

# The Customer Connection in Branch Productivity



BY DARRYL DEMOS

In the quest to improve branch productivity, sustainable new arrangements can only be achieved through joint adaptations by banks and their customers.

**M**ired in a long-term revenue drought, the retail banking industry now must deal with the reality that the current branch banking model is unsustainable. Along with eroding sales productivity, today's staff-intensive outlets are sliding in transaction efficiency as well.

Between 2003 and 2010, the average U.S. branch experienced a roughly one-third decline in the number of daily sales transactions generated by each non-teller staff member, according to Novantas research. Meanwhile, the average teller staff is seeing a roughly 4% annual decline in transaction productivity.

These statistics make a strong case for decisive action. A 25% to 35% reduction in full-time branch staff potentially will be required in retail banking over the next three to five years, given the outlook for a continually challenging climate where more than a third of U.S. branches will likely remain unprofitable.

Winning supply-side responses will include cross-training that widely enables staffers to handle multiple work roles; innovative uses of specialist expertise; flex-staffing that taps a rich pool of part-time workers; and increased technology substitution.

But banks cannot confine themselves to a narrow, supply-side view of branch operating issues. There is a pressing need to consider demand-side trends in customer behavior as well, including possibilities to proactively change customer behavior and improve overall customer interaction.

To be sure, the shape of customer demand is already changing rapidly as people make increasingly heavy use of online channels for transaction and information services previously obtained in the branch. But there are even more possibilities for banks that can reach the next level of "demand engineering."

The idea is to study specific categories of customer branch activity, including major types of customer transaction behaviors and the value associated with them, and then establish migratory paths that proactively guide customers into new arrangements. In the best outcome, efficiency improves; customers are more satisfied; and job assignments are more rewarding for employees.

## CUSTOMER "CO-PRODUCTION"

One example outside of banking is airline self-service, in which customers book their own flights; reserve seats; print their own boarding passes; and participate in baggage check-in. Not only have air passengers adapted to

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these changes relatively quickly, but most strongly prefer the new arrangements, which have given them more control over transactions and saved them time as well.

Another example is NIKE Inc.’s “customize” program, which allows online shoppers to tweak the designs of shoes, garments and sports gear. Such “co-production” enables customers to produce their own outcomes by interacting directly with the provider’s systems, strengthening ties between customers and organizations.

How does this apply to banking at the branch level? Consider the burden of manual deposit-taking and check-cashing, which accounts for roughly 80% of the daily activity in a typical teller line. We believe that retail banks should strive to convert at least 50% of that manual activity to customer self-service over the next three to five years.

A customer-facing program to achieve this goal includes customer-based transaction segmentation, which helps the bank to analyze key groups such as check-only depositors and everyday small business cash depositors. This research provides key guidance in matching customers with new enabling technologies for branch self-service.

A comprehensive program also could be coupled with new packaging and pricing, along with specific campaigns to deploy and promote self-service alternatives, both within the branch and remotely. Examples include:

- Increased promotion of bank-at-work programs and technology

that permits remote deposit capture for small businesses.

- Revised policies that can provide immediate balance credit on remote deposits, placing funds immediacy on par with in-branch transactions.
- Significant promotion of online transaction alternatives, with emphasis on customers with high transaction intensity.

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With such a program in place, the bank will be much better positioned to make key internal decisions on branch staffing, hours of operation and general resource allocation. Innovative strategies to lower staff overhead expense and boost worker productivity will gain much stronger traction when pursued within the context of customer demand.

A more detailed customer orientation is also helpful on the other side of the branch productivity equation, which is revenue generation. For example, most retail banks need a stronger grasp of composite customer needs, which is essential in the quest to more fully serve individuals, households and small business

owners. Rare is the branch sales staff that has the information and training needed to identify high-value customer needs and present solutions in an advisory context.

Supply-side production excellence, as previously defined, will be insufficient in the struggle to rebuild retail banking profitability. All the fundamentals of customer interaction and demand will need to be re-examined, recognizing that sustainable new arrangements can only be achieved through joint adaptations by banks and their customers.

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