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EVOLVING the Role of the Branch IN A MULTI-CHANNEL WORLD

BY RICK SPITLER

A successful multi-channel performance agenda places the customer at the center of a cohesive effort to boost revenues, reduce costs and adapt to a changing marketplace.

As the retail banking industry enters 2013, executives remain preoccupied with their overgrown branch networks. An initial round of cost-cuts and closures helped banks to weather the recession, but after years of waiting, it looks like revenues will not come back strongly enough to justify all of the extensive remaining capacity.

On top of the poor economic conditions, customer preferences are inexorably shifting to digital channels. It soon will be the case that more than half of retail banking customers will not visit a branch with any frequency, instead forming their banking center of gravity around remote channels, including the phone, mobile, Internet and automated teller machines. For many customers, these conduits have become the primary service delivery channels, making them integral to marketing, customer engagement and cross-sell. Alternate channels are no longer alternate.

The confluence of events will force a more fundamental examination and restructuring of branch networks. The answer is not necessarily to close more branches, but to repurpose them within a broader distribution strategy. Their role needs to be re-focused, their value-add improved, and their costs substantially reduced for the economics of physical distribution to work. In short, while maintaining or even increasing physical touch points for customers, banks need to slim down the branch physical footprint and staffing requirement, and re-focus physical outlets on high-value customer interactions such as sales, problem resolution and advice.

However, this work needs to be carefully orchestrated with the concurrent expansion and refinement of digital and direct banking channels. Bank need to deal with customers effectively through those channels that customers wish to use. Doing so will require upgrading the contact center experience, improving the web site shopping experience for new and established customers, and elevating the overall ability to engage and cross-sell customers in channels lacking face-to-face interactions.

Translating the situation into specifics for 2013, one priority is shoring up sales productivity at the growing number of traffic-starved branches. At a time when there are fewer opportunities to engage lobby visitors in needs-based discussions, it is critical to place sales staff where they can best capitalize on precious customer interactions.

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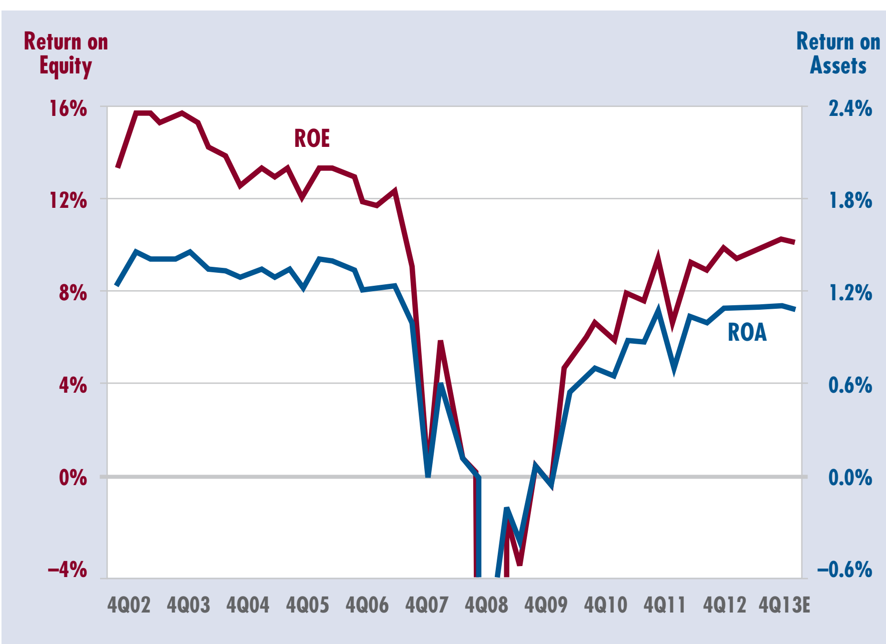
In marketing, banks need to enhance their customer analytics to drive the right offers to the right customers through the right channels. Meanwhile the contact center must play an expanded role in converting service interactions to sales, and in generating leads and building loyalty in the virtual space.

Finally, the governance structure of the retail bank has to evolve. In a multi-channel market, there are increasingly complicated tradeoffs as banks invest in transforming distribution, people and technology. It is no longer the case that a retail bank can be run "functionally," i.e. marketing, sales and service processes, online banking, etc. Banks need to coordinate efforts to drive acquisition and cross-sell across the various channels, and this will require team-based forums and governance processes to define what monies get spent where.

Figure 1: Banking Industry Profitability

While the U.S. banking industry has rebounded, questions remain about the prospects for full recovery in profitibility.



Note: Combined results for FDIC-insured depositories, including banks and thrifts. Quarterly data annualized. Source: Federal Deposit Insurance Corp., analysis and modeling by Novantas, Inc.

PERFORMANCE PUZZLE

As the U.S. banking industry enters 2013, institutions can say with confidence that the worst of the recession-driven crisis is over. Profits topped $141 billion in 2012, nearing the record set in the booming market of 2006, and the recent removal of safety net guarantees on $1.5 trillion of uninsured jumbo deposits has stirred hardly a ripple.

