue streams attached to the checking account (debit interchange and overdraft coverage) are being crushed under the weight of new laws and regulations, financially undercutting the traditional branch role as a hub for checking-related services.

4) *Rising emphasis on multi-product relationships* – There is a pressing need to strengthen the branch role in customer relationship expansion, with staff obviously at the forefront. In a well-positioned multi-line branch supported by an authentic sales culture, the goal is to deepen the relationship with each individual, household and small business. Rather than a source of transaction volume, customer traffic provides entrée to present the best products and services to prospective buyers. A rich menu of offerings includes loans, lines of credit, investments, payments, financial advice, brokerage and insurance.

This scenario is in keeping with Novantas research showing that consumers still have a powerful branch orientation for high-value banking activities. Seventy-six percent of consumers still view the branch as the primary place to open new accounts, for example, and 65% look there first when they buy banking products.

5) *Network cleavage* – Shifting demand/supply economics have left many branches out of step with the current and future market. On the one hand, these units aren’t sufficiently positioned for multi-line service supported by a consultative sales culture, limiting the revenue potential. On the other hand, they are over-weighted in floor space and teller-based transaction activities, limiting the efficiency potential.

Instead of looking at past practices to address the complicated staffing challenge attached to this situation, retail banking and HR executives will need to look to emerging strategies, and sync their

efforts with new approaches that will be needed in the marketplace. This is why we say a series of one-year tactical plans won't suffice.

With staff mapping, the bank views the future through the lens of customer sales and service trends, going from there to pinpoint emerging staffing requirements, both the amount and type of activity. By carefully managing the transition to a more clearly-defined future state, banks can avoid what otherwise could be a rolling crash in branch sales, service, employment and staff productivity.

**STAFF-MAPPING I: FORECAST**

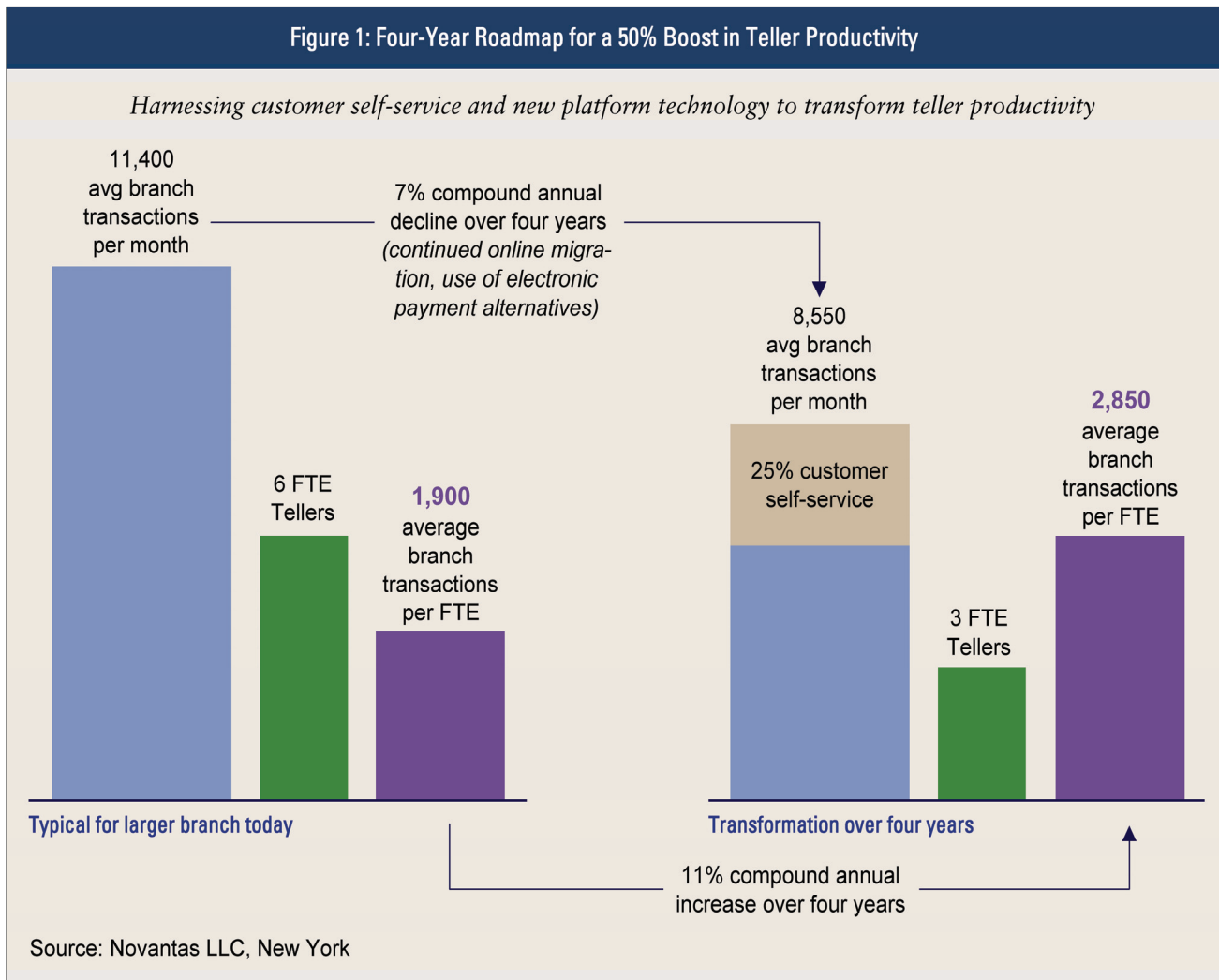
As an example of accelerating change and the need for robust planning, consider the simple statistic of average monthly transaction volume per full-time equivalent teller position per branch. Today this metric hovers at roughly 1,900 branch transactions per FTE teller per month across the industry.

