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# Building a High-Powered Branch Network in Retail Banking

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March 2010

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The so-called Great Recession of the past two years has created unprecedented challenges for retail-banking branch networks. In many markets, regulatory moves are putting pressure on fees, with unfavorable deposit spreads and poor consumer-credit quality compounding the difficulties. Branch-driven revenue growth is becoming harder and harder to achieve. Many banking executives, faced with a deteriorating revenue model and an expensive branch infrastructure, are responding by closing branches and adjusting staffing—while simultaneously looking for ways to improve sales productivity.

Although the extent to which these dynamics are taking hold varies among the major global markets, it is undeniable that the future role of bank branches is under scrutiny in CEO suites. A fundamental question being asked is, will the role of branches be diminished in the new normal? The answer, in our view, is a resounding no.

The nature of branch networks may be shifting owing to new economic realities and continually evolving technology, but the crisis has deepened the need among consumers and small businesses for reliability, reassuring face-to-face contact, and a safe harbor in choppy financial seas. As a result, the role of the humble neighborhood bank branch will be more important than ever in the postcrisis era.

Banking executives, in order both to benefit from this trend and deliver what their customers truly need, must move to recapture the full potential of a high-powered branch network. Doing so would represent a sea change from the precrisis tendency of many banks to simply ride the wave of high growth—and get away with some bad practices along the way. Now it's time to get back to basics.

Indeed, many banking CEOs worldwide are asking themselves questions such as the following:

- How can we respond to the deteriorating profitability of the deposit revenue model?
- How can we increase the volume of high-value branch-based interactions with customers?
- How will the format of branches and the need for branch density change as a greater share of customer service interactions go digital (via mobile devices and the Internet)?
- How can we further optimize the branch cost base?
- How can we truly and sustainably improve the branch experience in a way that drives greater customer engagement and loyalty—and profits?
- How can we sharpen overall sales-force effectiveness in branches?
- How should we adjust our operating model for branches in the postcrisis era?
- How can we make changes rapidly across the network with a high degree of compliance?
- How can we spread best practices and cultivate a sense of urgency and zeal in the network?

The answers to these questions will be of paramount importance to retail banks over the next few years. Fact is, although remote channels are gaining share in the sales and service of certain products—with most customers displaying more multichannel behavior—branches remain the primary driver of market share for consumer and small-business relationships, as well as the anchor channel for retaining high-value customers. Banks hoping to move fast out of the postcrisis starting gate must therefore devise a strategy for developing high-powered branch networks that can eclipse those of their competitors.

In several recent publications, we discussed how retail banks can best endure the financial crisis, pursue overall excellence going forward, and choose the right business model for their particular set of resources.[1] In this paper, we turn to the concrete measures that financial institutions can adopt to take the performance of their branch networks to the next level. Of course, such an endeavor must first acknowledge the present state of the retail banking industry—which, by any standard, remains one of crisis.

## Back to Basics

The new normal in the global retail-banking industry—especially in highly developed Western markets—is characterized by slow growth, dwindling revenue pools, uncertain long-term liquidity, significant loan losses, customer cynicism, and rock-bottom interest rates. Not only are deposit margins being slashed by low rates, but the capacity of banks to rebound is diminished by cutthroat competition for funding and heavy regulatory pressure on fees. With the battle for profit shifting toward the asset side of the balance sheet, only those banks that generate sufficient margin on their assets to compete aggressively for funding will prevail.

Conditions such as these place the burden for recovery squarely on the shoulders of bank branches, since they represent the core strategic channel for inexpensively gathering deposits that "stick," as well as for deepening customer relationships, cross-selling, and generating true value. Moreover, the postcrisis economic climate will widen the gap between winners and losers according to banks' ability to execute the traditional retail model. Management teams should thus reset their sights on the fundamentals of branch performance. A back-to-basics approach is especially critical now, since bad practices can no longer be masked.

In our view, there are six basic steps that banks can take to significantly raise the performance of their branch networks:

- Elevate the role of the branch
- Review and restructure branch footprints and formats
- Optimize the branch network's cost base
- Improve the customer experience at branches
- Jump-start sales force effectiveness at branches
- Determine your branch network's operating model for the postcrisis era and aggressively drive compliance

Let's take a closer look at each of these steps.

### Elevate the Role of the Branch

Despite the rise of online, mobile, and other digital channels, the use of branches remains high, since an ever-increasing proportion of customers are adopting multichannel behavior rather than substituting one channel for another. This is particularly true now, as fallout from the worst financial crisis in decades continues to hover over consumer sentiment and behavior. The fact is that most customers want to be *inside* a bank when they buy a complex financial product.

