

Bank branches that **meet customer needs**

Banks have spent huge sums refurbishing their branches, often without a clear payback. They should devote more effort to managing customer visits.

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**Article
at a
glance**

Banks in Europe and elsewhere agree that branch networks will long remain the cornerstone of their retail distribution strategy. Yet many seem disenchanted by the payback on their efforts to breathe new life into brick-and-mortar outlets. Few can demonstrate that these investments are yielding tangible economic benefits.

The problem arises when banks adopt an intuitive design approach that emphasizes aesthetics and expensive format changes, overlooking the customer's needs.

Instead, banks should put utility before appearances, favor lower-budget tactical adjustments, and use branch formats to manage customer visits actively.

Banks around the world have been investing huge sums of money in efforts to renew their branches. In Europe alone, more than 12,000 outlets—8 percent of the total stock—underwent some form of improvement in 2005, and our calculations suggest that Europe’s retail-banking institutions may be spending €10 billion or more annually on refurbishment initiatives. The picture is similar in the United States, where several networks are also undergoing renewal, expansion, or both.

Projects begun in the past few years have varied enormously in scope, from low-key tactical tweaks to total refits of dilapidated outlets. But as a whole, the impact seems surprisingly limited. A recent survey of executives at 40 banks by the worldwide retail format design agency John Ryan, for instance, found that changes had been rolled out, on average, to only 10 percent of the branches in a network, despite more ambitious initial plans in some cases. Almost half of the executives in the sample said that they would have done things differently if they had had an alternative.

A typical case concerns a large European banking organization that started to refurbish its network of 1,000-plus branches, with a total budget of €250 million. The bank halted the effort after two years. No more than 100 outlets had been completed, and costs per branch were running two times over budget.

In our wider research we could not find consistent and conclusive evidence that many of these ambitious investments had increased the rate of revenue growth. On the contrary, with renewal costs per branch ranging from €30,000 to as much as €500,000, considerable amounts of money are probably going to waste.

We believe that the main reason for the problem is the banks’ overreliance on an intuitive, design-led approach focusing on branch “hardware” (costly items such as furniture and new partitioning) and on aesthetics. In contrast, the more successful efforts pay close attention to what customers want, put utility before looks, and use format changes to manage customer visits actively—all while adhering to strict timing and budget discipline.

Branching out

Despite expectations during the dot-com boom that clicks would quickly replace bricks, banks in Europe and the United States are adding hundreds of new branches a year. Even greater sums of money have been devoted to improving and reshaping existing outlets.

The current investment has been driven mainly by the perception that banks must react to the changing role of branches in a multichannel retail-banking environment (notably because of the impact of telephone and Internet-based services). Most banks have already centralized their back-office functions, freeing up extra space and resources for customer-facing activities. Now they want to emphasize the sales

and advisory roles of branches in addition to the established transaction services.

Focusing on branches makes sense because even though the number of nonbranch transactions has grown substantially, this activity has complemented rather than replaced what happens inside banks. Overall, transactions such as bill payments and transfers are not dwindling at the branch level; recent research shows that while the *proportion* of day-to-day banking transactions conducted in branches has fallen—in some countries, from around 70 percent in 2000 to a projected 30 percent by 2010¹—the *absolute* number of transactions per branch has not changed at all.

To be sure, the picture differs somewhat from country to country. In a few, such as Finland and the Netherlands, customer visits have declined substantially; others, including France, Italy, and the United Kingdom, have actually experienced increases. But most European countries have seen little change. For the region as a whole, the total number of visits to branches is down by only about 1 percent, and visits per branch actually jumped by 5 percent from 2001 to 2005² as a result of the closures precipitated by recent consolidation in national markets and the dot-com era. Much the same thing has been happening in the United States. In short, most customers in most countries still want to undertake many banking activities in branches, whether because of a lack of alternatives, lingering concerns about online security, a general preference for face-to-face contact, or the complexity of value-added interactions.³

With online-banking penetration in the United States at more than 90 percent among 20-year-olds—as opposed to 45 to 50 percent among all customers—fundamental change in branch usage will no doubt happen one day, probably 20 to 30 years from now. For the foreseeable future, transaction-related visits will continue to represent the majority of branch traffic (as high as 90 percent in some cases) and will therefore remain a bank’s best opportunity to cross-sell services, build customer loyalty, and deepen relationships.

Managing customer visits

Banks seeking to improve the performance of a branch network have several means at their disposal. Many banks already understand and systematically use methods such as network optimization (deciding how many branches to have and where to locate them).⁴ They also know how to raise their game by using “lean” techniques to redesign processes and customer relationship management (CRM) and other tools to make the sales forces more effective.

However, banks have done little to shape customer visits. The challenge includes meeting or exceeding customers’ service expectations to increase trust and loyalty, uncovering latent purchasing demand, and converting those leads to actual sales

later.

