thinkpiece

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Retail financial services: success through branch led-strategies

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Summary

- In recent years, bank branch delivery strategy has evolved to the point where we live in a new era of multi-channel service, coupled with a new generation of branches and increasingly sophisticated direct banking services.
- While banks in other countries continue to innovate and adapt with new ideas based on strong branding and committed customer service, their British counterparts are still lagging far behind.
- Branch failure can be a result of many factors—including location, staff skills, and design—that are seemingly ingrained in the current British approach. But they can be overcome.
- The way forward must see the implementation of practical, strategic steps on a branch-by-branch basis, but it will also require a cultural shift that will recognise this as an opportunity and challenge to bring the UK stock of branches to a standard that approaches best practice.

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CII Introduction: Why are British bank branches run so differently—and often much less efficiently—than their international counterparts? Why is it that it has been nearly ten years since the last major innovation in that area? Banking expert David Cavell takes a hard look at the present situation, and argues that despite some successes, British banks have not innovated sufficiently to meet the needs of flexible markets and diverse customers. He offers some interesting insights into how branches could be used more efficiently and more in tune with best practices elsewhere. The solutions are simple and straightforward, Cavell argues, but the end product will be better for both the consumer and the banks' bottom lines.

The years around the turn of the millennium saw branch development programmes severely curtailed as retail bankers monitored how the internet would require them to modify their delivery channel strategies. Recent years have seen this uncertainty resolved. We are now in an era of bricks-and-clicks multi-channel service built around a new generation of branches and increasingly sophisticated direct banking services.

The retail development programmes of the last decade were heavily focused on the creation of new branch concepts. Considerable resources were dedicated to the development of new physical entities, often with an associated aspiration to be more like a retailer. This appreciation of branch banking and good quality retail environments has re-emerged. Across the global industry, new types of branches are again being deployed. Inexplicably, many British banks are among the few global exceptions to this new enthusiasm.

The objectives of any channel – including the branch

Arguably, there are four objectives that the branch (and other delivery channels) must address, and clearly all are directed to achieving the required return on investment. The first objective is to retain and develop the existing customer base. This has implications for subjects as diverse as customer segmentation, customer information systems, staff skills and the need to counter the growing competitive threats. The acquisition of new customers is the second objective, in order that the business may continue to grow. Promotional programmes and micromarketing systems are examples of the many techniques available to support this objective. The third channel objective is to meet the service needs of customers that are critical to that location. The provision of a counter service within a community is the most common example of this element.

The fourth objective is that of representing and projecting the brand. A significant body of evidence exists to demonstrate that this is the least understood of the roles performed by a delivery channel. It is rare to enter a British retail bank branch and see either explicit or implicit references to the values of the organisation. And yet it is exactly the issue of brand that is the most powerful aspect of the many competitive threats that the industry now faces. Tesco, Virgin and many other successful new entrants to the retail financial services market are leveraging their well established brands to take business from the existing players in the market. The Cooperative Bank, with its distinctive, customer led ethical stance, is both an exception and an example of how this issue can be addressed to advantage. Clearly, the development and projection of the corporate brand is an area with major implications for the marketing faculty of the organisation.

The branch in many guises

The nature of many insurance products has made them highly suitable for sale through the emerging direct channels, and many sector branch offices have been closed. However, despite this established trend, the ING banking and financial services giant based in the Netherlands launched a concept branch to support their insurance business. The concept branch was designed and launched to support and extend the group's base of over 500,000 insurance clients within the Czech Republic. The Prague based ING 'Orange House' combined all the relationship building qualities of a financial services branch with the strong brand projection that can only be achieved through advanced styling and merchandising.

The mortgage sector has been the subject of many, often innovative, branch development programmes. The most recent significant initiative in the British market now dates back 10 years. The 'Simply Mortgages' proposition developed by Britannia Building Society was delivered through dedicated, sub-branded mortgage shops targeted at both members and non-members. In the United States of America, major networks of mortgage branches are operated by a number of financial services groups separately from their chain of retail banking outlets. For example, Wells Fargo operates over 2,400 such branches within its overall national network of around 6,000 stores.