Banks should therefore reinforce the branch's role as the preferred sales channel for all high-value deposit

1. See these BCG White Papers: *Come Out a Winner in Retail Banking* (September 2009), *The Near-Perfect Retail Bank* (November 2009), and *Retail Banking: Winning Strategies and Business Models Revisited* (January 2010).

products, including transaction accounts, high-value savings accounts, and investment products. Banks can support this strategy through highly focused marketing campaigns. Outside the United States, the branch should also be clearly positioned as the preferred channel for mortgage sales—rebalancing the distribution mix away from mortgage brokers and other intermediaries, who will likely become more focused on certain segments and risk profiles. In the U.S. market, such positioning will require improving the skill set of branch staff and implementing efficient ways to spread mortgage expertise across the network. Reinforcing the branch's role as the preferred sales channel may also require revising the processes and incentives that govern referrals and conversion between channels.

Elevating the role of the branch will help secure banks' most important sources of assets and liabilities. It will also help banks focus on the highest priorities in today's climate: securing sufficient funding, retaining the most profitable customers, attracting new, high-value customers, and deepening all relationships for long-term profitability.

Finally, while it is true that banks are better off steering low-value-added activity online or to other self-service channels—keeping in mind that online means low margin—the crisis has reinforced customers' desire for face-to-face contact and advice. What is more, for most small businesses and a sizable minority of older, high-balance customers, the branch still remains the preferred channel for personalized service.

### Review and Restructure Branch Footprints and Formats

In most markets and for most products, a bank's local market share is a function of its physical presence. The S-curve in deposits is well understood. A similar relationship applies to savings products—although less so to mortgage offerings, where intermediaries often play a stronger role and consumers show a greater willingness to travel.

Yet the crisis has triggered the need for a fundamental realignment of the branch network—something more sweeping than the normal periodic review. Banks should rethink their footprints in key markets. For example, in regions where density is critical, a bank might be able to achieve a strong local presence with lower-cost, sales-focused stores and fewer full-service branches. Indeed, low-cost branch formats—like low-cost airlines—can be an efficient way to penetrate new markets, as several banks in Asia and Eastern Europe have demonstrated.

Of course, since markets tend to evolve faster than banks can rearrange their branch locations, some areas are over- or underpenetrated at any given time. Even the best-run banks typically optimize their footprint every three to five years at best. Banks can achieve a 10 to 20 percent efficiency lift by realigning their networks according to the size of wallet, demographics, current share, and competitor presence in each market.

### Optimize the Branch Network's Cost Base

Pruning the branch network through near-term optimization programs and branch closings will only go so far in achieving meaningful, lasting cost reduction. To cope with significant challenges to their revenue models, many banks—especially in the U.S. market—are turning to major branch-restructuring opportunities. But because of the expense involved in revamping legacy networks, most efforts focus on developing lower-cost models and optimizing staffing levels at existing branches.

For example, innovative institutions in Asia-Pacific and continental Europe have introduced smaller-footprint and lower-cost formats that emphasize sales and advice—with most service transactions handled by special-purpose ATMs and cash recyclers. Some institutions have even managed to automate key elements of the all-important small-business service proposition while maintaining the more personal branch relationship that such customers prize.

Another key opportunity is to tightly link sales and service resources with evolving local market characteristics. For example, every bank has over- and underresourced branches, depending on how the wealth and demographic profiles of specific markets have changed over time. Yet most banks fail to adjust quickly and efficiently enough. To improve productivity and cost efficiency, banks must be able to respond to shifts in demand by shuffling resources among branches. And branches must be able to tweak their staffing levels to avoid having excess or insufficient resources at any given time. While most large banks are conducting methodical region-by-region, branch-by-branch reviews of staffing levels, many have not taken the first step of segmenting their branches by business mix, market share, and growth characteristics.

Given the impact of the crisis on demand, banks should also undertake a critical review of sales force resources at their branches. In any particular market, are there too many mortgage advisors or too few banking advisors? Do mortgage advisors need to refocus their efforts on retention and roll-offs, rather than on new sales and secured lending? How can the bank retrain or redeploy the sales force to suit the postcrisis landscape?

### Improve the Customer Experience at Branches

Customer satisfaction is obviously a key driver of brand advocacy, cross-selling, and retention. Yet it is hardly news that many banks fail—some miserably—when it comes to delivering a winning customer experience. Since the crisis began, the international media have been saturated with negative stories about the banking industry, with people from virtually every customer segment providing acerbic commentary on topics ranging from alleged product misrepresentation and hidden fees to interminable queues and uncaring service—all linked to branches. How can banks turn such bitter feelings around?

A winning customer experience at branches is a matter of superb execution in a handful of critical service interactions—those "moments of truth" that determine whether a customer will buy a certain product or, at the other extreme, switch banks. Well-managed moments of truth create strong advocates. Banks should identify a small number of these decisive interactions—especially those related to high-value, low-volume transactions—and attack the root causes of dissatisfaction.

