

OUR BUSINESS IS BUILDING YOURS



# LONG LIVE THE BRANCH

A GUIDEBOOK FOR ENSURING YOUR  
BRANCH NETWORK WORKS FOR YOU



# INTRODUCTION

»» For the past decade, there has been an article or a self-proclaimed 'expert' nearly every week declaring that the branch is dead. These declarations cite the rising number of branch closures in recent years. While the stats are undoubtedly true, it fails to capture the true dynamics unfolding within the banking industry.

## Banks

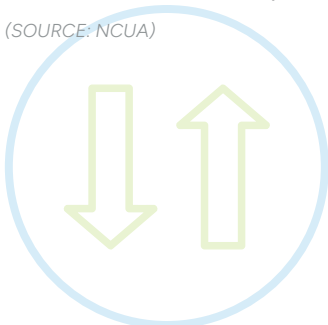
Since 2016, among the 4,714 banks operating in the United States, 585 banks have reduced their branch footprint, 1,759 have expanded their branch network, and 2,370 have maintained their branch count. The banks that reduced their footprint closed 8,193 branches, while banks that increased locations added 10,478 branches. So, if more banks have opened new branches since 2016, why has the total number of branches decreased by 13,918 during that time? The answer is quite simple: bank closures, mergers and acquisitions. Since 2016, 1,482 banks have closed or been acquired by other banks. Those closed banks account for 16,203 branches, a majority of which had overlapping territories with the banks that acquired them. (SOURCE: FDIC)



## Credit Unions

From a credit union standpoint, there are 18% fewer credit unions now than there were in 2016 due to mergers and acquisitions. Specifically, 4,863 credit unions exist when previously there were 5,909. However, there are 2% MORE physical branches than in 2016. The footprint has increased, while registered credit unions have decreased. Today, there are 21,001 credit union branches, while in 2016 there were 20,612.

(SOURCE: NCUA)