Now, however, banks are facing another type of intense challenge, which is rebuilding profitability and at least some growth in an overall slow market. While industry-wide equity returns could top 10% this year, that falls well short of the 12%–14% levels seen before the crash (Figure 1). Investors have taken notice and bank stock trading multiples continue to lag, despite the reviving fortunes of the market overall.

Inevitably there will be pressure to improve efficiency ratios through further cost-cutting, typically centering on over-built branch systems. The complication is that this is more than a case of post-recession blues; overcapacity also reflects changing channel usage as customers shift more shopping and purchase activity to remote channels. Along with further trimming of weakened branches that are unprofitable even at the margin, banks must also build for the future, beefing up the remote banking proposition to advance marketing, sales and relationship-building in the virtual space.

Underscoring the point, almost 80% of U.S. households now research bank web sites and online product offerings before selecting a new bank, according to our national consumer surveys. Instead of first selecting a new provider on the basis of nearby branch convenience and then buying with the assistance of sales staff, customers now begin by locating products online, only then picking a convenient bank at which to open accounts.

The value proposition expressed on the bank's website matters as never before. The public pages will need to be elevated to the level of presentation and functionality seen with online retailers. Meanwhile contact centers and online banking sites will need to seize opportunities to engage and cross-sell customers. And mobile must become a proactive tool that allows banks to provide a valuable menu of real-time services, for example of household credit and cash management.

Such transitions are to be embraced by banks. A new multi-channel approach is needed to drive revenue growth and cross-sell. Previously seen as the futuristic agenda of technologists and champions of alternative channels, multi-channel banking is now an actuality, driven by customer preferences and economic realities.

REPOSITIONING THE NETWORK

Branches have a definite future in multi-channel banking, but a significant transition is needed to restore network economics in a changed market with dwindling foot traffic. The transition end-state will offer the same or more points of contact with customers, but with each being far less expensive and focusing on engagement and cross-sell, not transaction services. A burning question during the transition is how to regroup the sales force for productive revenue generation. Also there is a second — and necessarily more delicate — round of branch closures in the offing for many regional banks.

Sales Productivity. Between 2005 and 2011, we estimate that there has been a more than 50% decline in average new revenues generated by each sales representative, a result, in part, of less foot traffic in the branches. While there are many factors that need to be addressed to deal with this challenge, one immediate opportunity is to reduce sales staff and/or reallocate representatives to the highest and best opportunities (Figure 2).

The sales productivity problem is one of extremes. At one end, many rural and low-traffic markets no longer can justify the sort of standard full-staffed branch established in prior years. At the other end, dense and high-traffic markets have become even more of a sales battleground, but with branches that are often insufficiently staffed to tap the full potential of the local market. Capacity misalignment is the greatest in these two circumstances.

The typical regional bank will soon see at least a third of its network operating at depressed transaction levels (fewer than 5,000 per month). And this malaise will spread to more than half

Figure 2: Levers for Productivity Improvement

There are significant opportunities to improve sales productivity in low-volume and high-potential markets.

Low-Volume Markets	Improvement Lever
• Low traffic, < 5,000 branch transactions per month • Limited sales upside, yet profitable • At or near perceived minimum staff levels w/ current model	Universal banker role Reduce branch hours Branch managers become player/coaches Technology: cash automation; self service; platform imaging
High-Potenial Markets	**Improvement Lever**
• High traffic, > 8,000 branch transactions per month • Medium to high local branch network density • Headroom for improvement on current strong performance through higher conversion of branch traffic	Expand sales capacity Extend branch hours Appointment-setting and proactive customer outreach Enhance staff roles to deepen consumer and business relationships Revise sales goals, incentives

Source: Novantas, Inc.

of many branch networks in just a few years. To support the minimal sales staff needs in those branches, banks will need to create "universal bankers" on a fairly massive scale. The intent is to allow multi-skilled staffers to flow among various job categories to efficiently serve customers. This can be combined with a broader use of part-time employees to cover peak volumes. Also as part of this migration, branch managers need to become player/coaches, so as to tap their personal selling abilities.

Banks have already had some success with these techniques in supermarket branches, which attempt to provide the fullest possible service with a thin staff. Our studies show superior sales productivity for banks that have made such transitions in their traditional standalone branches as well.

Turning to high-potential markets, branch sales productivity already may be high, and adding more staff would appear to hurt productivity. Yet the local market may have fuller potential than what the branch is configured to tap. The beauty of judicious sales staff expansion in such circumstances is that it allows the bank to gain market share without adding more physical outlets.

To make accurate decisions, banks need to understand local factors such as market density; consumer and small business demand; and competitive positioning. Once a robust, forward-looking market analysis for all of the locales within the network is done, it then becomes clear where some of the high-traffic branches within the network actually need more sales staff, not fewer.

By addressing both extremes, the bank is effectively redeploying sales resources where they will do the most good within the overall network. This precision approach will yield far better results than across-the-board tightening.

Round II Closures. It appears that continuing expense pressures and customer migration will require still more branch closures, raising the question of how to choose among the stragglers. In making the next round of cuts, banks will have to sort through branches that are either hovering at breakeven or, by simple measures, even showing nominal profits. The winnowing process is destined to touch off turf battles as well, with regional managers coming to the defense of their territories.

