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Can You Dot-Bank on It?

INSIDE

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Eight Steps to Improve Branch Profitability

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DURING THE LAST 10 YEARS, AS MANY CONSUMERS MIGRATED TO VIRTUAL CHANnels and customer visits to retail bank branches dropped by 20 percent, banks cut costs by closing hundreds of locations across the country. It's no secret that brick-and-mortar continues to be the most expensive distribution channel and, more than ever, it is imperative that banks get the maximum return on the investment.

To become more productive and profitable, banks must evolve strategies and practices to cultivate the growth and revenue potential of individual branches. Here are eight steps bank executives can take to help each branch focus on the right ways to generate income and maximize overall franchise profitability.

❶ Focus on balancing profit, growth, and risk.

The best performing banks balance the three principal drivers of franchise value—profit, growth, and risk—to maximize performance and build a sustainable earnings stream. By focusing on these fundamentals, a bank can align its branches' priorities and day-to-day activities with the overall objectives of the franchise to improve performance. To best understand how the franchise and each branch is performing requires benchmarking against peer institutions. Through comparison against peer institutions, a bank can uncover the primary issues it must address to improve performance, including cost of funds, overhead efficiency, pricing, net-interest margins, and excess capacity.

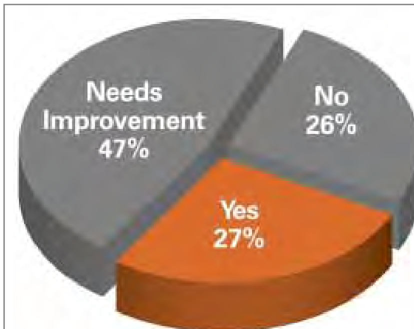
❷ Assess the strategic fit and unique role for each branch in the network.

At many community banks, the chief financial officer (CFO) sets the budget and spreads it across the branches, with each location asked to meet the same percentage growth target. However, this approach typically results in setting goals that some branches cannot achieve and goals that may not be aggressive enough for other branches. The more effective way is to establish unique customer acquisition, retention, and cross-selling goals based on current realities in each branch's service area.

❸ Analyze the current customer base for each branch.

Banks that increase wallet share among customers can also improve retention rates. On average, a customer with just one product will stay with the institution for about 18 months. When a customer adds just one more product, it extends that relationship (and income to the bank) to four years. At the three-product threshold, that relationship stretches to just short of seven years.

Yet, during a recent survey, 73 percent of community bankers said their business development plans didn't adequately recognize differences in wallet share among current customers. This finding demonstrates that bankers need analytical tools to help them pinpoint the most profitable customer segments for each branch.



Only 27 percent of surveyed bankers indicated that their business plans take current wallet share into account.

❹ Identify your best new prospect opportunities.

More than two out of three community bankers surveyed acknowledged that they rely mostly on current relationships and branch location, rather than proactive outreach programs, for business development. However, to attract new customers, banks should take a more data-driven, proactive approach. To begin the process, bank executives must ask themselves two questions: Which types of customers currently gravitate to our bank? Which specific segments should our bank target and pursue as prospects? It is only by understanding the dynamics of the market that community bankers can pinpoint, pursue, and profit from business and consumer prospecting opportunities.

❺ Analyze the competition.

Using analytical tools, bankers can identify which competitors have grabbed market share and grown deposits and which ones are falling behind. Understanding the strengths and weaknesses of the competition helps banks develop effective business plans and leverage competitive intelligence into true business advantages.

❻ Set specific goals by branch for business and consumer markets.

It is best for banks to determine the most important goals and priorities for each branch. The goals should consider both consumer and commercial segments. After completing the first five steps, bank executives will be equipped with the information needed to establish branch-specific goals and incentive compensation plans tied to those customer segments. This branch-specific approach produces much better results than setting generic goals for all branches.

❼ Execute effective marketing campaigns to drive customer origination, retention, and expansion.

To attract new customers and sell more products to existing customers requires that banks not only establish unique goals for each branch but also adopt a more demanding sales culture.

Yet, more than two-thirds of surveyed community bankers said they lacked sufficient proactive calling programs that target specific business or consumer niches. Banks that identify each branch's most valuable customers and prospects can create opportunities to grow deposits and improve customer retention. Using branch-specific information, financial institutions can execute highly targeted marketing campaigns.

❽ Redefine the bank model of the future.

What's next? By using analytical tools, consumer household segmentation and customer relationship management (CRM) systems, banks can improve their understanding of customers, predict in-branch behavioral patterns, and spot emerging trends. Branch strategy should be constantly evolving and it should be an ongoing process for banks to assess current position and determine how effectively staff members and branches are contributing toward maximizing franchise value.

For community banks, the path to high-performance branches requires intense focus. By working on the right things to drive measurable results, branches can achieve unique and targeted sales goals while contributing to the overall performance and profitability of their franchises.

A Fortune 500 company, Fiserv (NASDAQ: FISV) is a worldwide leader in financial services technology solutions. For more information, contact John McChesney at Fiserv at (262) 879-5000 or john.mcchesney@fiserv.com.