Institutions seeking to start and operate a direct financial services proposition have always faced the challenge of building awareness and projecting brand values. This has been tackled in many ways, typically and necessarily with a significant commitment to advertising. The approach of ING Direct in the United States also included the launch of a small number of carefully located internet café-style branches. ING Direct was launched in 1997 and now has a base of over 20 million customers across nine countries. When it launched in the United States in late 2000, ING research had indicated the value of creating a platform through which to both reinforce its institutional credibility and project its brand. These exciting units have sold coffee, snacks, sportswear and a many other goods - in addition to financial products – all bearing the logo of ING Direct. The branches, located in major centres including New York, Los Angeles and Philadelphia, have also provided a platform for both television and radio slots, offering ING valuable publicity.

And many more variations on the role of the branch exist. For example, Australia continues to provide a showcase for franchised bank branches. Victoria-based Bendigo Bank now runs over 150 branches through a conventional retail banking model. But in addition, the bank also supports over 200 branches through franchising arrangements that they have entered into with communities across the country. And in the United States, shared branching is operated on a major scale. More than 1,400 credit unions now share their teller services across a network of over 3,000 branches. The system is run by a mutually owned switching company, and provides the participants with the mutual benefit of providing out-of-area teller services for their vast credit union member base.

Branch failure: three reasons it happens

Many factors can contribute to the failure of a branch. However, experience shows that the principal contributors to a sub-optimal profit performance by a branch are usually poor location, inadequate staff skills or shortcomings in the branch design.

The issue of location is multi-dimensional. Visibility and accessibility play a major part in determining the success of a site, as does footfall. But location must also be considered from the qualitative perspective of consumer mindset. For example, a branch located near a railway station may enjoy accessibility and high volumes of passing footfall. However, if the mindset of the people passing the branch door is focused on getting to the office or going home – at whatever time of the day – the sales potential of the outlet may be severely limited. Only the ATM prospers!

The second issue to be taken into account are the competences and interpersonal skills of staff. Mystery shopping confirms that these are still a fundamental weakness within bank branches, and can often have a corrosive effect on relationships. The mix of issues here embraces elements as basic as how the customer is addressed, and may even extend to the choice of language used by staff. Hotel groups and airlines are examples of organisations that have recognised the need to develop and enforce standards in this area. Tellingly, they often successfully train and deploy staff who, at the point of entering their organisations, would not qualify to work in a bank. Branch management qualities must also be taken into account, and recent years have seen it gain even greater prominence as an issue on the critical path of successful channel strategies.

Shortcomings in branch design can manifest themselves through either inadequate facilities, or a mis-match between costs and the value of the business that is available at that location. Difficulties here often arise from over-engineering the outlets. This produces a branch that is too expensive (to either build or run) and is thus unable to earn the return on investment that its operator was seeking. The early roll-out programmes very quickly demonstrate that such units will fail to meet the required financial success criteria. And the design house joins the many others in their profession that cannot understand why its banking clients have not pursued their new branch concepts.

Creating a new success

There are many ways in which banks can reinforce the success of their network investment and ensure that it does more than just meet the hurdle rate of return.

Good examples of major contributors to success in building income and profitable relationships are the good quality customer relationship management (CRM) systems that have now been developed by many players in the market. These have matured out of the disappointments and frustrations of earlier years and now prove their worth in many different markets and cultures of the world. The Istanbul based Garanti Bank is one the latest institutions to discuss both the excellent customer information and sales systems that they have developed and the extent to which they contribute to branch success. The slow development of need-based selling through a natural customer dialogue is also adding to the success of an increasing number of bankers. Customers appreciate the real interest being shown by their bankers and well trained staff are able to spot the sales clues and leverage the goodwill that has been generated with the customer.