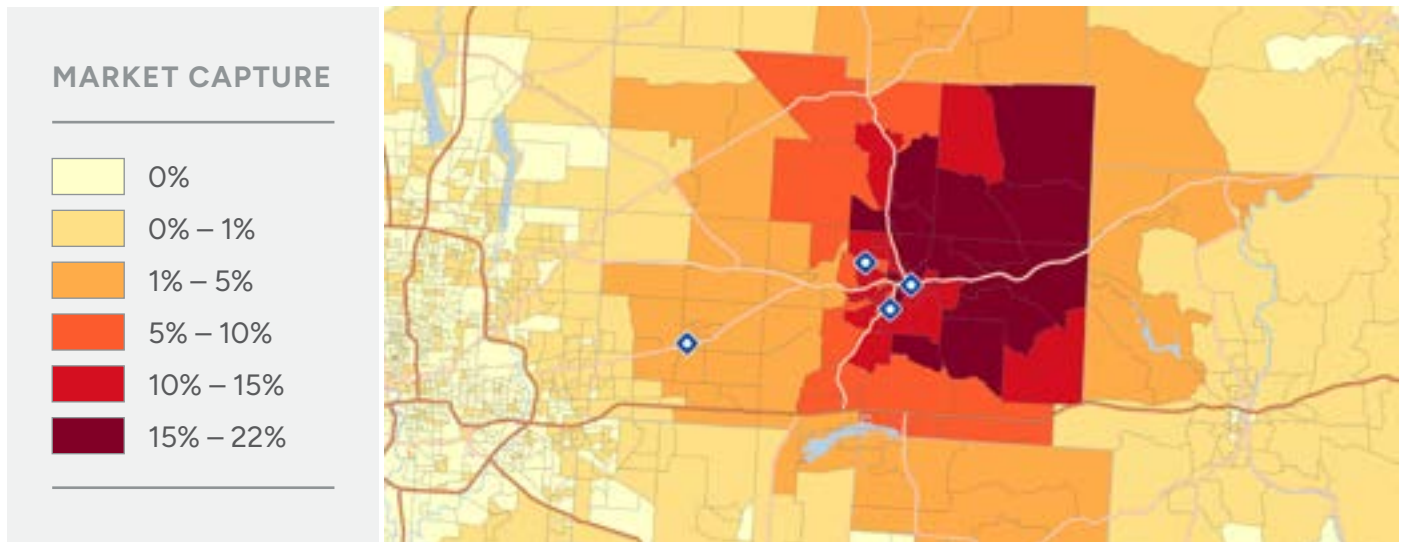
# INTRODUCTION

Along the same lines of proclaiming “the branch is dead,” detractors of the branch will also point out transaction trends seem to be declining in general. While there is no centralized warehouse of transaction data, trends from La Macchia Group’s clients do appear to suggest transactions (deposits, withdrawals and transfers) are indeed down approximately 5% - 10% over the last 5 years. While transactions may be down, overall branch activity for many of our clients is being reported as positive, and we see this as a growing trend in the industry. In fact, a recent McKinsey report found branch activity grew by 20% over pre-covid activity numbers at more than 1/3 of banks and credit unions. (SOURCE: MCKINSEY & COMPANY, “THE GREAT DIVERGENCE: MCKINSEY GLOBAL BANKING ANNUAL REVIEW 2021”)

Furthermore, a recent consumer survey conducted by La Macchia Group’s insights team found **91% of consumers felt it was at least somewhat important that their financial institution have physical locations, and 50% believe it is important to have a branch within a 10-minute drive.** The data from La Macchia Group’s strategic market analyses consistently finds customers, particularly deposit-oriented customers, want branches nearby.



The following maps showcase the impact of having a physical branch in terms of customer market capture and deposit generation.



Empirically we have seen branches continue to be an important component of a financial institution’s service offerings. What happens in the branch, where it’s located and its size may all be up for discussion, but the necessity of branches is clear.



**Because the intent, position, function, and size of the branch network has changed so dramatically, it is more important than ever to leverage data to make smart, strategic decisions about how you’re positioned within your markets. The following is a guidebook to making strategic decisions about branches to ensure you’re serving your customers and your organization.**

# LOOKING BACKWARDS TO MOVE FORWARD

## — ANALYZING PAST TRENDS —

If you want to move forward and grow your market share, it is often most appropriate to look backwards and analyze and understand your organization's recent history.

When embarking on the journey of analyzing your market positioning to maximize your impact and ability to serve current and future customers, it is extremely helpful to start from a wide perspective and narrow in on the minutiae. This allows you to spot broader trends and get a solid foundation before you get stuck in the weeds and can't get out. Every good analysis builds a foundation from past trends and details the current situation before making decisions about future planning.



When looking into your organization's past, it is important not to get too caught up in what used to be. Rather, **look at trends in products and services, and even customer acquisition and attrition over time.** It is also important not to go too far back. Typically, a look into the last 5 – 10 years will give you the information you're seeking. Also, make sure you note any anomalies in that timeframe.

### ✓ COVID-19

For example, the COVID-19 pandemic was a global disruption that caused abnormal behavior from customers around the world. While anomalies like that are rare, there are many other local anomalies that may make their way into your data. Identifying them and their impact on your business will be important to understanding your broader trends.

These trends are important because they tell you what has been effective in the market over time and set the stage for where your attention may need to shift in the future.

### ✓ Demographics

For example, if your average customer age over time has continued to increase every year but the market average age has stayed consistent, or even lowered, then you may have a challenge of appealing to a younger demographic.

### ✓ Loans & Mortgages

Or, if in the past, used auto loans were the bulk of your loan portfolio, but the market has become significantly higher income families looking to settle down, you may identify that mortgages and new auto loans should be a point of focus.

With the examination of these trends, patterns in customer behavior, branch activity and profitability, and product selection will become apparent. These analyses are frequently focused on just the branch, but don't be afraid to look at other elements such as employee growth, overhead growth, rate change and other metrics that help you explain your current financial position. These broad trends can help you understand the path you're on and, if left unchanged, what your future may hold.





# UNDERSTANDING THE HERE & NOW

## — ANALYZING THE PRESENT STATE —

Armed with past trends that have led you to your current situation, a deep dive into the current state is a logical next step. For this effort, looking beyond the financials and digging into the current state of your customers, facilities, and competition is key. Similar to evaluating past trends, each focus should be individually assessed through the lens of the respective markets they are in.

Customer attributes are the single most important element to consider, but oftentimes can be the most difficult. Knowing what products and services they use, length of tenure, and visit frequency is a solid start that most financial institutions already know. But, by digging even deeper, financial institutions can obtain a more profound understanding, illuminating the underlying reasons for customer actions.