The opportunity is largely untapped because banks tend to approach it intuitively rather than analytically, as part of a wider branch renewal program. Moreover, banks often assume that large capital investments, long payback periods, and extensive format changes will be needed. On the contrary, we believe that customer visits should be approached with a retailing mind-set, focused on lower-budget tactical adjustments.

To understand better what managing customer visits looks like in practice, consider the initiatives recently undertaken by three different banks:

- One leading regional player in the United States launched a merchandising campaign on the facades of its branches to draw customers into them for a “five-minute financial checkup” and an opportunity to win a prize. Customers and noncustomers took a “swipe and win” leaflet from a merchandising display or a member of the staff and then swiped it at a terminal inside the branch. Only after completing a brief interactive financial review on the terminal did they learn whether they had won. The campaign was highly successful, leading, on average, to a 10 percent increase in current-account openings across all participating branches (and an almost 20 percent increase at the highest-traffic locations).
- One major European bank, which had grown by acquiring many smaller community institutions, set out simultaneously to increase the migration of customers to self-service channels and to step up its cross-selling to existing customers. In the branches, the bank deployed a digital-marketing platform (using interactive screens) with content that included not only standard product information but also migration tips, community news, generic sports and weather information, and online customer satisfaction surveys. Customers were encouraged to interact with the staff for more information. The impact was significant: more than 80 percent of branch visitors noticed the screens, almost 50 percent followed the messages, and around 3 percent asked for more information. The initiative generated roughly 100 leads (requests for information) a month, which the bank deemed an excellent return on its investment.
- A large UK bank that focused on increasing customer satisfaction and cross-sales to existing customers identified three key objectives: improving the customer’s branch experience, reducing perceived wait times, and stimulating more interactions between bankers and

customers. It introduced two key innovations: opinion-gathering devices (such as product interest and customer satisfaction surveys) for customers waiting in lines and screens above tellers' windows for product and service promotions, as well as for educational, entertainment, and localized messages. Although the marketing messages were kept deliberately short (10 to 15 seconds), the impact was significant. Exit polling of customers showed an increase of 25 percent in their satisfaction with service levels, despite a small increase in actual queuing times.

A three-step process

How can other banks make similarly effective moves? They should start by defining their objectives for branch renewal (such as improving service levels, customer acquisition, and cross-selling, or a combination of all three) and by setting clearly quantified targets. Managing customer visits then becomes a three-step process. First, banks need to gain a better understanding of the needs of their customers and of the customer traffic moving through their branches. The next step is to segment these visits into their separate components, highlighting the functions required for each. Finally, banks must identify the specific interventions and levers that can bring about the desired changes.

[Understand what customers want and do](#)

Few banks have more than a rudimentary knowledge of what customers want from a branch and how they currently use it. In fact, in our experience few banks know how many customers visit branches, so bank executives should use data analysis and direct observation to track the flow of customers and their behavior—in detail. Banks should supplement their traditional sales- and transaction-oriented metrics by increasing their use of activity-based branch-level metrics, such as the number of visits, the purpose of those visits (for instance, service or sales), the flow of customers within branches, and rates of conversion into leads or sales sessions.

[Break down visits into their components](#)

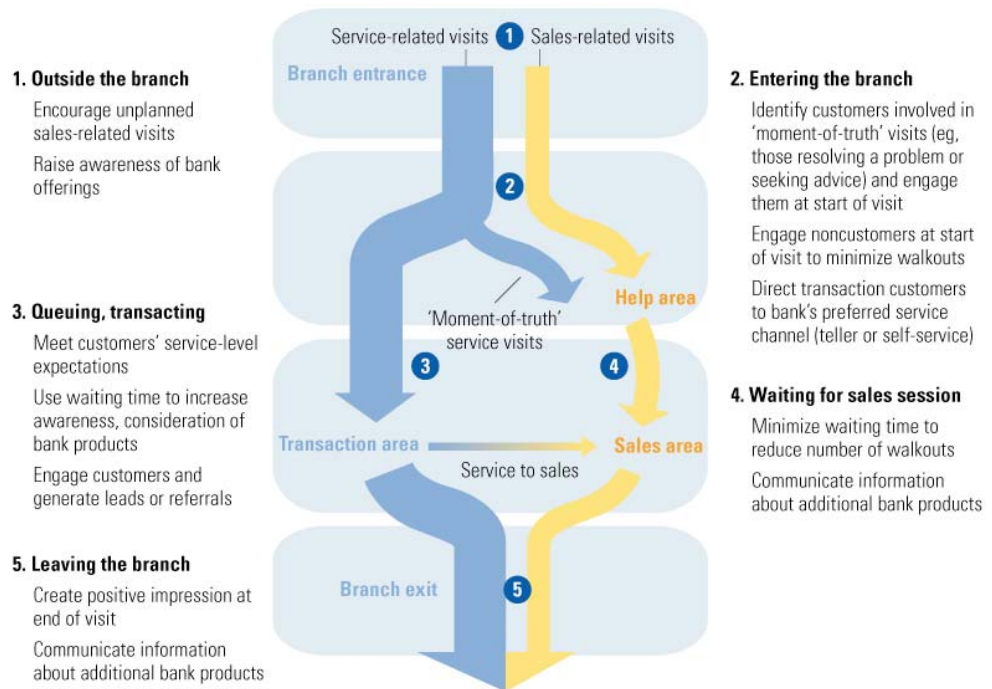
Putting looks before utility is a common pitfall in branch renewal programs. To avoid it, banks must first decide how to shape the flow of visits from customers (for instance, by having staff members approach them as they enter the branch) and then design the environment accordingly. To be effective, the changes will probably have to go far beyond the physical formats of branches.

