PARAMOUNT
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# THE NEED FOR A BRANCHING STRATEGY

*Charlie Steele*

**Every community bank needs a branching strategy.**

A single office bank may consciously avoid branching as an unwarranted additional expense, and for them, that is an acceptable branching strategy. Other banks may view adding branches as an opportunity to lower their cost-of-funds, expand market share and provide new opportunities for retail staff, which could be an aggressive branching strategy. But to have no branching strategy at all is leaving the bank rudderless in a tempestuous sea.

Years ago, working at a then medium-sized mutual savings bank with only one branch, it became evident that we needed more branches to catch up with the other banks in our market area. All the contiguous towns had multiple branches of competing banks that had spent a few years executing their branch strategies. Our catch-up strategy was centered on the new automated teller machines. We introduced them in our two branches and then introduced the first free standing ATM in a major regional shopping center. That was followed with two more free standing ATMs in the other major shopping centers with supermarket anchors. At a time when ATMs and ATM cards were branded by each bank with unique names, our "Instant Teller" machines and "IT" card dominated our market area for a number of years. However, that strategy won't work today as deposits can be made with a smart phone and debit cards have become accepted at every point of sale terminal with cash back options frequently available.

But an effective strategy today should look at the bank's existing footprint and how to build on that with cost effective branches from both a size and staffing perspective. A branch today can be smaller in both size and staffing because online and mobile banking customers do not frequent branches the way they once did. A small, full-function branch can be supported with less than 1,000 SF of space and staffed with three or four people.

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More recently, working at a $1 Billion community bank with a loan to deposit ratio exceeding 120%, it was recognized that we needed more branches to attract more deposits to fund our loan growth. Looking at communities contiguous to our existing branch footprint, with the help of Paramount Partners, we were able to identify 3 communities that appeared attractive for branch expansion. **Paramount also helped us find excellent locations in each of those communities and all three branches quickly exceeded our deposit projections.** With teller pods and universal associates, we were able to pack a lot of functionality into a smaller branch with limited staffing.

The majority of new accounts are still opened at a physical branch, but once the account is open there is not much need to visit the branch on a regular basis. That underscores the need for universal associates who can open a new account and handle a variety of other transactions.

A strong branch network with logical market definition can contribute to a lower cost-of-funds. In Massachusetts, the community banks with the largest branch networks typically enjoy a cost-of-funding earning assets significantly below their peers. A growing branch network also provides opportunities for employees to advance their careers and move up the ladder.

**If you want to review your branch strategy,** contact us to get the conversation started or visit www.pfintech.net **to learn more.**

***Want to learn more? Give us a call to get the conversation started.***

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***About the author:*** *Charlie Steele was most recently the SVP Strategic Planning at Needham Bank. Charlie has broad banking experience as a CEO, CFO and SLO. He has been involved in starting a successful de novo bank, numerous banking mergers, and has also worked as a consultant in the areas of strategic planning, mergers, and branching. Charlie is a leader within the CT Bankers' School of Finance & Management and Mass Bankers' New England School for Financial Studies.*