Four years from now, by contrast, top-performing banks will be approaching an average

of 2,850 branch transactions per FTE teller per month, a 50% improvement (Figure 1). The biggest driver will be an uptake in customer self-service for basic activities such as deposit-taking and check-cashing, which today account for roughly 80% of the activity in a typical teller line. Banks should strive to convert at least 25% of that activity to self-service, and the customer receptivity is there to support the transition.

According to the Novantas consumer survey, for example, 74% of consumers now use self-service check-in for airline flights (online, at the self-service kiosk, on the mobile phone), and there is high customer satisfaction with the arrangement. This is a powerful precedent for expanded self-service in the banking industry.

Such productivity breakthroughs are not only feasible, but also essential in upholding network economics as the role of the branch changes. While the current 5% annual pace of branch transaction decline itself is profound within a recent historical



context, we expect that figure to accelerate to 7% and higher as customers move more of their business online and make greater use of alternative payments media. Banks must actually outpace this rate of change in the critical area of staff productivity improvement.

From a sales standpoint, the forecast is even more critical as bankers focus on multi-line market analytics to determine the mix of specialists needed to cultivate local markets. Core consumer interactions increasingly will be handled by generalists who can handle transactions, sales and service. But the branch will increasingly rely on specialists in the push to acquire new customer categories and sell a greater variety of products within the established customer base.