To deal with this complex scenario, regional banks will need much more information than has been commonly used to evaluate a network. Standalone measures of current and historical branch profitability will not get the job done.

There are three major questions that should be considered. The first is the customer consequence of a potential branch closure, both the odds of losing valuable relationships and the impact on future sales in the area. The second is the network consequence, including market presence and the impact on the brand equity in the local market. The third is the potential for a fallback presence, such as automated teller machines or a thinly-staffed "express office," which avoids a total retreat from a locale.

While these common-sense questions are familiar to many executives, they often need to be addressed with greater analytical rigor. The typical closure review is heavily influenced by a system-wide branch performance ranking based on current and historical financial accounting metrics, with management judgment then used to interpret the findings and consider the options. Winning banks bring robust market and customer context to the deliberations as well, better assuring that the dynamics of each local network are taken into account.

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CUSTOMER ENGAGEMENT

As customers increasing migrate to "virtual" channels, a critical question is how to sustain customer rapport and sales momentum as more people skip the branch in favor of remote alternatives.

Marketing and Sales. Retail customers now conduct roughly six of every seven banking transactions outside of the branch, mostly through electronic alternatives. While much of this is basic activity, such as depositing checks, getting cash, making payments and verifying account balances, the volume of online account origination and cross-sell is rising as people become more comfortable with online shopping for financial services.

To guide their marketing efforts in the new environment, banks will need a 360-degree view of core customers, including segment profiles and corresponding behaviors across multiple products and channels. In drawing this full picture, a lot of information needs to be unified, including funds movement among products; channel usage; deposit, purchase and payment transactions; shopping patterns; demographics and credit usage. In the continuing quest to understand customer behaviors, needs and intents, banks can draw on perhaps the richest internal data set of any industry.

The larger challenge is coming up with pragmatic applications. We have found pilot programs to be the most fruitful

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means of understanding where to focus. As pilots proliferate, successes can be scaled up to drive revenues and productivity. As concepts further solidify, the development team needs to flesh out the organizational requirements for long-term success, including the infrastructure plan, the analytical plan and the delivery channel plan.

Customer Interaction. Customers now prefer e-mail, contact center and even text messaging over in-person contacts for routine problem solving. The contact center, in particular, is an important center for building customer engagement — especially for the "virtual domiciled" customer who seldom sets foot in a branch. Historically viewed as a service hub, the contact center now must play an increasingly important role in revenue generation, essentially becoming the retail bank's largest and fastest growing branch.

The complication, however, is that most contact centers are not set up for this new role. Primarily geared to handle a high volume of service calls, these centers have been managed for stringent efficiency, not sales productivity, with budgets held flat or cut as the volume and complexity of customer interaction has increased.

It will take a concerted effort if contact centers are to achieve their potential of becoming leaders in revenue growth in a multi-channel market. Turning the tide begins with a shift in the unit's strategic role, from cost center to sales center. Institutions with high sales productivity in the contact center recognize that each conversation offers a chance to strengthen and expand a customer relationship. Doing so requires careful management and measurement of the sales process, keeping a close eye on the yield from each step and also investing in the capabilities needed for further progress.

MOBILIZING THE TEAM

For years, remote channels have been handled as accessories to the branch experience. Each option — phone, Internet, ATM, etc. — operated as a semi-autonomous unit, with a limited exchange of customer information and inconsistent execution and results in marketing, sales and service.

Banks have long envisioned remote channels as full transaction substitutes, ultimately allowing corollary reductions in physical capacity as more day-to-day activity is conducted remotely. However, there has been far less preparation for a digital marketplace. Banks are being caught off-guard by the growing revenue consequence as people shift more shopping and purchase activity away from the branch.

Compounding the problem, many cost-conscious regional banks have slashed developmental budgets in a continuing tight market, preferring instead to nurture their limping branch networks. In extreme cases, this has had the perverse effect of redoubling the management focus on the branch at a time when customers are redoubling their focus on remote banking through multiple electronic channels.

As summarized in this article and more fully detailed elsewhere in this issue, specific priorities to advance the multi-channel agenda are coming into view. That is good but more coordination will be required.

Increasingly, banks will need to organize their plans and operations around customers, both segments and individuals, as opposed to channels and products. New forms of market planning teams and processes will be needed to assure precision allocation of branch investments, promotional activities and advertising spend. The future governance of the branch bank will be cross-functional and customer-oriented.

Going forward, we believe that all retail branch banking companies will be caught up in the restructuring challenge. Issues include reducing the number and/or size of branches; reconfiguring branch staff to better focus on sales; investing in online and mobile to improve acquisition, cross-sell and retention with multi-channel customers; appropriately encouraging customers to transfer more transaction activity from physical to e-channels; and redefining the retail business model.

Only by attacking needed changes cross-functionally and holistically will banks be able to succeed. The new low-margin world demands precision management, extending across of the various retail banking functions that previously operated with relative autonomy. Only then will the winning multi-channel environment emerge.

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