PICKING UP THE PACE

Drawing inspiration from leading hospitality and retail brands to update the financial space.

NEWGROUND

Banks and credit unions should emulate leading hospitality and retail brands by more frequently refreshing their branches.

Looking to the future of market growth and innovation, banks and credit unions would be wise to steal a page on branch renovation from the world's largest chain of coffeehouses.

Starbucks refreshes each of its more than 16,000 U.S. stores every five years. It's a brisk pace financial institutions should strongly consider, says Kevin Blair, president and CEO of NewGround, a more than century-old St. Louis-based architecture and design firm that develops and renovates bank branches, hotels, retailers, and restaurants, including many Starbucks stores.

"Banks do not think like Starbucks," Blair says. "They rarely update their branches earlier than 10 to 15 years, with most waiting 20-plus years before they update the look and feel of the branch. This sends the wrong message to the community and undermines the overall brand of the bank. They need to be more flexible and open to exploring options."

The problem is more than cosmetic appearance, he says. "The longer a bank allows its retail network to remain irrelevant, the greater the risk of losing market share to the competition. The right design and layout can lead to increased revenue and profits."

At 5 and 10-year intervals, every Starbucks location undergoes either a minor or major remodel with completely new branded spaces, Blair says. "Starbucks also analyzes the continued viability of every one of its sites from a performance perspective. They will relocate a store in a heartbeat if they find a better location, sometimes right across the street."

> *THE PROBLEM:*
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There are several reasons that banks and credit unions need to accelerate their traditional timelines to redevelop or renovate their legacy branches, Blair says.

"First, consumer expectations are rapidly shifting with the advance of new technologies – fintechs, apps, artificial intelligence." The COVID-19 pandemic lockouts forced many consumers to adopt remote technologies to access many of the banking services they previously conducted in person. Consumers have now grown comfortable with online and mobile banking to handle their more transactional needs. Retail locations like Starbucks have adapted to accommodate consumers utilizing more digital channels, so banks and credit unions have to adapt as well.

"Second, researching technology options and then integrating them into existing platforms takes a lot of time," he says.

"Third, traditional timelines to plan, design and either build or renovate a branch are being further extended by longer time frames for permitting and plan approvals. In some regions, it can take four to eight months to get a building permit," Blair says, adding that labor shortages will only worsen as the building trades experience Boomers retiring seven times faster than new tradespeople enter the occupations.

"Finally, and most importantly, the longer a bank allows their retail network to remain irrelevant – the greater the risk there is to lose market share to the competition."

To underscore the importance of updating a branch, Scott Florini, NewGround's vice president of strategy, often invites banking clients to NewGround's Chicago office, a short distance from the city's Magnificent Mile on North Michigan Avenue.

Along the famous boulevard, leading brands like Nike, Apple, T-Mobile, and Starbucks' Reserve Roastery – a five-story cathedral of coffee – have established iconic flagship stores. Florini is not taking clients on a shopping adventure, but to show them how brand-savvy retailers keep their showplaces fresh and relevant. Admiring these retailers' strategies can directly influence the way financial institutions align their spaces for consumers.

Banks and credit union leaders, he says, are eager to learn about the strategies and tactics other industries deploy to keep their stores and facilities up-to-date and relevant.

"We have an exercise where we take clients through in the very early stages of design called the Discovery Session, our term for a brainstorming session," Florini explains. "We challenge them on their messaging in the physical space, how they want to deliver services and how that might change the look of their existing branches or stores. They take a lot from those sessions."

The stores along Chicago's Magnificent Mile, he says, "are some of the best examples of new prototype retail design. They are changing their environmental graphics on an almost seasonal basis. You can be there in May and come back in September, and the store can look totally different because they are test marketing different graphics or different ways to communicate with the customer."

Banking clients are impressed with the vibrant, multi-sensory flagships, but they will inevitably ask how they can possibly afford to regularly reimagine their branches. Florini acknowledges their concern: "Yes, you could be talking substantial dollars to improve your network." But this isn't always the case.

It's the kind of discussion Kevin Blair recalls having with leaders of British-based Lloyds Bank at a conference in London a decade ago.

Meeting with a major London based bank with 1,000 sites at a conference post-event, Blair learned that the bank was spending the equivalent of more than $1 million per location to upgrade a single branch. It was an unsustainable expense, and the senior leaders asked Blair if it was financially feasible to upgrade their branch network without breaking the bank. "How can we do this without costing us money?" they asked.

Subsequently, Blair devised a model based on the closures or the downsizing of certain branches in the bank's network. "Either the divestiture of those assets or the savings in operational costs for those downsized paid for the upgrade of the remaining branches the bank would decide to keep," he says.