## EXAMINING CUSTOMER ATTRIBUTES: KEY QUESTIONS TO CONSIDER

- 1 Who are they?** Are they old or young? Wealthy or struggling? Part of a large family or single? These (and many more) questions will start to paint a picture of the customers that connect with your branch and your brand.
- 2 Where are they?** Are they located in dense pockets around the branches or spread out throughout the market? Are they in urban, suburban, or rural areas? A customer's position relative to your service areas will tell you a lot about how well you're serving them, and help you identify opportunities for improvement.
- 3 Why do they choose you over others?** What connects your customers to your financial institution? Is it rates? Convenience? History? Knowing why your customers connect with you will give you insights on how to keep them, and how to attract new customers.
- 4 How do they want to engage with you?** Are they early risers, night owls, or somewhere in between? Are they weekenders? Is your branch open when they'd prefer to visit you? Knowing this information can help set staffing times and differentiate you from your competition.
- 5 What products and services do they use the most?** Are they core depositors or rate chasers? Are they borrowers or savers? Business or consumer? The products and services your customers choose will tell you a lot about where they are in life, and what may be next for them.



By answering these and other questions about your customers, you'll often find that they start to fall into distinct groups. The segmentation of customers is a vital step to developing a strategic road map to ensure you're getting the most from your branch network, while giving the customers exactly what they want.

# UNDERSTANDING THE HERE & NOW

— ANALYZING THE PRESENT STATE —

## BOLSTERING YOUR BRICKS & MORTAR: ANALYZING YOUR FACILITIES

Your facilities are likely the most often overlooked component of your success. They are a place where all things happen, but if they are in the wrong place, or feel the wrong way, you will create a disconnect with your customer before they ever meet you.

**When evaluating the current state of your facilities, it's important to consider the following:**

### Age & Condition

How old are your branches? How well maintained are they? Branches that look and feel tired will have a corresponding effect on customers. You'll need to objectively analyze how your branches feel from the customer perspective.

### Profitability

Based on the accounts housed at the location, and the expense of operating it, is the branch profitable? If not, is there enough business nearby to make it profitable?

### Market Position

Is your branch located in a neighborhood or along a major arterial? Is it in a business district or a retail corridor? Is it leased or owned? Subtle shifts in market position can have a dramatic effect on a location's performance.

### Experience & Engagement

Does your branch provide the right environment for customers? Does it have the right technology to meet the needs of the marketplace it is in?

### Traffic Volume

What is the branch's current level of traffic? What is the average number of customers visiting the branch? When are peak hours? Is your branch equipped to serve the traffic flow of customers?

Is the staffing level adequate to meet the demand, and do you have the necessary equipment to serve customers effectively?

### Accessibility & Visibility

Is it easy to get in and out of your branch? Can you see the branch from a distance? Does your branch serve as a billboard for your brand?



**Your facilities are simultaneously one of your largest expenses and your biggest billboards.**

Knowing what each branch is capable of providing to your overall network is a critical data point in planning for your future success.

# UNDERSTANDING THE HERE & NOW

— ANALYZING THE PRESENT STATE —

## CONSIDERING THE COMPETITION: ANALYZING WHO YOU'RE UP AGAINST

When it comes to competition, it is hard to get all the answers you want. Nevertheless, by aligning with the right sources and partners, you can acquire substantial insights. In the realm of competition, it's crucial to assess your competitors in relation to your own position. You are not your competition, and the goal isn't to replicate them, but rather to understand and double down on your distinctions and strengths. Typical questions to consider include the following:



**Who is your competition?** If you're a large commercial bank, a small credit union isn't your competition and vice versa. If you specialize in auto loans, a strong mortgage institution may not be your direct competition. Be judicious, but honest about who truly is your competition.

**Where are they within the market?** Are they closer to the businesses or residential areas? Are they in better traffic corridors? How many competitors do your customers have to drive by to get to you?

**How are they performing in the market?** What is their market share? How does it compare to yours? Are they communicating better in the market?

**What is their market coverage?** How many branches do they have? Are there areas of the market they aren't covering?

**Who is their target customer?** Are they the same as your target customers? If so, how many of those customers are in your shared market?

