

# The Credit Union Journal

## Beware Of Cannibals: Are CUs Pillaging Their Own Branch Networks?

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CHESTERFIELD, Mo. -

As credit unions race to expand their branch networks, they need to beware of cannibalizing their existing branches and even undermining their own brand.

"There's been a significant investment in new locations, at a record pace, over the last five years, but in some cases it's been at the expense of their existing buildings," said Kevin Blair, CEO of NewGround, a design-build consultancy here. "Credit unions need to beware of pillaging their legacy branches."

Driving this potentially troublesome trend is a combination of factors: a rededication to branches after the financial services arena realized online banking wasn't replacing people's desire to have a convenient physical location, the move to a more retail-based environment and, in the case of CUs, the shift to expanded fields of membership, name changes and rebranding.

"The first challenge is, if we acknowledge that the retail platform is the way to go, then suddenly your old branches are no longer in alignment," observed Blair. "They don't speak to the brand promise and actually undermine the brand."

Renovating or simply refreshing existing branches often falls by the wayside in the rush to build new branches, but it's more than just the bricks and mortar that are at stake.

"When a credit union opens a new retail environment, frequently, they pillage their own branch network in order to staff it. They put the best employees at the newest, nicest branch," Blair related. "Those who are left behind can be demoralized, and that trickles down to the kind of member service they're providing at those legacy branches."

Blair cautioned that if a credit union sees a competitor open some fabulous new branch while your branch continues to languish in the 1980s, prepare to see employees leave.

"Your staff will be pulled to your competitor's newest branch, and in addition to having to replace them, you lose the relationship they had with your members," he observed. "If you enhance what you have, you will see employee churn decrease, and that means a more consistent relationship with your members. It's all connected."

While no design-build firm is going to suggest credit unions stop building new branches, Blair said it's important for CUs to take a deeper look at the value of revamping legacy branches.

"The cost of new buildings is escalating at a phenomenal rate," he noted. "In some cases, you could renovate three or four existing branches for the cost of one new branch."

The first step is to do a market analysis of the entire area the CU serves, looking at the potential of each current branch. "Once you see where you have the greatest market

potential, you determine if your existing branches are already in those areas," he said, noting that CUs are frequently surprised to discover they already have branches in areas with greatest potential-and that's when refurbishing an existing branch can offer serious bang for the buck.

"Create three buckets of branches on a tiered system to help determine where you want to spend your money," Blair advised. "You figure out what's the basic package that every branch should get in order to keep the brand in alignment, then there's an expanded version that goes in 30% of locations and then 10% to 15% that justify a more significant retrofit. Mike King of Cincinnati-based DEI, agreed. "Sometimes we see tremendous potential at an existing branch if you just tweak it a little."

Credit unions need to look for the reasons underpinning why one branch performs well and another doesn't. "Sometimes it's due to the demographics of the area or what your competition is up to, but sometimes it can be because of the actual facility," King said. "Do your members feel like the red carpet isn't being rolled out for them? It's really about service, but the aesthetics of a branch have a big impact on the wow factor."

It can be tough for people who walk in and out that same branch door every day to see the branch as others see it. "Sometimes the board and management can't see the forest for the trees," he advised. "That's when they need to bring in an outside party to look at their branches."

King also suggested using member surveys as a report card for what sort of experience the credit union is providing at each of its branches.

Credit unions need to be on the watch for red flags that indicate it's time to really invest in them-and they need to remember that the old rules of thumb for how often this may need to occur are going out the window, several analysts told Credit Union Journal.

"Obviously, the biggest red flag that should trigger this type of opportunity is if the credit union changes its charter or the demographics have changed significantly," said Jenny Cathrow of IBT, Atlanta. "Traditionally, if you look at it from a retail perspective it used to be retailers operated on a seven-year cycle [of revamping the look and feel of their stores], but the nature of competition today has increased exponentially, and we're seeing retailers redevelop their brands and facilities anywhere from 18 to 24 months. A credit union may not need to be as aggressive as the GAP or Starbucks, but at least every three to five years they should take a step back and walk through their branches from their members' and potential members' perspective. Whether they are looking to grow or lower the average age of their membership, they need to look at their branches from the target member's perspective."

One of the things driving this more aggressive cycle of brand redevelopment, she said, is the Internet, where online-based retailers can refresh their image almost in the blink of an eye with a whole lot less-if any-cost.

As credit unions move to a more retail experience environment, branches built 10 or 20 years ago as transaction-based facilities need to be looked at as how they are contributing to the brand and marketing of the credit union. "When you walk into some of these

transactional branches, members can't even tell what products or services are available to them, all they see is a teller line," Cathrow observed. "You see static posters that haven't been changed for two years because no one has time to replace them. Sometimes it doesn't have to be a total overhaul. Maybe it's time to look at digital media, for example. Maybe you have a teller line with nine tellers, and you can drop that down to five and have some member service stations."

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