White Paper

A Practical Guide for Improving Branch Profitability
For years, the future has looked dim for the retail bank branch. As consumers rapidly adopted online and mobile banking, the branch appeared headed for a more diminished role in the retail distribution channel. Tough economic times have also caused many banks to close branches to cut costs. Although the role of the retail branch is transforming, for the majority of community banks and credit unions, the retail branch is still the leading source of new product sales and account relationships and also the largest source of expense to the institution.

In order to best balance opportunity with cost, banks must reevaluate their retail distribution networks to determine the future role, footprint and strategic position of every location. By determining the focus for each branch, financial institutions can enhance profitability while managing both growth and risk.

Brick-and-mortar continues to be the most expensive distribution channel. According to Fiserv data, the cost of branches and the related staff makes up 64 percent of all non-interest expense for the average bank. It is therefore critical that every branch pull its weight so that banks maximize their return on their branch investments.

To ensure that they are getting the best possible return from branches requires that banks develop strategies that focus on the initiatives that will make the greatest contribution to the franchise.

There are five proven steps banks can take to enhance branch profitability:

1. Evaluate branch performance in terms of profit, growth and risk
2. Assess the market and determine the unique role for each branch in the network
3. Analyze the competitive landscape for each branch
4. Set specific goals by branch for business and consumer markets
5. Define the bank model of the future
1. Evaluate Branch Performance in Terms of Profit, Growth and Risk

The best-performing banks balance the three principal drivers of franchise value – profit, growth and risk – to maximize performance and build a sustainable earnings stream. Comparing profit, growth and risk data for a bank against its peer institutions can help the management team establish goals for enhancing performance. Then, the financial institution can look at its individual branches to determine how to best align the day-to-day activities within each branch with the overall objectives of the franchise.

Consider a real bank case study of a mid-Atlantic bank with $2.2 billion in assets that we have renamed as “Virginia Bank.” BancAnalyst® from Fiserv was used to assess the bank’s performance in terms of its peers and uncover the fundamental drivers and challenges to performance. Virginia Bank needs to address in terms of cost of funds, overhead efficiency, pricing and net-interest margin.

Benchmarking this bank against peer institutions that operate in a strategically similar way (lending, funding, and off balance sheet fee intensity), uncovered that Virginia Bank’s primary issue related to low core deposits. The core deposits per branch were 46 percent less than the weighted average of the comparable group – $23.7 million for Virginia Bank versus $44 million for peer group institutions. Based on the peer benchmark, it stands to reason that Virginia Bank could almost double the size of its core deposit base and maintain the same branch infrastructure.

2. Assess the Market and Determine the Strategic Fit and Unique Role for Each Branch in the Network

Branches are not all alike. Yet, some banks treat them as if they were. Before banks can maximize the contribution of each branch, they need to understand the dynamics of the local market each branch serves.

In a Fiserv survey, two out of three community bankers indicated that their bank’s business development plans didn’t adequately recognize unique differences in each branch’s market area.

Indeed, at most community banks, the chief financial officer (CFO) sets the budget and spreads it across the branches, with each location asked to meet the same percentage growth target. This approach typically results in setting goals that may not be achievable for some branches and that are not aggressive enough for other branches.

However, a more equitable and effective way is to establish unique customer acquisition, retention and cross-selling goals for each branch based on current market realities in the service area. Using the BancAnalyst branch investment matrix, CFOs can...
determine how each branch ranks in terms of market position and growth potential. The analysis helps executives answer branch-specific questions including:

- Does the branch serve a mostly commercial, rural or consumer marketplace?
- How fast is that market projected to grow?
- How well is the branch competing for market share?

By using the investment matrix to classify each branch, the case study bank was able to determine if a particular branch’s goals should be focused on profitability or growth and whether it might be time to evaluate the long-term potential of the location.

The Branch Investment Matrix plots each location to help determine if a branch should be focused on profitability, growth or considered for consolidation.

73 percent of community bankers indicated that their business development plans did not adequately take wallet share into account.

### Analyze the current customer base for each branch.

Banks that effectively mine opportunities within their current customer bases are likely to grow revenue organically. And, increasing wallet share among customers can also improve retention rates. Yet, 73 percent of community bankers surveyed said their business development plans didn’t sufficiently recognize differences in wallet share among current customers. This finding demonstrates that bankers need analytical tools to better understand the growth potential within their current customers.

Banc Analyst, which helps pinpoint the customer segments driving profitability for each branch, determined that a large proportion of higher-income households existed among customers of one of the Virginia Bank’s branches. This market segment is an ideal one for community banks to cross-sell because these households typically use more bank products. The tool indicated that the branch could grow deposits by as much as 36 percent by targeting this higher-income customer segment for cross-sell opportunities.
Identify best new prospect opportunities for each branch.

In the vast majority of community banks, the branch manager is expected to take the pulse of the market by being out in the community and participating in the Rotary, Chamber of Commerce and other business organizations. The belief is that this networking activity will help the branch gather more deposits, loans and new accounts.

Most community bankers are still taking that same passive approach toward business development. In a recent Fiserv survey, 67 percent of community bankers acknowledged that they rely mostly on current relationships and branch location – rather than proactive calling or prospecting programs – to attract new customers.

A fact-based approach toward marketing and business development is more effective. Such an approach begins with answering two fundamental questions:

1. What segments of consumers and businesses are within the existing customer base of each branch?
2. Which markets or segments should each branch target and pursue as prospects?

It is only by truly understanding the dynamics of each branch’s market and customer base that community bankers can identify opportunities and create successful marketing campaigns. This goes for commercial business prospecting as well as retail account prospecting to drive growth.