A highly useful initiative can be reaching out to customers to gather honest opinions on the kinds of staff behaviors that generate confidence and loyalty—as well as behaviors that make customers want to walk out the door. Banks can leverage interviews and focus groups, regular workshops, and other, more quantitative initiatives to learn how to deliver differentiated, branch-based services for high-value customers—adjusting resources, processes, targets, and incentives accordingly.

In the current climate, customer retention is especially important. Banks can offer to review the savings and investments of all high-value customers in order to help protect their balances during the downturn, however long it may linger. They can use regression analysis to isolate the leading indicators (both behavioral and financial) of customer attrition. They can also design a customer recovery program to surgically address those indicators—and then incorporate them into regular reporting.

Of course, improving customer service at branches also means providing an attractive physical environment, affable greeters who show customers exactly where they need to go for their appointment or transaction, business hours that mesh with customer needs, and "queue combers" who keep lines short by inquiring about product-specific needs. And while it is indisputable that optimizing moments of truth related to high-value, low-volume transactions brings clear benefits, banks must also improve their customer service for core, high-volume products that form the heart of the branch-based customer relationship—such as checking, savings, and card accounts. Relatively few banks truly excel in these areas.

Sometimes even the tiniest gesture can make a big difference in connecting with customers. In one case that we witnessed, what began as a "day from hell" at a large urban branch turned out to be anything but. With branch staff suddenly decimated by a flu outbreak before a long holiday weekend, the queues for teller services were ten-deep, and waiting customers were not shy about complaining. Then a staff member had an idea. She enlisted a colleague, and together they dashed to a nearby café, returning with coffee and croissants, which were handed out to the inconvenienced customers. This simple gesture made the wait just a bit more tolerable and instantly reversed the ill will in the air. We would bet that at least half those customers described the experience to family and friends, spreading goodwill for the bank. We have helped banks generate significant improvements more systematically by embedding effective verbal "service expressions" into their interactions with customers.

Finally, the key to great retailing, not just in banking but across all consumer-focused industries, is having a highly engaged and motivated frontline—as well as strong leadership to provide the necessary direction and inspiration. If employees do not believe in the institution's core value proposition and products, they simply will not be productive sellers. The shiniest branch on the busiest corner will fall far short of its potential if the staff does not know how to connect with customers. Needless to say, the kind of engagement that truly moves the needle takes time to develop. It requires a senior management team that makes employees feel appreciated and that rewards top performers with visible recognition as well as bonuses. It also requires good local leadership to create an efficient operating rhythm and "buzz" in the branch, as well as coaching to improve skill levels on the frontline.

### Jump-Start Sales Force Effectiveness at Branches

It's time to get back to basics on sales force effectiveness. The stakes are high because the gulf between good and bad sales processes leads to vast differences in branch performance. Top-quartile branches often generate four times as many leads as bottom-quartile branches, in part because of their underlying processes and systems. Largely for the same reasons, top-quartile salespeople typically have conversion rates and product holdings three times higher than those achieved by bottom-quartile salespeople. Teller skills are critical to generating referrals, of course, but so are computerized prompts and incentives that are focused more on value than on volume and that recognize activity, not just outcome.

In truth, most banking executives can recite the key elements of a sales-force-effectiveness program by heart. Yet very few institutions excel in execution. A typical program zeros in on specific measures, such as booking appointments electronically, capturing customer data early, creating more effective sales scripts, and carefully managing the early tenure of the customer. Banks that take these actions create a self-reinforcing sales and service culture. This culture includes a recruiting and talent model, clearly defined practices and norms for key branch roles, product training and certification, coaching programs, incentives and recognition—as well as mystery shopping, customer polling, and surveys to capture the voice of customers and bank employees. Winning banks also develop CRM systems that enable better branch workflow. Offer management systems identify the next logical product, and leads are embedded into processes at the teller counter and elsewhere.

To be sure, building a winning sales culture or implementing a new CRM system is a long-term journey. But there are near-term sales levers that branches can also use:

- *Identify which segments and subsegments to target for the eventual upturn.* Banks should refresh their customer segmentation to better reflect changing customer needs, attitudes, and behaviors related to the recession. They should then review the sales scripts and processes at their branches to target high-value segments. Most banks will also need to improve their credit-scoring processes and refresh their prequalification criteria to reflect the extreme conditions wrought by the downturn.

- *Focus on the right products at the right time.* In the current environment, banks should focus their sales targets and incentives on generating and retaining deposits. Even at the best banks, a periodic assessment of the economic value of products can change the definition of top performance in a branch network. As the crisis subsides and recovery takes hold, banks should review their branch-based product portfolio to ensure the right fit with evolving customer needs. Now more than ever, banks need to actively manage their product offering—adjusting the mix both to reflect their own priorities and to ensure that products resonate with customers' preferences of the moment.

