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Poor Branch Placement Could Kill Revenues

U.S. Banker | January 2008

By Anthony Malakian

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When community banks consider opening a new branch, a consultant is certain to scream, "Location, location, location!" Though it may be a novel idea that's fine in principle, many banks don't do sufficient research before throwing open the doors of a new branch. For smaller community banks, poor branch placement is a far greater concern than for a trillion-dollar behemoth. If a community bank has nine branches, location can be a make-or-break issue for that 10th branch.

Tom Tucker, evp of sales and marketing for Georgia-based IBT Enterprises, a consultant company that specializes in branch locations, says that the biggest mistake banks make is not having a plan. "Reaction without a thorough plan probably gets you to the root of most mistakes that are made," he says. Executives need to develop a mission statement, which should answer key questions: Why should funds be spent on this undertaking? How does the proposed branch fit into the bank's overall strategy? What outcome will spell success? Who is the customer in this area?

Executives of community banks that consider themselves small-business banks can have disastrous results if they move into residential areas. "If you don't know who your customer is and what products they use and what their competitors are offering, if you don't stack-up well or don't offer the right products, you are going to have a great-looking branch in a great location and get no traffic," Tucker says. "People look at pieces of it, but I don't know that they look at all of it."

Bill Simmons, global practice leader for financial services at branch-location consultant Pitney Bowes MapInfo, says another dangerous area where banks tread is following the herd into developing areas. Banks too often don't look to their own back yard first for generating new deposits. "A lot of banks tend to focus too much on where new growth is," Simmons says. "They think that the new housing or retail development is where they need to be and [are] not thinking so much about the opportunities that exist in more mature parts of the market."

If the new branch is in such a prime development, odds are that larger banks are considering the same location. And therein lies another danger, warns Novantas managing director Leo D'Acerno. "In a hot market, the best retail locations will have three, four, five banks interested," he says. "So you want to stay out of these bidding wars, which larger banks can afford." It takes a proper amount of foresight and intelligence to get out of a large bank's way, he says.

But where a community bank can top the big boys is in its speed and agility. Larger banks focus on overall business outreach. Meanwhile, community banks can use their swiftness to sneak in and snatch a good piece of land.

But still yet, there's another caveat: Don't get in too soon. "You get so far out in front of the development curve in order to lock up real estate that it takes you a long time to see a return on investment," D'Acerno says. "You have to have a strategy that fits your ability to afford new investments. You can't put a branch out there and wait for 10 years for it to fill up with deposits. ...The big guys can afford to be more patient." Successful community banks need new branches to be full of deposits within three years.

There are ways to make low-cost plans. Google Maps and Google World offers a sky view of major traffic areas. U.S. Census Bureau data are low-cost demographic tools. The Federal Deposit Insurance Corp.'s Website, fdic.gov, provides views of how a community bank's competitors are doing.


Simmons warns community banks to be careful to pursue what they need — and not what they want. Many small banks, for example, should probably rent a 1,000-square-foot storefront for three or five years, instead of building a 3,000 to 4,000 square foot branch. The smaller building can always be retrofitted to fit the needs of a larger, long-term branch, he says. "Start small, knowing you are going to move out in a couple of years," Simmons suggests. "[It's like] getting your first apartment, and then building your house a couple of years later when you have the money, in consumer terms."

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