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Beyond Business as Usual

5 Ways to Optimize the Branch

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By Matthew De Paula

Everyday, people walk into banks and pass by rows of dusty teller windows—many of which will probably never host another smiling face from behind the Plexiglas. What does stare back from the bulletproof windowpane is a reflection of vacant cubicles along the opposite wall. That scene plays out like the early stages of a post-Apocalyptic movie, right at the point when things start to really go wrong.

It's a bit melodramatic, but only just, because banks are on the brink of earth-shattering changes. Their challenge: to maintain the branches' relevance at a time when more and more customers are banking online and depositing checks remotely.

It might make sense to simply cut a few tellers, but think of it from the customer's perspective: By pulling people from your branch—which already appeared too big for the amount of staff working there during peak hours—you create what amounts to a ghost town in your own lobby and sour the one physical interaction you get with all those customers who bank remotely for weeks, or even months, at a time.

The good news is that there are effective ways to manage the growing void in branch transactions. But most of them require investing resources, time and energy before the cutbacks start to pay off. Here are five strategies to get you started on the path to creating a more efficient and effective branch network.

1. Build Smaller

One of the first things bankers and consultants bring up when talking about ways to improve efficiency in the branch network is to simply make branches smaller. But how small, and how many to build at the diminished size, varies from one bank to another.

The $9.3 billion-asset Umpqua Bank in Portland, Ore., is in its third year of constructing what it calls "neighborhood" stores. At a scant 1,500 square feet, they are among the smallest around.

"We know we can build those for a third of the cost of a normal store location and obviously create multiples very quickly," says Lani Hayward, Umpqua's executive vice president for creative strategies. Five of the bank's 176 branches are of the smaller variety, and Umpqua is planning to build six more this year.

Other banks, like the $3.7 billion-asset WSFS Bank in Wilmington, Del., won't go much below 2,500 square feet. "That seems to me the smallest thing that we can build that feels like it's a full-service part of our branch system," says Richard Wright, executive vice president of retail banking and marketing for WSFS. The bank, with 37 branches, opened two small branches last summer and expects to have a couple more up and running by the end of the year.

Downsized branches offer advantages beyond just shrinking capital expenditures. They allow banks to embed themselves in neighborhoods where previously they could not have gone, for lack of suitable space.

Still, large banking centers with 3,500- to 5,000-square-foot floor plans aren't going away. Banks still need larger locations to house commercial bankers, wealth managers and other specialized personnel. The difference now is that what once was the standard size and template for every branch is now becoming a specialized hub to anchor spokes of smaller stores in the area. "It's just a matter of what are the spokes, where do you put them, and what do they do," says Hayward.

One downside to downsizing is that smaller branches are less prominent, which can negatively impact brand perception and require banks to build awareness by bolstering marketing or other efforts, says David Kerstein, president of Peak Performance Consulting Group.

And bear in mind that it doesn't make sense to sell or tear down large facilities only to buy or construct smaller ones. In some cases, simply revamping branch interiors can have a huge impact on efficiency.

2. Design Smarter

The most obvious way to optimize space in a branch where fewer customers are transacting with tellers is to reduce the number of teller stations. Some of the latest branch designs, similar to the open "Occasio" model developed by Washington Mutual, do away with teller windows altogether, thanks to the advent of cash recyclers. These next-generation automated teller machines replace tellers' cash drawers by sorting and dispensing money automatically.

"Those have worked out fantastically," Umpqua's Hayward says. "We've used those in a number of locations, including larger ones."

With the bulky vaults of teller-lines gone, suddenly the possibilities for branch design open up. And the success of smaller staffs working in smaller bank buildings can indeed hinge on opening things up—literally.

"In a conventional branch, the middle of the space is where the customers are, and the perimeter is where all the staffing is," says Tim Ryan, an architect and managing partner at Branch Development Group, a consulting firm in Ballston, N.Y., that helps banks build better branches. "That makes it really hard for staff to change from one activity to another."

Reversing that paradigm by clustering universally trained staff in the middle lets them multitask with ease by shifting a few feet from one station to the next, instead of having to traipse across the branch through multiple locked doors.

WSFS calls its new setup a "permeable teller counter." It includes greeter, teller and sit-down stations in one open structure, with an adjacent Internet cafe. This front area of the bank can be incorporated into buildings of various sizes.

Offices, safety deposit boxes and the like are hidden from view, which allows larger branches to run with fewer staff when necessary, without seeming like a ghost town to customers, Wright says.

Even though new branch designs like those of Umpqua and WSFS include private areas for staff to help customers, some bankers still fear people could get turned off by an apparent lack of privacy in the open floor plans. Kenneth Olan, executive vice president of First Victoria Bank in Victoria, Tex., is in this camp.

Instead of gutting the $1.6 billion-asset bank's teller lines and platform stations, he's using 150 to 200 square feet of space just inside the entrance of every new branch the bank builds for what he calls a "V-Source" center. It has a coffee bar, copier, fax machine, laminator, coin counter, Internet service, a computer with games for kids, a library with books on financial topics, and an area that converts into a mini-theater to host investment seminars or a Saturday screening of "The Lion King."

