

BANGOR BUSINESS SCHOOL

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The branch as a destination

Goodbye to sterile, commoditised transaction shops and hello to community entertainment and student information as retail banks rethink their brand image.



THE reason we so frequently ask what the future will bring for retail bank branches is down to the demonstrable shift we're witnessing in consumer behaviour. The real question is – how should the banking industry respond?

Consumer research isn't always very helpful. Much was published in 2018 that confirms the growing consumer preference for day-to-day digital banking. But many surveys in the USA have also told us that the most ardent digital banking users also want the availability of a branch for both opening accounts and those more complicated transactions in life.

Recent announcements by Bank of America and Chase have also shown that branch banking still has a role to play in new markets and through new retail formats.

Back in the UK, we have observed a continuing trend of closures reflected in the many headlines of local and national newspapers. Post Office branches are, for the moment and in some locations, handling the transactions that went through dwindling retail branches. As my co-writer Bernardo Bátiz-Lazo has argued in this space before, banks still need channels to finalise certain transactions. And these must be channels that have proven security, reliability and convenience – such as retail branches and ATMs.

Going, going, gone?

Banks have been redesigning the branch space for decades in pursuit of its greater effectiveness. But they've also found that the costs to acquire and serve customers through digital channels are far more economic than in-person interaction – and have encouraged this trend. At the same time, customers have been glad of the ability to remove the need to visit the sterile, commoditised transaction shops that many branches have become. So, the success of digital channels has meant less traffic to retail bank branches, and in turn, fewer opportunities to engage customers in long-term relationships and in turn, generate sales opportunities.

But if closures continue to be justified by the migration of transactions to lower-cost digital channels, banks will increasingly overlook the principal, longstanding, and continuing objectives of its branch network – namely, to represent the bank's brand and cultivate profitable, long-term customer relationships.

But there are also dissenting voices. Think of Spanish giant Caixabank, which is among the world leaders in the exploitation of digital channels. It also understands the value of the branch, as noted in a statement made by the bank in 2016: "A high number of branches is an indication of reach and client proximity – not a cost driver."

Building a programme

Taking inspiration from this view, we believe what's needed is not only to transform the physical space of branches, but also to redesign the interaction with customers. This calls for a rethink of the branch. It also means abandoning the view of branches being an inconvenient stop towards something else. Just as the purpose of visiting an ATM is not about discovering its qualities or features – but getting cash to purchase, say, a late-night snack. Instead we propose looking at the branch as a destination.

This implies using approaches that give a purpose to the in-person transaction, in a way that sustains and enhances the role of the branch as a brand ambassador. There are many ways to create 'destination branch' programmes and community outreach. Among the earliest of these was the introduction of coffee shops and other non-competitive retailing propositions such as telecoms outlets. One UK bank provided a full specialist walk-in advice service for anybody looking to move into the area, to buy or improve a house. Today, many bankers across the world have built on these early initiatives with tactics to create or enhance the gravity proposition of branches – large and small. They include measures that offer:

Student facilities and happenings, identification with the community, community facilities, community entertainment, community education and partnering with the community.

The playbook already includes nearly 100 different approaches, based on the location or target segment.

The bottom line

Any bank adopting this destination approach should be tailoring its programme to achieve three key beneficial objectives. The first of these is to ensure that customer contact levels are sustained. A principal objective of branches has always been to protect and develop its established customer portfolio. Tactics adopted in this new approach need to sustain the dialogue that underpins successful relationship development.

Second, the programme's activities must ensure that the people and organisations of each community come to value the branch. And a third objective must be to develop in a way that, as far as possible, provides opportunities to make new contacts that could lead to new business.

The most successful destination programmes are focused on creating value for customers and building the business brand rather than making immediate hard sales. In turn, customers are more likely to add you to their shopping list the next time they need financial products and services.

“Customers who use two or more channels are significantly more profitable than those who use only one.”



In short, the future is bright for banks which can think creatively and engage customers in new ways. Both Lloyds Banking Group and Wells Fargo Bank have published insights that show customers who use two or more channels are significantly more profitable than those who use only one. There's also some evidence that digital banking clients are less satisfied than those who use branches. We don't yet have long-term evidence on how digital banking will impact customer loyalty and profitability. But there are likely to be fewer banks taking a more positive view of the branch. Most others will be content to seek 'cost savings', and the closure of branches will continue – driven by industry consolidation as much as by digital disintermediation. **CB**

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