- *Enhance the onboarding process.* Banks should develop a contact strategy that covers the days, weeks, and months following an initial branch-based sale. This strategy should focus on deepening the customer relationship before any attempt is made to aggressively cross-sell. To this end, banks should carefully monitor the online activity of new customers and proactively respond to all online research and inquiries with a call from a branch-based manager.

- *Concentrate on retaining your most valuable customers.* Banks should develop and deploy tactics aimed specifically at their most valuable customers—for example, holders of large transaction-account balances—to ensure a winning position in the share-of-profit race. Such tactics might include information-driven programs to trigger win-back actions when transaction account balances have declined abruptly or when a transfer to a higher-rate competitor has occurred. We have seen leading institutions achieve significant gains from deploying such simple heuristics.

### Determine Your Branch Network's Operating Model for the Postcrisis Era and Aggressively Drive Compliance

There are three distinct operating models for branch networks: centralized, localized, and franchised. Centralized networks afford little autonomy to the frontline, being characterized by standardized products, national marketing campaigns, a focus on sales force productivity, and volume-based metrics. This is the dominant model in the United Kingdom. Localized networks, by contrast, give greater discretion to regional management, often through the use of regional P&Ls. This model, which is prevalent in Australia, is characterized by modular marketing campaigns, discretionary pricing, and performance-based compensation. Franchised networks go even further, pushing accountability all the way to the branch managers. This approach, exemplified by European postbank distribution models, requires a strong talent pool and mastery of a discrete set of success factors specific to franchising.

Obviously, any branch network's operating model is shaped by the tradeoff between standardization and customization. Standardized systems and processes can improve the consistency, transparency, and cost effectiveness of branch performance, but they can also impede a bank's ability to mold its branch formats and offerings around particular markets. Nonstandard formats can deliver a competitive advantage, but only if they are carefully aligned with local market dynamics. Over the past decade, most banks have leaned toward greater centralization and standardization, in part because technology has made it increasingly easy to do so. While this has helped drive down costs, it has also resulted in weaker frontline engagement, less local accountability and responsiveness, and fewer opportunities for tailored approaches to investment.

Today, as banks look toward the postcrisis era, some are adopting a more surgical approach to serving their customers. To achieve a more targeted, localized level of service, banks need to systematically review the governance of each decision parameter in the branch network. For many banks, this may involve a greater degree of regional empowerment.

Finally, in our view, the success of branch networks is less about which specific operating model, format, or value proposition is chosen than about simply *making a clear choice*—and then ensuring that your bank's capabilities fit the chosen model and that the model is executed with a high degree of compliance. To be sure, high-energy execution, compliance, and leadership are just as important as design and strategy.

## Sparking Real and Lasting Change

Large retail banks today strive to create a multichannel experience that allows customers to navigate seamlessly among branches, call centers, and online offerings. The branch is the preferred channel for the sale of complex and high-value products (such as transaction accounts and high-ticket savings vehicles) and for the fulfillment of "high touch" service interactions. Remote channels are preferable for the sale of simpler products (such as cards, personal loans, and low-ticket savings vehicles) and for the fulfillment of "low touch" service interactions. Each channel has its own role and should focus on what it does best. Yet in this particular ecosystem, branches are clearly the organisms that do the most to sustain life. They are the key to driving profitable growth and gaining market share.

Broadly speaking, a high-powered branch network is one in which customers truly feel at home, knowing they can trust the staff to find products that truly fit their needs. The branches are fresh and bright, with clear signage. The bank's staff greets customers warmly and by name. Salespeople are energized, knowing that they are delivering real value to customers, that each day is booked with promising appointments, and that providing excellent service to customers helps advance their own careers. Viable leads come from tellers and other staff, who have their own sets of incentives to keep the lines of internal communication buzzing—and who know how to step up at key moments of truth. Branches efficiently capture the most meaningful customer data—information that, once thoroughly mined, generates sales and service prompts linked to specific customer needs.

To create such a network, retail banks need a sustained, coordinated, ambitious approach to transformation. With a concentrated, well-organized effort, profit increases of 15 to 20 percent within a relatively short period are not uncommon, even in very large branch networks. In some markets, we have witnessed transformations that have brought far more dramatic results.

Ultimately, amid all the uncertainty created by the global financial crisis, a few truths remain. Among them is the fact that banks must thoroughly explore ways to bring the performance of their branch networks to the next level—especially now. Those banks that act boldly will feel their power and likely take the lead out of the postcrisis starting gate. Those that dawdle may never really be in the race when it starts to heat up.

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The authors would like to thank Philip Crawford for his editorial guidance during the preparation of this paper, as well as other members of the editorial and production teams, including Kim Friedman and Gina Goldstein.

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