"People don't say, 'I want to go to the bank.' They say, 'I have to go to the bank,'" Olan says. "So what else might they want to do when they go out? Where may we be able to add some value to their trip to make things more convenient for them?"

First Victoria has installed three V-Source centers, all in newly built branches. It's hard to pinpoint their impact on transactions and account openings, Olan says, but they don't cost more than building a traditional lobby, and they do increase foot traffic and brand awareness.

3. Use Technology

Cash recyclers and systems that automate check processing by capturing an image of each check are the two most significant pieces of technology banks are implementing for efficiency gains at the branch level, says Nicole Sturgill, TowerGroup's research director for delivery channels. Together, they address the bulk of branch transactions and free up tellers to do other things.

But there are less obvious high-tech solutions that can help conserve space and resources. One is video conferencing.

"Video conferencing allows the bank to have subject-matter experts centralized, but able to assist customers according to their availability, not the bank's," Sturgill says. "That, I think, we're going to see much more of going forward." The technology has been around for years, but only now has it gotten good enough to make it seem as if you're sitting across from someone who's on the other end.

Umpqua has been testing video conferencing and found that consumers responded well to it, despite the fact that the terminals were out in the open. The bank is now in the process of rolling it out to a few more stores for further evaluation, this time stipulating that the technology be used in private conference rooms.

Trading paper posters and pamphlets for digital ones is another way banks are leveraging technology to improve efficiency. By replacing product collateral in every branch with interactive touch-screens, banks not only save space, but also eliminate printing and other related costs.

Umpqua uses wall-mounted touch-screens connected to computers layered with software from various providers to digitally display the bank's products and services. Customers look up and print only what they need. "It's more interesting for the customer to approach," Hayward says. "And we can change it more rapidly, less expensively, and remotely for all of these locations."

WSFS applies the same principle to signage outside its branches. The bank is able to update messaging throughout its footprint to tout timely promos tailored for each market, all with the press of a few buttons.

4. Cross-Train Employees

For all the fancy machinery and newfangled features banks are putting into their branches, the human element remains most important—and with headcounts getting drastically reduced, all the more so.

Where traditional branches might run best with between eight and 20 people filling specific roles, the new generation of leaner banking centers can run optimally with six people or less. But to pull that off requires a new class of branch personnel, one that can toggle between teller,

platform and customer-service duties.

"Now the skill level we're looking for within the branches revolves much more around engaging with the customer-being able to sell, basically," says Sturgill. "But the problem is, you still need people that are good at the transactions. The transactions right now are still occurring while banks are implementing branch automation."

Some banks are even proving that transaction-oriented workers can be effectively cross-trained by having them take calls from the contact center when volume has peaked and there's a lull at the branch. "They even do it in the back office, where branch personnel are scheduled to do work from the loan processing area," says Jackie Hudson, retail practice director for enterprise solutions at Verint, which helps banks implement workforce management programs.

Through a combination of thoughtfully applied technology, revamped interior layout and well-trained staff, Umpqua's new neighborhood stores bring in twice the volume of deposits as the bank's traditional branches. And households served by the new stores use more products and services, and hold twice the average deposits and loan balances, Hayward says.

Still, bank executives say it's hard to find people who are good at traditional teller tasks and also outgoing enough to successfully engage customers to the level required by the newly emerging role of the universal branch rep. They've resigned themselves to the fact that those best suited to the job will likely get paid more than traditional tellers.

5. Improve Staff Retention

First Victoria's Olan says one of the challenges he faced when he joined the bank two and a half years ago was that teller turnover was much higher than the industry norm. So, he says, "I put into effect a number of things that helped the front line feel like they were contributing more, feel like they were listened to—even down to writing a hand-signed birthday card to every single person."

He says people are more secure in their duties and less likely to jump ship when they feel that upper management knows who they are and recognizes their efforts. So he makes a point to interact with staff in every branch.

He has redoubled teller and platform training, and regularly assembles groups to chat with customers about ways to improve products and service.

Olan also increased teller base pay, "so that they wouldn't jump for 25 cents or 50 cents to go to the next bank down the street." He upped teller incentives for referring key products and services, and implemented a more robust reporting system for front line staff to better track their goals.

The results are impressive: a drop in teller turnover from a rate of about 60 percent annually when Olan first joined the bank in 2008, to 33 percent. Sales stemming from referrals that tellers make to platform bankers jumped 820 percent for January and February, compared with the same period in 2008.

The average of products per household during that time frame doubled, consumer checking account openings ballooned 204 percent and business checking account openings 143 percent.

Reading beyond what the numbers say, downsizing branches and sprucing them up with new technology shouldn't overshadow investments in human capital. Or put another way: The purpose of revamping the branch network isn't to wow customers with fancy new digs, but to improve their experience, even as the bank pares resources and personnel.

After all, it would be a shame to change things for the worse. "They're not going to be happy if they're waiting 10 minutes when they didn't expect to," Branch Development Group's Ryan says, "even if they're sitting in a nice chair."

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