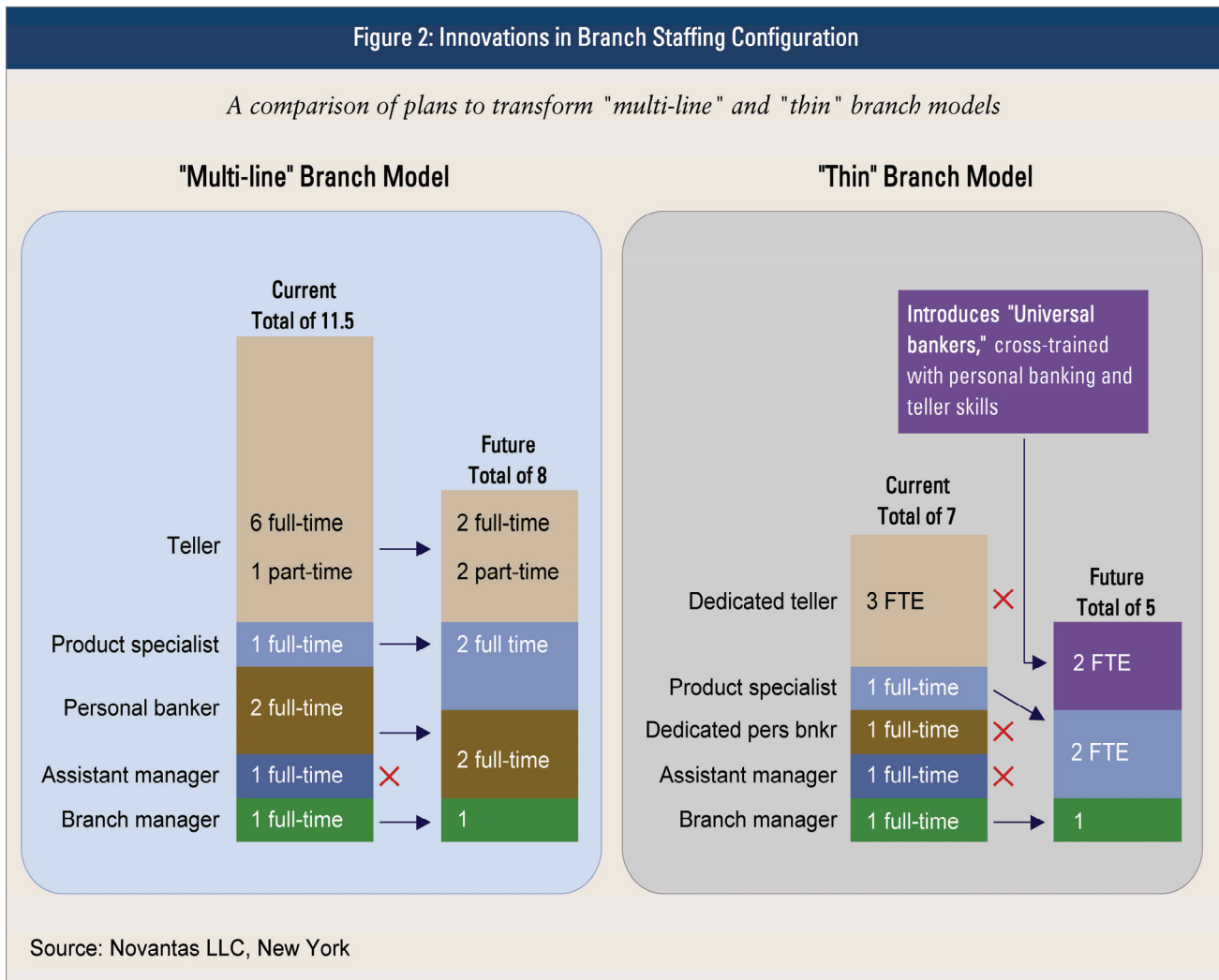
As an example of the staffing changes that will be required, consider the transitions needed for a full-service branch that supports a broad product menu (Figure 2). This “multi-line” branch might have 11.5 full-time equivalent employees today.

For starters, this prototypical unit will need to more than halve the teller staff (aided by technology substitution). This includes going from six full-time positions down to two, while increasing the supplement of part-time staff positions from one to two.

Then instead of having an assistant branch manager, that position will be converted to a product specialist, doubling the branch total to two specialists. The end result is a staff that is tighter and more capable. This is the type of branch staffing transition that winning banks will make over the next three to five years.

To make perfectly clear, however, we are not talking about a new type of cookie-cutter branch to be built by the thousands. Instead, the bank needs a staffing vision for each local market, including factors such as multi-line sales potential, customer online migration; and new technology that will unburden staff and foster customer self-service.

