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Checking accounts joining checkout lines

Supermarkets have become the latest battleground as banks fight for share of customers

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In one corner, banks are trying to make their bread and butter. In an aisle nearby, shoppers are trying to buy theirs.

The supermarket has long ago morphed from a simple grocer to one-stop shops with video stores, pharmacies, dry cleaners and, of course, the neighborhood bank.

Now the supermarket is the latest banking battleground.

While some institutions have balked at the notion of pitching savings accounts and car loans in the same place where people are buying their eggs and mayonnaise, others are jockeying for any space that becomes open in prime new supermarkets.

And don't expect to see a new supermarket built without one.

"Whether you're Wal-Mart or the independent grocer, there's an advantage to building that one-stop convenience into your customer's head," said Michael Cyr, vice president with IBT Enterprises, a Norcross, Ga.-based consultant that helps banks find retail locations.

Banks began appearing in supermarkets in the 1980s, and the concept exploded over the past decade. By 2004, there were about 4,200 in-store branches nationwide, up from 675 in 1989.

True, some institutions such as Bank of America find the in-store idea about as appealing as day-old bread, but others are rushing in. Providence, R.I.-based Citizens Bank recently announced a massive New York state expansion, with 75 new branches coming in the lower Hudson Valley, New York City and Long Island, through a partnership with Stop & Shop Supermarkets.

Bart Narter, a researcher with the Boston-based market research firm Celent LLC, said in-store banks are as popular as ever with customers, banks and supermarkets themselves.

In-store branches -- a catch-all category of mostly supermarket branches, though it includes those inside Wal-Mart stores and other retailers as well -- grew at an average annual rate of 16.2 percent between 2001 and 2004, he said. At the same time, traditional stand-alone branches climbed only 1.1 percent per year.

But don't expect to see that same growth rate going forward, Narter said. Almost all the prime locations are filled.

"It's like musical chairs and you're running out of chairs," Narter said.

Still, banks aren't backing away.

The advantages -- in-store branches can be far cheaper to open, and the stores provide thousands of potential new customers each week -- are still too great. It can cost anywhere from \$250,000 to \$350,000 to open an in-store branch, one-fifth the cost of some stand-alone branches. That helps them become profitable much more quickly.

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And as many as 20,000 shoppers visit a good-sized supermarket each week. The vast majority of them likely bank somewhere else, giving Citizens or any other in-store institution the rare chance to reach out to competitors' customers. And while they pay rent, it's typically less than it would cost elsewhere.

About a third of Citizens' 1,600 branches across the country are inside a supermarket or other retail space. About 40 percent of its New York State branches are in-store, as are 14 of the 34 in the Capital Region. Citizens inherited many from its 2004 acquisition of Cleveland-based Charter One Bank.

Citizens likes the in-store concept so much, it's using it to break into the ultra-competitive New York City and Long Island markets.

The company last month announced an exclusive deal with Stop & Shop Supermarkets in New York state. Last month it opened four Stop & Shop branches in the lower Hudson Valley, and plans 75 more over the next three years.

In December, it could open its first New York City branches, in the boroughs of Queens and Staten Island.

But other banks aren't convinced that eggs, milk and mortgages mix.

Bank of America has one of the largest in-store branch collections in the nation. But it has been growing its stand-alone brick-and-mortar franchise while slowly paring down the number of its supermarket locations, said Celent's Narter.

In the Capital Region, Bank of America said it maintains just one supermarket branch, in a Price Chopper in East Greenbush. Jennifer MacPhee, Albany region president, said Bank of America was happy with its performance, but didn't have plans to expand the concept further.

"The feedback from customers has been mixed reviews," MacPhee said. "Some customers are not comfortable doing transactions in a supermarket, particularly the business customers."

Kenneth H. Thomas, a bank branch consultant and the founder of Miami-based bank location consultant BranchLocation.com, told the banking newspaper American Banker that many in-store branches do not bring in enough deposits and loans to justify the investment.

"It becomes an expensive form of advertising," Thomas told American Banker. "The only case where I recommend one is where you have access to customers outside the supermarket entrance as well."

But Citizens said it's not found any limits to its business there.

While deposits are typically lower at Citizens' in-store branches versus nearby stand-alone offices, many of the supermarket locations have outperformed their traditional brethren in recent years, Federal Deposit Insurance Corp. data show.

Its branch inside a Price Chopper supermarket in Clifton Park saw deposits up 110 percent in June 2005 versus a year earlier, according to the latest data from the FDIC.

Deposits at the branch inside the Hannaford Bros. Supermarket on Wolf Road in Colonie grew by 9 percent in 2005 from the previous year, versus a 14.8-percent drop for the much larger nearest freestanding branch, less than a mile away.

Narter said that banks are starting to look at previously passed-up smaller supermarkets for their branches.

Some institutions such as the Seattle-based BECU (formerly the Boeing Employee Credit Union), have succeeded in using automation to do more with fewer staffers in tight corners of existing stores that were designed long before banks were common sights inside the market.

Citizens said most of its new Stop & Shop branches are newly built or remodeled markets, designed with it in mind. It expects

to flesh out its Long Island and New York City branches with more stand-alone models. But it doesn't expect the supermarket branches to close anytime soon.

"We're not anticipating outgrowing them," said Laretta Chrys Citizen's executive vice president in charge of retail banking in New York. "It's not an either or. Perhaps we'll have both in a market place, but (supermarket branches) wouldn't die off."

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