"We came up with a formula that called for closing about 10 percent of their under-performing branches," Blair says. "Another 10 percent were relocated; 10 percent got major remodels; 30 percent received minor remodels or refreshes; and 40 percent got a branded makeover." According to Blair, "The bank found that their $1 million per-branch was not necessary. The 40 percent of the locations that were getting the branded makeover were costing less than a quarter of the cost to totally renovate a branch. The selling of physical assets helped free up the capital to fix the balance of the branch network. It was a winning formula."

> *"If you could fix your network, and it ultimately **didn't cost you anything**, why wouldn't you do it?"*

Several years later, the tiered branch realignment formula crafted for that bank became the basis of what NewGround calls its Zero Cost Approach that it now recommends for all financial services clients. "If you could fix your network, and it ultimately didn't cost you anything, why wouldn't you do it?" Blair asks rhetorically.

Florini elaborates on the Zero-Cost Approach: "By closing or realigning branches across your network, you're saving operational dollars and affording yourself the opportunity to further develop successful branches. This evens out to a zero-cost for you while creating an overall positive impact for growth in your business."

Banks, he says, grasp the Zero-Cost concept right away "because they have all these legacy locations that need some level of improvement, whether it's merely on the surface or something more substantial like architectural enhancements or mechanical upgrades."

A variety of factors must be weighed before implementing a Zero-Cost Approach. The first set of characteristics are what he calls critical market inputs that help determine the viability of a branch. They are:

+ **DEMOGRAPHIC INFORMATION:** This includes such factors as the service area's population, home values, household income, ages, and businesses in the area.

+ **ACCOUNT BASE:** This refers to the density of existing accounts in a geographic trade area. The base represents an opportunity to offer additional services to business. In a new market, the account base provides a head start.

+ **COMPETITION:** An aggregate of how many other financial institutions operate in the area. Well-established organizations will pose competitive challenges, while a weak or recently departed competitor spells opportunity.

+ **CONSUMER TRAFFIC:** This factor looks at commuting patterns of consumers and identifies key roads and visibility points for potential accounts as well as population density throughout the day, which can impact branch performance.

In addition to external market inputs, Florini says the Zero-Cost Approach considers a set of performance metrics directly related to the branch itself. These metrics help determine the branch's effectiveness and whether it should be closed, relocated, or receive a minor or a major renovation. The characteristics are:

+ **MARKET SHARE:** Is a branch capturing enough of the market? Are there areas for expansion or new site locations? How does this branch perform compared to others around it?

+ **ACCOUNT GROWTH:** Are consumers still opening new accounts? Often, branches can have a steady and loyal consumer base, but that consumer base may be too stable with no room for growth.

+ **OPPORTUNITY INDEX:** A formula-based measure of family households, income ranges, population growth, and attractive banking ratios. The combination identifies opportunities for growth.

> *THE TIME IS NOW!*
> ***It is time for banks to right-size, fix and make their existing branch networks relevant. It is even more critical in this post-pandemic environment. Yet most banks have not even made basic, fundamental changes.***

Upon completion of the evaluation, bank executives face a choice between investing in a branch or closing it because it is not meeting performance goals, and there's little indication for future growth, Florini says. "It's often an obvious decision."

"The end result is one fundamental strategy crafted from analyses and careful planning," he says. "This strategy is never a one-size-fits-all, as no two financial institutions are the same. Some strategies result in a plan to expand the footprint; others to decrease it."

By applying the Net-Cost Approach, the 10 percent of the underperforming branches that are closed essentially pay for the improvements for the rest of a branch network, according to Florini. "As a case in point, I've been working with a bank with a 20-branch network that is considering

closing two of its branches – or 10 percent of its network. The two closures will allow the bank to move into other markets."

Florini says mergers often produce branches with overlapping consumer bases, which is an opportunity to consolidate branches and realize some efficiencies.

Despite the dramatic decrease in foot traffic in branches – particularly because of the COVID-19 pandemic's impact – physical branches remain critically important to an organization's overall success, Florini says. But those branches must be strong and successful.

For banks and credit unions, closing a branch can be a difficult decision. Unlike relationships consumers have with a fast-food restaurant or a hotel, for example, relationships that consumers or small businesses establish with their financial institutions are often deep and long-standing.

"A good, solid community bank and its branches are one of the reasons a community thrives. It's a very important part of the local economy," Florini says. "But by strengthening the high-performing locations and consolidating focus, a financial institution can create an optimal system that thrives."

Blair believes NewGround has developed a keen sense for the needs of financial institutions since its founding in 1913 as the St. Louis Bank Equipment Company. It quickly began turning a profit by selling wooden cabinets, teller cages, letter trays, and other wooden fixtures. The company began designing bank buildings in the 1920s. In 2001, it adopted the NewGround name and has expanded into other industries. Throughout the company's history, it has been delivering innovative design solutions to the financial services industry. With over 15,000 financial institution projects completed and with other verticals gathering traction, NewGround has gathered a unique set of experience and skills to translate across organizations.