The operational efficiency of the branch is an area where banks take widely varying approaches. Among the many factors where the sector has yet to take a common position is the value of the role that can be played by self service machinery, such as cash dispensers). The bankers of India, Singapore and the United States are among those who have developed extensive functionality for their ATMs, including the facility for customers to deposit both notes and cheques. But the use of the wide ranging family of self service terminals - beyond the ATM and basic automated depository - has only assumed any scale in a limited number of countries across the world. The German banking sector occupies a leading position because it has successfully deployed the widest range of self service terminals across it dense branch network. In particular, the quietly progressive approach of the *Sparkassen*, German community banks, should be picked out for a special mention.

Commentators in many markets continue to suggest that banks should take a radically different path in branch design and merchandising, and be more like retailers. Some banks have accepted the idea, and take their commitment as far as re-designating their outlets as 'stores'. This is now common parlance within the North American market. There may be issues that retailers tackle better than banks – brand building is a readily available example. But all of the ideas and suggestions that emerge from the most enlightened review of other trading sectors can only be justified when they are shown through professional research to produce a positive response from the target groups of the bank. Whilst this issue has been the subject of widespread discussion for many years it has yet to be justified by either opinion leading research or case studies in success.

Seizing the opportunity

All the empirical evidence suggests that when the going gets tough, branch closures are one of the 'cost saving' tactics adopted by British bankers in particular. The less attractive outlets or those perceived to be financial poor performers are simply put in the 'too hard' tray, and disposed of. So how can this be handled on a more professional basis?

Here are five suggestions for short term initiatives, drawn from experience in the global market.

1. **Understand the actual financial performance of each branch.** What is the contribution level profit and loss account of each unit, and what return is being achieved on the assets that are tied up in the business? With those answers, rank the findings so that the short term focus can shift to the marginal cases and lossmakers. Make an assessment of the existing branch book and the local market with a view to deciding whether there is further potential to be exploited.
2. **Make an assessment of the branch facilities and its site.** Putting this information together gives a unit-by-unit view of the condition and potential of the bank's portfolio, and provides the best platform from which to either formulate remedial actions or justify closures on an objective basis. And clearly, the priority will be to develop the information base first for those branches where the financial analyses show that action is most required.
3. **Improve staff skills.** Sales and service strategies vary from either the traditional product-push to the more enlightened and increasingly recognised needs-based approach. Whatever a bank's sales strategy might be, there is a requirement for its staff to operate with both sound professional knowledge and the best interpersonal skills. These aspects, together with the right attitude, are critical to providing the customer with a feeling of competence, friendliness and commitment. Weaknesses here can be particularly detrimental to both short term sales effectiveness and longer term relationships and loyalty.
4. **Ensure the adequacy of branch facilities.** Do the premises have the required interview booths and rooms? Is there space other than across the counter at which to conduct sensitive conversations? So often, the layout of the branch militates against customer privacy, and leaves customer information visible on open desks. A situation compounded by a lack of staff discretion. Customers waiting in the teller queues can often enjoy extended views of the untidy rear storage facilities behind the cashiers – perhaps even the odd coffee mug!
5. **Ensure the adequacy of the processes.** Simply put, how well are the bank's administrative systems supporting the branch in sales fulfilment or ongoing service support?

Only by developing an understanding of both the true financial value of their outlets, and the required remedial action within branch operations, will any bank have a sound platform from which to determine the most effective route to a greater return on their investment. Only in this way will they be able to decide with accuracy whether improvements can be made that will restore profitability, or whether the closure of a unit is the only justifiable option.

So many banks across the world have now recognised the critical requirement to tackle these issues. These players are well on their way to maximising the overall profit potential of their branch networks, and ensuring that the maximum number of outlets remains viable. Some progress has been made by the British banks. But given their size and recent profitability, it is surprising that so few of them are deploying strategies to achieve the broad based improvements that are now required. Only through these improvements will they bring the UK stock of branches to a standard and density that approaches global best practice.

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