

TRANSITIONAL BANKING

Alexander Vergara, Vice President
Advantage Branch & Office Systems, LLC

Does the future of banking reside in every household? Will home computers eliminate the need for bank branches? Will connecting via the Net replace the need for face-to-face interaction with branch personnel? Will branch banking soon be a thing of the past . . . and the buildings themselves nothing more than “financial museums”?

Bill Gates of Microsoft thought so. In fact, several key players in both the financial and software arenas are, pardon the expression, *banking* on it.

Concerned? Confused? You're not alone. With all the expert theories and press coverage devoted to *alternative delivery systems* and *retail banking environments*, it's difficult to know beyond the shadow of a doubt which branch strategies are practical and effective (let alone affordable). Meanwhile, as bank mergers and acquisitions continue unabated, your marketing department proposes spending \$5,000 to \$10,000 per branch on merchandising systems—hardware, fixtures and other capital items to present a uniform message to your customers. Add to that the costs of advertising and in-branch collateral to sell specific products. Then there's the continual acquisition and implementation of technology (ATMs, computer system upgrades, new delivery networks). And don't forget training for your employees.

What's a banker to do? How big or small should your branches be? How often should they be reconfigured to meet the inevitable changes in the marketplace? When should you make changes to your branch networks? How can you guarantee long-term growth while ensuring short-term profitability?

The Science of Transitioning

Like everything else in business, banking is evolving. And, as history has taught us so well, those who will be the most successful will be the ones who embrace change and capitalize on its opportunities. The best way to understand change is to first understand where we are; then we can determine where to go from here.

It's safe to say that most bankers on an intuitive level feel that the branch environment is alive, vital and essential to the future of any banking network. At the same time, there is an acute awareness of the need to maximize every square foot, dollar and employee earmarked for any branch office. Furthermore, there exists the ever-present mandate to increase product sales, and with it market share, customer loyalty and bank profits.

As a consequence, decisions on whether to build, expand, modify or close a branch are based on certain variables which have been historically linked to bottom-line performance, including transaction volume, deposit base, demographics, and product mix. In the scientific and engineering worlds, formulas and equations are developed to accommodate these variables and arrive at sound calculations. In the banking world, we plod along with internal financial reports and the ad agency's latest marketing surveys.

In his book *Design and Analysis of Experiments*, Dr. Douglas Montgomery of the Georgia Institute of Technology illustrates two basic principles of experimental design: *replication*, the repetition of experimental events, and *randomization*, or the allocation and order of these events. These principals can be applied to determining the future of branch environments.

Begin the process of developing a scientific approach to transitional banking by first gathering as much demographic information about your potential and future customers. This requires accessing information from several sources to eliminate any biases inadvertently (and commonly) imposed during data gathering and analysis. Remember, it's not only important to find out what your customers' do, but why they do it.

Next, investigate the data, which can help you understand where your existing and potential customers are headed. The idea here is not to predict where markets are going with absolute certainty, but rather to comprehend the many factors which can influence your market long-term, i.e. business trends, housing markets, higher education, taxes and crime. Often, seemingly unrelated factors can have an enormous impact on a customer's propensity to support local business, invest, buy banking products, or even conduct routine transactions.

Armed with a sharper picture of your customer base, you can begin to put the information you already have on your bank's performance in a better context. Factors, which dictate the outcome of the design equation, include:

- Number of teller transaction over a specific time.
- Average time per transaction.
- Average queue time for transaction services.
- Average queue time for customer service.
- Types of products purchased.
- Peak times.
- Volume of ATM transactions.
- Volume of drive-thru transactions.
- Quantity/type of customer complaints
- Quantity/type of customer compliments
- Number of parking spaces.

By carefully assessing this information and applying the right formula, you can develop a plan for transitioning your branch network to an intelligent system that efficiently and cost-effectively adapts to the changes in your market.

Sound easy? Unfortunately, the data analysis, complex and tiresome as it is, is the easy part of the program. Figuring out how to implement change to branch configuration without disrupting operations or totally alienating your customer is a much more difficult proposition.

The Theory of Transitional Branch Design

Transitional Branch Design is rooted in creating a branch network which best supports long-term profitability through a constantly changing banking environment. In short, the goal of Transitional Branch Design is to provide predictable results in an unpredictable world. Principals of this theory hold that:

1. *Both the individual branch office and the branch network itself are changeable entities.* Branch layout, personnel and delivery systems are not static elements. They must be incorporated into branch design with the express purpose of reacting to and even anticipating change.
2. *Elements of branch design must be flexible.* Branch environment and configuration, personnel, customer interfaces, product mixes and delivery technologies are engineered to be modular and interchangeable. Changes can therefore be implemented to accommodate needs on a branch-by-branch or system-wide basis.
3. *Branch design elements must be practical and functional.* All components must address current banking needs while establishing the proper groundwork for the future.
4. Design elements must be affordable and have a demonstrable return-on-investment.
5. *Branch reconfigurations must follow a sound strategy.* Any change to the branch environment must be economically sound, implemented with minimal disruption to service, and supported by comprehensive training.
6. All changes to the branch environment—and the branch system—must support the bank's marketing objectives. These include:

- Establish and reinforce corporate identity.
- Communication of all advertising/marketing messages.
- Enhancement of the sales environment.
- Enhancement of the level of customer service.
- Improve cross-sell ratios.

Today, more than ever, banks are changing. The ever increasing pace that technology plays in today's branches is evident, it is no longer generational. Advantage Branch & Office Systems will help ease your bank into the future. We take technology seriously, and we design retail space that can transition as customer service and technology leads the way.

Looking ahead it becomes evident that based on the most current banking trends branches remain not only viable, but continue to play a very important role in establishing and maintaining customer relationships. New branches are sprouting up everywhere and many more are being renovated to improve the branch environment, enforce brand identity and improve the level of customer service.

We at Advantage Branch and Office Systems can assist you in delivering your message, whether you are planning a new branch, refurbishing existing branches or upgrading your merchandising program.

Contact: avergara@advantagebranch.com



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27 Locke Road
Concord, NH 03301-5417

Phone 603.228.1122
Fax 603.228.1126

www.AdvantageBranch.com