Too Many Branches, Not Enough Branches

by Robert E. Hall, EnAct Group Executive, Carreker Corporation

"One ship drives east and another drives west with the self same winds that blow.

'Tis the set of the sails and not the gales which tell us the way to go."

Ella Wheeler Wilcox
"The Winds of Fate"

Not too long ago, everybody knew we had way too many banks. Soon there would be just a dozen or so. Huge mega banks only. Maybe a smattering of little no-scale banks.

Then a little later, everybody knew we had way too many branches. Brick-and-mortar, is what they were. Who needs them? Everything is going virtual. Just a matter of time until the old, location-attached folks die off, and we can close their branches. Maybe save one or two branches to keep the rain off the high-tech kiosks.

In some ways, it's not quite sporting to look back at once bold, seemingly plausible predictions and point out how badly they missed the mark. But reality is stubborn. During the heyday of branch closings, it was mainly the community and regional banks with modest technology but more stable, service-oriented branches that racked up higher growth and stole market share from those large banks that closed branches in favor of technology.

Now many of the large banks are getting religion about branches. As the evidence accumulates about the branch role in deposit/market share growth, one large bank after another has come forward to announce aggressive branch-opening plans.

At the very same time, some credit unions — a sturdy if untrumpeted source of competition for banks — are laying out a much lower cost strategy for branch expansion: shared branch facilities. Like shared ATMs, shared branches offer major savings (potentially in the 50% to 60% range) but without sacrificing customer convenience.

What this strategy says is, "The branch is a commodity." A branch is a branch is a branch. This at a time when the more-branches strategy of some large banks says the opposite: "The branch is the brand." Or at least, "The customer experience at the branch is the brand."

So, which is it?

That binary question itself is part of the problem, as it was back when we had too many branches and now again when we either do or we don't. The right questions are nuanced: As a bank, are we clear about our core beliefs about branches, such that our customer strategy emanates from those core beliefs and not from anything less substantive? Are we truly positioned to execute the strategy that appeals to us?

As each bank defines its strategy, some combination of four views will (should) influence it:

The Branded, Expanded Branch System. This is the view that branches are the key to growth and the organization's brand is inextricably tied to the customer experience in the branch. The high-cost path to a differentiated brand.

The Commoditized, Expanded Branch System. As with ATMs, the idea is to lower cost and expand convenience, gaining as much access as possible to customers and markets at the lowest possible cost.

The Commoditized, Contracted Branch System. Continue to close branches as a means of reducing costs and refrain from spending on people or technology that would brand or differentiate. For many large banks, this is business as usual.

The Branded, Contracted Branch System. Maintain the branch system size, making minor contractions in certain low-performing markets while focusing on enhancing the brand through the branch customer experience.

They say generals always fight the last war. The last war for the retail bank customer was won by those who emphasized the importance of the branch customer experience while the losing side was closing branches and not paying enough attention to the customer experience in the branch.

If there is now a rush by all or many of your competitors to emphasize service and build more branches, what will it take for you to win the new war? What customer experience — what differentiated service, value-added selling, lower-cost delivery — can you provide better than your competitors in your targeted markets? As for how many branches, that matters, but what to put in them may matter more.

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