In our experience, this multi-year workflow



vision is not yet underway at any major retail branch banking company. Without a clear vision of the required future state of the staff activities and workflow within the branch, the risk increases that banks will get caught in the trap of un-transformative, short-term expense reduction.

### STAFF-MAPPING II: COLLABORATION

To achieve transformative staffing changes, the human resources and retail line management teams will need to work together closely to establish goals, priorities and programs. Every major aspect of the human capital management cycle will need to be adjusted. Three major goals include increasing flexibility; improving recruiting and staff placement; and improving staff skills.

**Flexibility.** The fluctuation of work in bank branches demands that banks build a workforce that is flexible. This typically entails a mix of part-time staff and a strong cadre of “universal bankers” who are extensively cross-trained on products, services and even basic counter transactions.

To make this shift, banks will need to overcome the traditional reluctance to make broader use of part-time employees. The rationale for flex-staffing is clear, given the rising need to reliably serve customers in peak traffic hours without locking in lots of full-time staff capacity that likely will be underutilized or even wasted altogether. Locating the right people was a much more difficult task within the tight labor pool of perhaps five years ago, whereas today there are abundant opportunities to recruit segments of the population that would welcome opportunities for part-time employment.

To prepare for the rise of flex-staffing, human resources will need to develop better recruiting sources, improve training and performance management programs, and revise compensation and retention frameworks.

**Recruiting and slotting.** At both ends of the sales and service spectrum, the shifting nature of the work will require more HR skill in populating key staff positions. This includes assessing internal candidates and improved external recruiting.

In the service shift, banks will need fewer pure production staffers and many more service generalists. Banks will need to identify the individuals internally who can successfully make the transitions, and assure that these individuals are cultivated along the way accordingly. Hiring profiles will also need to shift as organizations

## Productivity Levers

In the quest to improve branch staff revenue generation while lowering costs, there are at least four specific avenues that banks can pursue:

*Cross-training*— A new class of generalists will be needed in retail branch banking, people who are conversant on multiple product lines and can flow between a broad range of activities over the course of the day, allowing the bank to make fuller productive use of each full-time staffer. There is already some precedent in supermarket branches, which attempt to provide the fullest possible service with a thin staff.

*Specialists*— One of the most visible moves to a specialist model is in small business banking, where several major institutions have recently announced plans to augment local branch service with roving specialists. We expect this trend to continue in small business banking and in other product areas. This has implications for recruiting and training, and also for the practices that will encourage customers to make appointments for various kinds of high-value service. There also will be more opportunities to provide centralized expertise from call centers and regional hubs.

*Flex-staffing*— There is a compelling case to be made for building competent local teams of part-time employees who can help out during peak hours for customer traffic within the branch. While there has been some resistance to this approach within banking, there are solid reasons to reconsider. There has been a major shift in labor markets, with more part-time workers available. And the proposition is more structurally stable, given the context of a dual income household base and the proliferation of professional part time positions across multiple industries.

*Technology substitution*— Future branch staffers will need to take full advantage of emerging tools and technologies to sharply reduce the workload of manual transactions. They will also play a growing role as “backfield coaches” for customer-guided electronic transactions, as now seen with airline counter personnel who offer standby support as passengers use kiosks for baggage check-in. Such transitions will have potentially profound implications for work flow design in the branch, and there will be implications for recruiting and training as well.

— Darryl Demos

move beyond basic teller aptitude tests to assessments that more fully gauge the service aptitude of current staffers and potential recruits.

The sales transition will be even more difficult. In an era when basic account activities increasingly

will be handled via self service or staff generalists, the remaining high-value sales activities will require individuals with proper financial services sales credentials. These would be product experts with proven ability in consultative sales, including probing for customer needs, detecting feasible options, and spotting opportunities to supply additional products.

