

Is Business Ready for the Born Again Branch? Small business yet to be convinced of branch expertise

Considered about as fashionable and relevant as a Leyland P76, the bank branch was practically pensioned off at the end of the 1990s as the major banks saw their future interactions with customers revolving around the internet, telephone and ATM. Some 2000 branches were shut down by the Big Four banks between 1998 and 2004, exacerbating the traditional antipathy of Australians towards their banks and creating a void that regional banks and brokers moved quickly and often successfully to fill. But banking is nothing if not cyclical and the past 12 months have seen something of a rebirth of the importance banks place on the branch, with many embarking on costly refurbishment and/or expansion programs. The branch has also been identified as an important channel to business banking customers, part of banks' wider strategy to decentralise and reconnect with small business after servicing the segment remotely for several years.

Banks have restored or stepped up business banking expertise within branches, in some cases promising a devoted business banking expert in every branch. Customer relationship management technology platforms provide bank staff with a complete view of the business customer which can identify sales opportunities. And certain banks are espousing a "back to the future" philosophy whereby business customers get to know their bank manager by name and therefore enjoy an empathic rapport with the bank. But is this approach leading to increased business and how responsive are customers to the improved service reportedly now being offered by banks in the branch? To obtain a better view of this, East & Partners has executed special research within the Micro Business (A\$1 to 5 million turnover) segment, on the assumption that this segment is likely to have strongest attraction to the branch.

Firstly, in light of the fact that perceptions become ingrained in the psyche of customers and are therefore hard to shift, is the message that branches now contain personnel with business banking expertise starting to resonate with small business customers? The answer is not really. More than 70 percent of Micro Businesses do not equate their branch with business banking expertise with a further 15 percent saying they "didn't really know". The challenge for banks aiming to deepen relationships with business customers in the branch environment is that opportunities to do so are quite scarce. For more than 60 percent of Micro Business said that over the past six months, they entered a branch either "rarely" or "not at all". And those that did went primarily to deposit funds. The opportunity to thus rectify past negative experience for the small business customer in the branch does not present itself too often. This places pressure on branch staff to ensure a consistently positive customer experience to encourage more frequent visits and create a more conducive framework for strengthening relationships.

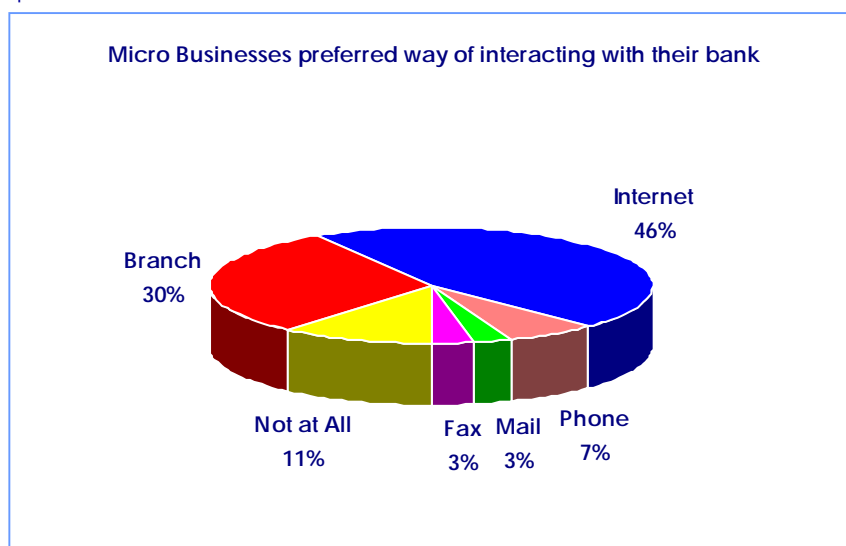
In large part this means adopting an advisory approach to servicing the customer rather than attempting to cross sell for the sake of cross selling, which often results in irrelevant products or services being pitched to the customer and helps to alienate them further. CRM derived information is powerful but needs to be used intelligently. However, less than 30 percent of Micro Businesses report branch staff "always" or "sometimes" trying to sell them further products. Even more worryingly, 90 percent of these felt that what they had been pitched was "not at all" relevant. Overall, on a scale where 1 is positive and 5 is negative, small business customers rated the experience of visiting a branch a lowly 3.31.

Knowing your customers key to multi-channel strategy

On the face of it, putting business banking expertise into branches appears to make eminent sense. In the Micro Business segment alone there are some 200,000 companies – too many to meaningfully relationship manage. Branches can provide an environment for face to face interaction for those businesses which require it. But whether it's because they have been previously "encouraged" to deal remotely with banks, don't view themselves as having a "relationship" with their bank, or don't have much faith in the business capabilities of the branch, only 30.4 percent of Micro Businesses said their preferred way of interacting with their bank is through the branch. On the other hand, more than 46 percent of these businesses view the internet as their preferred channel for interacting with their bank.

So although the major banks are currently giving their branch network serious mouth to mouth resuscitation, the small business customer is clearly not responding. Banks must also consider the demographics and requirements of their customers and service them through the appropriate channels. For example, younger business owners raised on the internet may never wish to venture into a branch, preferring to interact online, whereas others require a "real" person to

respond to their banking needs and will never take their business to a bank without such a local physical presence. And how successful are banks at originating new business customers through the branch? Currently, not very. The question therefore raised in this look at the branch through the eyes of the Micro Business customer is: Where is the return in this channel strategy? Having pushed business customers away from the branch banks now have a lot of work to do to convince business customers to return, that



the branch can service their needs effectively. The economics of a traditional branch are harsh with most taking about five years to break even. Extracting an acceptable return from this channel in the small business market is going to present a major challenge.