A typical customer visit has five key components—outside the branch, entering, queuing and transacting, waiting for sales, and leaving—corresponding to distinct physical areas. Banks should have different objectives for each component (exhibit), taking into account the different needs (and income-generating potential) of service-

and sales-related visits. At the entering stage, for instance, a key objective will be to segment customers into people on simple transactional errands (who should be directed to a teller or a self-service desk) and those on “moment-of-truth” missions (such as resolving problems or seeking advice), which shape customer perceptions of the bank.

EXHIBIT

The components of a visit



Clear signage can be very effective, particularly combined with the physical separation of the transaction area (teller counters and ATMs) from the help-and-advice area (the service desk and the sales section). Placing a meeter-greeter desk directly in the line of incoming customers can be a good idea under some circumstances but may be ill advised in others. In our experience this approach often works well in large branches with complex traffic patterns: different customer segments requiring specialized personnel to handle their various requests. But it can be needlessly expensive in smaller, transaction-oriented outlets and is positively self-defeating if, as frequently happens, the desk is there but left unstaffed.

Identify and apply the right levers


The third step is to identify the best combination of levers for managing customer visits. A bank's choice, implemented on a branch-by-branch basis, should reflect its strategy, network configuration, location, and culture. In general, the solution has

four components: formats (layout, design, and aesthetics), the capabilities and mind-sets of the staff, performance management (tracking and analyzing employee performance against objectives), and choreography.

Although many people think that the renewal of branches always involves their physical formats, we have found the other levers to be of equal if not greater importance in influencing the behavior of customers. One thing has been shown to be particularly effective: a well-executed branch choreography—the dynamic management of the staff and marketing tactics to drive and respond to customer flows, which includes such elements as the way branch staff is supposed to react to customer-initiated interactions and proactively interact with clients, among others.

Take the opportunity provided by lines for tellers—one of the most common features of the branch experience. A long line will always be a curse, but a short one can be a blessing from the bank’s point of view. By using simple, inexpensive approaches such as education and entertainment messaging, banks can use this waiting time both to communicate with waiting customers *and* to make them more satisfied, even if actual waiting times remain unchanged. Customer satisfaction, we know from our research, reflects *perceived* rather than *actual* waiting time. A three- to five-minute wait (or three to five customers standing in a line) will be acceptable if the branch provides interesting diversions and appears to be staffed efficiently. In high-traffic locations banks can use interactive touch screens to interest customers in their offerings; in quieter branches they can prompt interested customers to send a Short Message Service (SMS) or have a staff member monitor the line during peak hours for any signs of curiosity.

In a world where customers are carrying out more and more of their financial business through ATMs, computer screens, and telephones, banks must exploit the opportunities to serve them in person and build lasting relationships. That imperative makes branch visits all the more important. To transform new customers into loyal ones, banks need to maximize the value they derive from every branch visit, routine or otherwise.

As executives struggle to find the right branch formats, we suggest that they replace the art of branch look and feel with the science of managing customer visits. They should expand their thinking beyond the familiar hardware of physical formats to include so-called soft issues such as choreography and the staff. By approaching such issues in a more analytical and disciplined way, they can improve their chances of earning worthwhile returns on their investment. 

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¹ The 2006 *World Retail Banking Report* survey of 41 banks (31 in Europe and 5 each in China and the United States), produced by Capgemini, the European Financial Management & Marketing Association (EFMA), and ING.

² Forrester Research’s *Changing Banking Channels* series of reports, 2005; and McKinsey research.

³ Forrester Research's *Changing Banking Channels* series of reports, 2005.

⁴ Our research shows that the location of a branch typically accounts for more than 60 percent of its sales performance.

⁵ Marc Beaujean, Jonathan Davidson, and Stacey Madge, "The 'moment of truth' in customer service," *The McKinsey Quarterly*, 2006 Number 1, pp. 62–73.

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