The challenge is that, unlike with service jobs, consultative sales skills are in short supply in retail banking today. One favorable trend is the boom in recent college graduates, many of whom are especially hungry for work and more flexible in their requirements in the post-crisis economy. Through careful recruiting within this labor pool, banks have the opportunity to build a new generation of branch staffers who can be grounded in the nuances of consultative selling within the complicated bank product set.

**Professional development.** Banks will need to go beyond current “training programs” that support the typical annual planning cycle for most training departments. The trend toward customer self-service has a corollary for self-service systems for employees, who will spend far less time on “systems training” and far more time on honing sales and service skills.

As more branch staffers shake free from transaction-processing, banks finally will have the chance to look beyond their own boundaries and incorporate best-in-class service practices drawn from the retail industries. This could permit breakthrough improvements in floor management, service dialogue and problem resolution.

Similarly, on the sales side, banks need to go beyond local market calling programs, which tend to center on product presentations, to a more robust outreach that centers on customer needs. There is a strong precedent for “solution-based selling” in other industries. In the software industry, for example, account managers are taught to probe for customer needs and problems, and then position product and service offers within the context of providing a customized solution.

### STAFF MAPPING III: STAGED HAND-OFF

Ultimately, local managers will need to understand and own the ongoing activities that will activate new staffing models in the field.

To make this transition, local managers will need new information tools that can: 1) continuously assesses emerging area staffing

requirements; and 2) monitor progress in developing and/or recruiting people equipped with the right skills. Encompassing clusters of branches, such models enable local managers to monitor and build the composite branch talent set in a given market, incorporating this larger perspective into recurring branch activities such as staff promotions, filling and/or changing positions after departures, staff restructuring, and work flow design.

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Staff maps will be housed and managed above the level of the individual branch, but below the regional level. Typically, the sweet spot for managing staff transitions lies within a cluster of 15 to 20 local branches. This range provides leeway to proactively manage staff transitions, and also to recruit for various skill sets (as opposed to one-off fulfillment of vacancies within individual outlets).

- ❖ Each locale will maintain a rolling “staff profile” for the next three years, reflecting the future needs of each individual location within the area cluster. This profile will align with the larger multi-year forecast view for the organization, with additional categorization based on multi-line and specialist requirements.

- ❖ Each current employee will be categorized on the basis of his or her current role and the potential to assume greater responsibility. That is, ahead of time, the organization will consider the possibilities for individual to evolve into the “next slot” and how long that transition might take. For example, which individual tellers likely can grow to become cross-trained generalists? Which sales representatives can become specialized product experts? This “career mapping” is critical in coping with the speed of change in the branch workplace. The only way to “get to there from here” is to bring along many members of the current staff, not simply hire from the outside.

- ❖ Once an individual leaves, the staff map system will automatically identify the next most-likely staff moves and potential hires. For example, if a teller leaves but the branch won’t need a full

replacement over the next six months, then a generalist might be needed to occupy the open position. If the position can be filled internally, perhaps via promotion from another location, then the mapping process re-focuses on finding a teller for another locale. And so on.

Overall, staff mapping will sensitize local managers to the strategic direction of the business and better enable them to manage this transition within their own markets.

**LOOKING BEYOND COST**

This is not a time to simply cut costs in response to market swings and internal pressures. Instead, progressive banks will seize the moment to increase the quantity and value of results from staff and facility investments.

The expression of productivity is fewer, more highly skilled, workers delivering more value for an hours’ worth of work than today. Done right, this type of progress delivers financial results far in excess of the higher wages and compensation needed for more highly skilled employees.

Alan Greenspan, former chairman of the Federal Reserve, once stated: “Productivity – the

“Progressive banks will seize the moment to increase the quantity and value of results from staff and facility investments.”

goods and services produced from each hour of work – is the magic elixir of economic progress. It's why we live better than our grandparents did, without working longer hours.” This perspective directly relates to the transformation underway in branch banking. Each major bank should consider how it will rise to the challenge.

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