Of the surveyed community bankers, only about one in four said their institutions are proactively marketing to specific commercial business niches. The other banks may be missing untapped opportunities to drive commercial customer acquisition across their branch networks. While most banks are not focused on achieving rapid growth in the current economic environment, the nation’s most progressive and best-performing institutions are aggressively targeting small businesses. Knowing which business niches are in each market, and offering unique products to serve those segments, will position branches to better compete for banking relationships.

By looking at the small business opportunity within the footprint of Virginia Bank’s branches, it was determined that the primary focus of a particular branch should be on serving a particular commercial sector. Using analytical tools revealed that a potential $9 million in existing and new deposits from dental practices existed within the branch’s footprint. These dental practices offered the opportunity for relatively large average deposit balances, good credit ratings and solid growth rates.
3. Analyze the Competitive Landscape for Each Branch

Virginia Bank has 518 competitor locations within the boundaries of its branch network. By drilling down it was determined that those competitors are predominantly larger national banks. Understanding the strengths and weaknesses of the competition, Virginia Bank can translate this knowledge into true business advantages and develop more effective business development plans. To thwart the big bank competition, Virginia Bank can leverage local loyalties and focus its marketing messages on the advantages of having a community bank.

4. Set Specific Goals by Branch for Business and Consumer Markets

Many banks diligently set goals for every metric they have, but they don’t take into consideration the unique market dynamics of each branch. It is best to identify and then focus on a handful of the most important goals and priorities for each branch. Having completed the previous three steps, banks will be armed with the information needed to establish branch-specific goals and incentive compensation plans tied to those goals.

Perhaps banks should consider each branch to be a separate business and establish a balance sheet, profit-and-loss statements and business goals for each retail location. When branch managers and their staffs focus on a few clear and specific objectives, they can align their day-to-day activities to meet these goals.

For example, one of Virginia Bank’s branches operates in a high-growth market, but it was still losing market share. To reverse the negative growth trend, analytics identified that the branch could focus on growing commercial loans – which represented a realistic growth opportunity of $4.78 million – just by capturing its fair share of business from among its 31 competitors in the market.

After identifying goals, banks need to develop and execute branch-specific marketing campaigns to drive customer origination, retention and expansion. In addition to setting unique goals for each branch, banks should consider adopting more proactive sales cultures. More than two-thirds of community bankers surveyed said their institutions lacked sufficient proactive calling programs designed to target specific business or consumer niches. What would happen if effective marketing campaigns focused on growing consumer deposit originations, consumer deposit cross-sell and commercial deposit originations were implemented in each of their branches?

Assuming that the case study bank is typical, ten percent of the retail household customers of Virginia Bank hold 75 percent of the bank’s deposits. These high-balance customers are considered to be the bank’s most valuable customers (MVCs). By identifying the MVC segment for each branch, Virginia Bank should be able to uncover opportunities to improve customer retention rates and even grow the relationships. Then, Virginia Bank can leverage this information to execute highly targeted marketing campaigns for proactive outreach.

5. Define the Bank Model of the Future

What’s next? That’s the question when it comes to looking for ways to expand the number of products and develop loyal customers. As consumer behavior changes and basic financial transactions migrate away from the branch to the online and mobile channels,
the branch needs to transform. Instead of a being a transaction-based store front, the branch must evolve into a destination where consultative sales associates work to discover, anticipate and fulfill customer needs.

By using analytical tools, consumer household segmentation and customer relationship management (CRM) systems, banks can improve their understanding of customers, predict in-branch behavioral patterns and spot emerging trends. Banks that find they have tapped out most of the potential growth in their current footprints will need to invest in their branch distribution channel or look for market expansion opportunities or acquisition candidates outside their existing marketplace. Expanding the online product offering by adding remote check capture, mobile payments and personal financial management may also offer new sources for revenue growth.

Adjusting the Focus is an Ongoing Process

Branch strategy should be a constantly evolving and ongoing process that helps each bank assess its current position and determine how its staff and branches are contributing toward maximizing franchise value.

Years after many experts predicted that “clicks” would sound the death knell for bricks and mortar in banking, the branch continues to be an important retail distribution channel. However, most banks must reassess their costly branch networks in an effort to cut costs and enhance each location’s performance.

For community banks, the path to high-performance branches requires both intense focus and simplicity. This five-step approach can help banks focus branch marketing efforts on proactive outreach to more effectively move prospects through critical stages of the sales cycle and deepen relationships with current customers. As a result, branches will be better positioned to achieve unique sales goals while maximizing their contribution to the overall profitability of the franchise.

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Please contact us at 800-846-6681 to schedule a complimentary online Branch Profitability Planning session with a Fiserv bank strategist. During the session, we’ll:

- Review your bank’s customized financial, market and footprint analysis
- Plot your branches on the Investment Matrix quadrant
- Compare your performance to both your strategic and local peers
- Identify and review every consumer household and commercial business in your market
- Review your markets’ five year growth projections and uncover new opportunities
About the Author

Andy Grinstead is a senior vice president and senior bank strategist for Bank Intelligence Solutions from Fiserv. Andy applies his notable marketing expertise to his dual roles at Fiserv – that of marketing director and expert advisor to our clients. Andy’s 19 years of experience include bank consulting services in the areas of strategic bank marketing, new market entrance, strategic planning, and market planning, among others. He has developed programs for growth and revenue enhancement; product development and go-to-market planning; and retail, small business, and commercial customer strategies. Prior to joining Fiserv, Andy served as an Executive in the Financial Institutions Consulting with Crowe Chizek & Co.

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