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### Why banks still build branches

Published on August 20, 2006

Author: Jonathan D. Epstein - NEWS BUSINESS REPORTER

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Consumers have more ways than ever to use a bank, but bankers say there's still no substitute for the basic branch.

More than a decade after industry watchers began predicting the demise of the bank branch, today there are more branches in the country than ever: over 92,000. And many banks, from the nation's largest to the smallest, are in the midst of a branch-building boom the likes of which hasn't been seen in years.

Despite the high cost of brick-and-mortar offices, bankers say they have no choice, as customers demand flexibility.

"You want to make it convenient and easy for people to do business," said Kenneth Kirsch, Greater Buffalo Savings Bank property manager. But the banks have also learned to make the most of it, viewing the branches as the strongest visual expressions of their brand.

"Customers identify as they drive around and see a branch building," said Michael R. Giaquinto, executive vice president of consumer banking for First Niagara Financial Group.

Banks are also designing their branches in ways that make them comfortable and welcoming for customers who might otherwise be reluctant to discuss their financial needs.

And rather than just using branches for transactions, they're using their offices and staffs to sell more products when customers come in, turning the branches from potentially an operating loss into a source of new business and profit. They're even calling their branches "stores" to reinforce the idea that they have to be like retailers to succeed.

"There has been a change in the mix of activity in the branches," said Brendan McDonagh, chief operating officer of HSBC Bank USA. "There are fewer cash transactions because there are more ways for consumers to access cash, but increasingly, people are coming to the branches seeking financial advice and small businesses also use branches extensively."

The renewed focus on branches marks a turnaround for an industry that once focused on technology and predicted that branches would be a distant memory. Branches are among the biggest expenses, and executives closed branches and laid off tellers to save money.

But that backfired, as consumers didn't embrace technology as bankers had expected. Instead, people turned against banks that forced change on them, fired their favorite teller and closed their neighborhood branch.

"When you are making decisions that affect your customer and they don't have a say in it, it's always going to backfire for you," said Carmen Cox, vice president of sales for the Northeast at IBT Enterprises LLC, a retail branch consulting firm.

Banks found that consumers wanted it all -- the branch and the 24-hour electronic access from ATM, phone and Internet. A 2006 survey by IBT/MCAworks of almost 700 U.S. adults who use financial services found that 50 percent still prefer to bank at a branch, and 76 percent "love" or "don't mind" going inside a branch for business.

"Customers like to access their financial information when and how they choose," said Richard S.

Gold, executive vice president of retail banking at M&T Bank Corp. "They value the familiar faces they can see and the relationships they forge with the people in those stores."

Also, as consumer spending has propped up the economy recently, banks that emphasized consumer banking performed better than those who relied on corporate and investment banking. That taught others lessons.

They realized that deposit-gathering could be profitable. They saw the dramatic rise of home-equity lending to pay off debt. And they needed branches to serve small businesses.

The result has been a branching boom nationwide -- in places like New York City, Chicago, Boston and Texas -- as banks that did nothing for years began opening new offices left and right.

"It's become a bit of an arms race at the street level in some markets," said Joseph Fielding, a director in the retail and business banking practice at consultancy Mercer Oliver Wyman.

But these aren't simply the branches of the past. These offices in some cases are larger and roomier, so the banks can sell additional products and services. That's because banks see branches as an opportunity to capture more business, while the person is already there.

#### >Building loyalty

Studies show that the more a customer buys, the more likely he or she is to stick with that bank and bring more business in the future. So besides handling deposits, withdrawals, account openings, and basic transactions, branch staff increasingly are trained -- and paid -- to sell personal and small business loans, mutual funds or annuities, insurance and other wealth management services. Branches today even have "greeters" to guide customers.

"It's not order-taking anymore, but it's really being cognizant of your customer," Cox said. "It is all about that sales culture."

But branching is not a cheap proposition. Experts say building a new branch typically costs between \$1 million and \$2 million, with some going as high as \$4 million, depending on the cost of acquiring the property, the size of the facility, and the requirements of building codes. That doesn't include labor, marketing, training and other costs of operating the branch.

So banks are cautious when deciding where to branch, so they can become profitable quickly. Banks measure that based on what they can earn by loaning out the deposits at that branch, versus the operating costs. At a minimum, a branch may need \$25 million to \$30 million in deposits within two to three years to become profitable, and it can take up to five years.

Fee income also helps, but not significantly, and too many fees drive customers away. So the key is to draw in a large volume of customer deposits quickly, without having to pay too much in interest for them. That means checking and basic savings, not certificates of deposit.

"When you believe that you're able to attract low-cost deposits, you'll be more apt to want to expand your branch network," Gold said. Otherwise, "you can grow your deposits fairly quickly, but the time when you can say you're breaking even is pushed way out."

When deciding where to place a branch, banks seek out growing population centers where they can expand their customer base or where populations are shifting. They look at the number and wealth of households or small businesses within a geographic radius, and whether those numbers are growing.

That's made Buffalo's eastern suburbs like East Amherst and Clarence popular for new branches. And it's why HSBC expanded into northern New Jersey and southwestern Connecticut to appeal to residents who work in New York City.

"You want to be able to provide convenience to your customers, whether they're at home, at work, or on their way from one place to another," Gold said. "You go somewhere where there's a lot of traffic, a lot of vibrancy, a lot of growth."

Banks even try to predict population movement and get ahead of it by building branches in areas they expect will be booming in a few years, even if they take a loss now. That's what happened on the northern part of Transit Road on the edge of Amherst and Clarence.

#### >Location is key

Bankers then look for specific high-traffic locations, where people frequently congregate for other reasons, and which offer easy and convenient access into and out of the site. They also want enough space for parking and drive-up facilities.

But all too often, banks just take what they can get. "In a perfect world, you can put your finger on

the street corner that allows you to have all of the things that customers will value," Gold said. "But nine out of 10 times when you put your finger on a spot you want to be, there's something already there."

Banks are using standard templates for branches in an effort to establish an identity customers can recognize anywhere. They're also making the branches inviting, not intimidating, and providing privacy.

That means using the same color schemes, signs, fabrics, carpeting, furniture, landscaping, architecture, and inside features so offices are consistent.

"Everything we do has to be reinforcing to the brand," Gold said. "It starts with our logo, but it extends to the ambience."

Banks also cater to the customer population that uses a particular office, such as providing more technology and automation in a younger, technology-savvy area but more traditional service in others places. And they're trying to appeal to other parts of the population, such as ethnic groups or underserved markets.

Finally, banks are providing special services, such as coin-counting machines, televisions, scrolling stock or news displays, reading areas and even coffee bars, to be less traditional and more unique.

"Clients want to do business in a place that's fresh, that's inviting, that's clean, that's professional-looking," Giaquinto said.

"Bank branches will always be critical," Gold said. "The branch may look very different a decade from now, but I would be shocked if you didn't see them."

e-mail: jepstein@buffnews.com

Robert Kirkham/Buffalo News

At M&T Bank's new branch on Jefferson Avenue, Vice President and Multi Site Manager Elaine G. Taylor, right, greets customers including Jessie Washington, left, and Sonya Washington, 3. Banks use branches to establish deep customer relationships to sell financial services beyond checking and savings accounts.

Sharon Cantillon/Buffalo News

Christopher Thomas, assistant vice president and branch manager, shows off Great Buffalo Savings Bank's newest branch at Stahl Road and Millersport Highway in Amherst. Banks generally spend up to \$2 million on a new branch, experts say, so they choose locations carefully.

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