DISTANT TRAVEL, MARTIANS AND BANK BRANCHES

by Steve Brown

The average distance from the Earth to the Moon is just over 238,000 miles. Using today's spacecraft that means it takes just over 3 days to travel from here to there. To get to Mars on the other hand, it takes from 3 to 8 months, depending on the orbit and other factors. For those wondering why humans haven't yet gone to Mars, beyond the cost issue and the potential risk of angering Martians and leading to an invasion, there are other reasons. These include the fact that Mars is about 150x further away from the Earth than the Moon, so it requires a lot more fuel (adds weight to the spacecraft). In short, we have the technology, but it wouldn't be easy, so the work to figure it all out continues. Bankers are also struggling with their own analysis these days around branches that seem to see their value declining quickly. In fact, a study by American Banker finds 62% of people surveyed said their preferred banking method was the internet and only 20% said branches. The simple fact is that the more mobile society continues to become, the less foot traffic there is in branches, the more that have to be closed and the more those that remain must be changed to attract and retain customers. Before we address this issue directly, consider other statistics worthy of mentioning. Research by TowerGroup finds the cost of a branch transaction is 20x higher than a mobile one and 40x higher than the online channel. According to the research, a branch transaction costs about $4.00, while an ATM is $0.61, mobile is $0.19 and online is $0.09. That is certainly one reason why so many large banks are moving to sell branches, restructure or downsize existing ones (as they aggressively encourage customers to go online or mobile). Given such a high cost of regulation these days, it just makes sense that efficiencies must be found, so this is one of the areas banks are making significant long-term changes. The problem for community bankers is that most branch leases are also long-term. Coupled with a soft economy, that makes it difficult to sell weaker locations. The good news at least is that banks have already enhanced branch technology over the years, so it takes fewer people to run the network than before. To boost performance, however, community banks will likely have to reduce their branch network. Those who cannot, due to the lease structure or the market they are in (or switch to smaller square footage); will have to adapt by getting more from their employees. Training is critical and it goes well beyond doing the same old things and just telling staff in a group meeting about the latest product. To truly boost results, bankers must teach staff how to cross sell and when to do so. Professional trainers should be brought in to make this happen and most banks will have to go well beyond their own internal resources. You must get as much as you can from your teams, so emphasize training. It is also important to understand that the activities most people still do in a branch relate to more difficult or personal transactions. Learning what loan they might need, getting financial advice, doing research on a business opportunity and other issues remain the purview of the branch. The more difficult something is or is perceived to be, the more your customers still want to talk to a live person. As such, make sure your branch staff is up to the task. Send in fake customers to see how well staff has been trained to make sure they are asking the right questions, at the right time, and giving the right advice for each customer type and situation. Finally, transform the branch to deliver what the customer wants. Focus on personalized attention, service levels, provide experts, solve problems and work to match customer needs with your products and services. It is true that not as many customers will walk into the branch, so those that do should have the red carpet rolled out that takes them directly to a focused and friendly staff eager to serve (and cross sell) each one. The branch has always been a part of banking, but as its role changes, it is imperative for community banks to adapt. After all, doing so shouldn't be as difficult as putting a person on Mars.

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BANK NEWS

Home Buy ing

Blackstone has reportedly spent more than $2.5B buying about 16,000 homes for sale across the country, as it seeks to turn them into rental properties. The company is reportedly seeking more, despite higher prices and a faster recovery in this sector than expected.

Price Recovery

CoreLogic reports housing prices rose 7.5% in 2012 (the largest increase in 6Ys) and predicts they will rise 6% in 2013. Meanwhile, the NAR says the supply of homes for sale is about 4.8 months nationwide.

GDP Projections

JPMorgan projects the fiscal cliff deal will produce a 1.0% drag on 1Q GDP growth (through the 3Q, GDP averaged about 2.11%). The biggest hits are a result of the expiration of the payroll tax holiday (60%), followed by the Bush tax cuts (20%) and other spending cuts (10%). The Fed currently projects 2013 GDP of 2.7% vs. a range of 2.0% to 2.2% for many Wall Street firms. Meanwhile, Fed Chicago President Evans said he expects the economy will grow by 2.5% this year and 3.5% in 2014.

Municipality Strain

Research by the Pew Center on the States finds funding for pension and retiree health care for 61 major cities (representing 50% of municipal employees), dipped to 74% as of the end of 2009 (the latest year available), a 6% drop over the prior 2Y period. Cities in the worst situation were Charleston, W. VA; Omaha, NE and Portland, OR; while those in the best situation were Milwaukee, WI and Washington, DC.

Temporary Workers

MBO Partners predicts the freelance employee workforce is expected to grow 36% in the next 4Ys.