"During the pandemic, we sought out other verticals that had similar needs to the financial services industry," Blair says. "We found that the retail and hospitality were very similar in the focus on the consumer experience, so we launched two new divisions."

This graph visualizes the different types of renovations or refreshes branches may need to reach their true potential.
While the total of minor or major renovations goes upward, the amount of actual locations needing to be closed as a result decreases exponentially.

NewGround created a retail division in the early stages of the COVID-19 pandemic and launched a hospitality/hotel division 2022. "We were able to apply some of the great lessons from those verticals into a bank branch, which produces a better, higher-performing customer experience," Blair says. Working closely with clients in the retail and hospitality industries has taught him and the firm the value of keeping bank and credit union branches relevant and up to date. It's a message he's delivering with greater urgency to financial services clients.

"Consumer expectations and behaviors are evolving much faster than the banks and credit unions realize. And the technology is rapidly advancing," Blair says.

"It is time for banks to right-size, fix and make their existing branch networks relevant. It is even more critical in this post-pandemic environment. Yet most banks have not even made basic, fundamental changes," he says.

"We estimate that three-quarters of the branches today are not meeting the needs of consumers," Blair warns, noting that many are still running branches with teller lines or outdated pod formats. "And the pace to fix them is not adequate. By the time they are done fixing a location, it's already out of date."

Banks and credit unions must emulate the brand exemplars in hospitality and retail by using 5- and 10-year trigger points to update and renovate their branches.

"The lesson for financial institutions is to behave more like Starbucks and improve their branch networks by updating the design, the technology, and the customer experience at least every five years. Otherwise, they risk losing customers and market share."

Don’t count out the branch.

Branches are fewer and leaner, but they still play an important role in the omnichannel mix for banks and credit unions.

Kevin Blair says digital and mobile channels, which increasingly handle routine transactions, continue to draw foot traffic from branches, allowing them to focus on complex sales and service, as well as onboarding new consumers.

Instead of teller lines or pods, the new-look, high-tech branches feature service-center counters staffed by universal bankers who can handle a variety of services with an emphasis on guidance and advice. Because of the diminished traffic and smaller staff, the footprint of new or remodeled branches is smaller, Blair says.

According to a survey by UKG Inc., a workforce management provider, the average monthly number of branch transactions handled by tellers has fallen by 51 percent from 1992 to 2022. In 1992, the average number of teller transactions per branch was 11,700; by 2022 that number fell to 5,700.

The number of branches themselves continues to fall. According to research by S&P Global Market Intelligence, a net average of 160 branches were closed each month over the 12-month period ending in January 2023. These closures taking place across the country bring the number of branches nationwide down to 78,806.

BAI research found that, by 2024, consumers expect 61 percent of their banking business to be digital, with 39 percent involving human assistance. They expect the biggest increases to come from mobile and ATM channels as branch and drive-up services decline as a percentage of the channel mix.

But the branch will remain an important avenue, according to BAI. Baby boomers, who command most bank deposits, will continue to conduct much of their banking at branches. At the other end of the demographic spectrum, Gen Z customers (the top users of all banking channels) also regularly visit branches as they establish their financial footing.

Scott Florini says the irony of the bank branch is that everyone says they want one, but they visit them much less frequently, if at all. “Anytime we survey consumers and ask if they would like a convenient branch location, they say yes. But when we ask: ‘Do you ever go there?’ They say, no not really.’”

At the very least, Blair says, “branches serve as a billboard for a bank’s brand,” not to mention their role as vital service centers and sales generators.

He points out that JPMorgan Chase’s retail banking unit is taking a somewhat contrarian view by opening 114 new branches in 2022. Chase now has 4,831 branches in all 48 continental U.S. states with plans to open more. In the past five years, Chase has opened 650 new branches, although it has weeded out several hundred underperforming branches in that period. Blair is convinced that Chase’s bullish bet on branches will pay off.

“Every well-performing branch drives market share,” he says. “As Chase saturates markets, it will get a larger percentage of each market.”

“2022 UKG Teller Line Study,” UKG Inc., 2022.
“US bank branch closure activity slows further in January,” S&P Global Market Intelligence, Feb. 27, 2023.
“Transforming the branch experience,” Katie Kuehner-Hebert, BAI Banking Strategies, Aug. 12, 2022.
“JPMorgan Chase defends contrarian branch strategy as deposit-gathering machine,” Steve Cocheo, The Financial Brand, May 24, 2023.

ABOUT NEWGROUND

NewGround is the industry leader in branded spaces for financial institutions, organizations, and retailers. With over 100 years of experience, we deliver dynamic, customized solutions for clients across North America, with a regional presence from coast to coast.

For more information about NewGround, please visit us at **newground.com**.

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