**By gaining a comprehensive understanding of your competitors and their activities in relation to your organization, you can formulate a strategy to adapt, compete, or collaborate effectively.**

With all these questions answered, it is time to start generating some conclusions. Pulling in all that data should start to paint a picture of your organization's performance, customer profile and market positioning. It is extremely important to be honest and objective in this phase. If you are weak in an area, don't ignore it, explore why that is and what risk it poses to your future success; and, more importantly, what you can do to gain strength in those areas. It is very easy to lull yourself into thinking that you know what the data will tell you; go through the exercise anyway and make sure.

While your customers, facilities, and competitors are the primary focal points of your current state analysis, it is important to layer in data points about the markets you are in (assessing growth, shrinkage, or otherwise changing), as well as other fundamentals of your business. For example, ensure you have a good grasp on your current operating model, marketing efforts, and business needs. The current state analysis tells you where you are strong, where you are vulnerable, and where you should focus your efforts in your future strategic planning.

# WHAT LIES AHEAD

— LOOKING TO THE FUTURE WITH A STRATEGIC PLAN —

At this point, you've established a robust groundwork of trends derived from your historical performance. These insights not only shed light on your present situation, but also illuminate the shifts in the market landscape over time.

You've taken a hard look at your current position, pinpointing your strengths, identifying weaknesses, determining your current clientele, and outlining your desired future customer base. Throughout this process, you've compared your performance against competitors and the broader market dynamics.



## BRANCH NETWORK SUCCESS GUIDE

- Assess current position
- Pinpoint strengths
- Identify weakness
- Determine current clients
- Outline desired customers
- Compare to competitors
- Compare with market
- Create strategic plan

Now, it's time to look to the future and develop a strategic plan for your branch network. To develop a strategic plan, the first steps are to set your goals, establish your timelines and budgets, and define what success looks like.

These markers will be guardrails for your strategic plan as you create and execute it and will prevent you from over or underestimating the efforts needed. It is important to set realistic goals. If your organization is currently at \$200 million in assets, it is likely unreasonable to set a target of \$1 billion in 6-7 years while adding 10 branches to the network.





# WHAT LIES AHEAD

— LOOKING TO THE FUTURE WITH A STRATEGIC PLAN —

With your goals, budgets and key performance indicators established, you've laid the foundation to create a solid plan. While this plan will ultimately be specific to your organization and its needs, there are several components that should be included in it:

## Existing Facilities

When planning for existing branches, there are several different paths you may need to take. Some of your branches may need a lot of work, some may need modest tweaks, and some may need nothing at all. Likewise, some of your branches may be in the perfect position for future growth, others may need to be relocated or closed entirely. Your plan should consider impact to customers, impact to the balance sheet and impact to your employees. In your plan, consider things like deferred maintenance, brand expression and overall book value in determining the best path forward.

## New Markets

New market strategy needs to be driven by your organization's needs and target customer profiles. In your analysis, you should have identified customer segments that have been very successful for your organization. Finding those, or similar profiles in new markets, will be crucial to the success of new market entries. In addition, you should consider what those customer segments are most likely to provide and how that matches with what your organization needs. For example, if your organization needs deposits and you have two markets you are considering, you should focus on the market that has the customer segment most likely to generate deposits over additional loans. Every market should provide both, but some will have stronger customer profiles than others. This part of your strategic plan should also consider real estate options, costs and return on investment. Oftentimes, you will want to run a pro forma analysis on new market opportunities to fully understand the investment, impact and return on your investment.

## Operational Changes, Mergers & Acquisitions & Platform Changes

Operational changes, mergers and acquisitions and platform changes are higher-order analyses and plans that should leverage internal resources as well as vendor partners to ensure you're making the right decisions for your organization. However, in building your plan, you should leverage the information generated about your markets, customer segments and their demands as you look to make changes in these areas.

# CLOSING THOUGHTS

A good strategic plan looks at as many viewpoints as possible and leverages data from a robust set of sources. You should consider your past, current situation and desired future of your organization. Undergoing a wholistic strategic plan can be an intimidating venture, but with good planning, and good partners, you can chart a path to future success.

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## Looking for the right partner?

La Macchia Group can help. Learn more at [lamacchiagroup.com](https://www.lamacchiagroup.com)



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