

## CHALLENGES IN THE EXPANSION OF BANK'S BRANCH NETWORK – TYPES AND OPERATIONAL MODELS OF BRANCHES

### The Romanian bank's branch network expansion tendencies in the last 3 years (past, present, future)

"The Romanian banking system accelerated its developing on 2007 given the fact that top banks merged or started the restructuration procedures and new banks with top credentials entered the market. Two of 2007 most advertised events were the fusion between HVB Bank Romania, Banca Tiriac and UniCredit into UniCredit Tiriac Bank and the new arrival on the Romanian market of the Portuguese Millenium Bank.

The top five banks by market share in 2007 were BCR (Erste Group), BRD - Groupe Societe Generale, Raiffeisen Bank, UniCredit Tiriac Bank and Banca Transilvania. And just to have a image on the size of the Branch networks of only these 5 top banks: at the end of 2007 the total number of their branches was not very far from 2,000 – while all over the Romanian banking system grew in 2007 with almost 800 new branches within the country.

The Romanian financial services market is still "young" and therefore the banks' offers are tailored using a mass market approach, the products and services not having yet a very high degree of sophistication. Even if the alternative channels started to play a bigger role in each bank's developing race, still **the size of the network does matter** as the main distribution channel.

Nevertheless, the market evolved in the last two years, as the main part of each bank's network focused on the sales and especially on the retail segment. Banks specialized some of their branches, some of them being focused on the mortgages loans or SMEs, this allowing redirecting the center of attention of their strategies also to still unexploited markets (the SME market being one of the most inviting cow to milk).

And **the more the merrier**, as in 2008 almost all the significant market players announced network expansion plans. But this will reveal the other side of the coin as the competition will grow atrocious. If almost all the banks have focused in getting more and more new clients, the cannibalization has appeared and the fight for keeping the existing clients took new dimensions. Here has intervened the way the banking personnel in every branch's front office, succeed in building and maintaining more close relationships with their clients. Some of the banks started to train their people to be nicer and more open to their clients' requests, some other are giving also sweets to each client... and this is only the beginning.

Anyway, these are signals that the market is starting to grow out of its teenage phase and this is only in the advantage of the clients as the products, services and banks' availability will improve.

As Romania is still an emerging financial services market, banks tailor their offer to a less sophisticated demand for retail and corporate products using a mass market approach,

### **What are the preconditions to open new branches?**

While in the 90's banks kept closing their branches one after the other and turned to electronic and other alternative distribution channels, in the new millennium they started opening new branches following the clients' needs.

During the last years banks operating in the market – almost with no exception – set the strategic aim of expanding their channels for supporting sales, including particularly the development of their own branch networks and the enhancement of their acquisition efficiency.

Before planning bank branch expansion and starting actions it is crucial to have a branch network strategy typically based on the following dimensions: client, product, service, distribution channel, and value offer.

What could be the strategies for opening new branches?

- **Nationwide cover:** services easily available for every potential/existing client
- **Skimming strategy:** preferring the most favourable areas
- **Regional concentration:** development strategy
- **Conservative strategy:** preferring „less competitive” (less penetrated) markets
- **Combined strategy:** mix of the skimming and regional concentration strategy

In line with business objectives and strategy the bank management has to analyse the possible branch-opening strategies and decide on the model which is suitable for the organisation.

Based on previous experience it can be said that due to the expansionist aims and the high speed and heavy load of many branch openings, banks do not always put sufficient emphasis on planning the full network structure and branch models. The bank branch network in these cases operates typically according to many different, ad hoc developed branch models, which results in the fact that the network does not give clients a uniform experience, the economy of scale principle is unfulfilled, there are no standard branch processes and more time and resources are necessary from the centre to coordinate the network.

After defining the network strategy the next step is to analyse growth objectives and network model alternatives for the bank, and to select and develop the appropriate branch network.

***Dimensions of branches and branch network operational model:***

During the design of the branch operational model one has to take into account the mutual interactions of the bank central operations, the bank agent network, the recent branch network management and branch types.

According to a general branch typology we can differentiate the following types of branches:

- Specialized desk (~ 1 person) (narrow product and service portfolio)
- Loan-shop, agency leasing office (2-3 persons) (specialized product and service portfolio)
- Agent office (2-3 persons) (exclusive or independent, narrow product and service portfolio)
- Outlet, sub-office (3-5 persons) (most common demands served simply)
- Branch (6-10 persons) (entire product and service portfolio)
- „Big Branch” (more than 10 persons) (serves entire product and service portfolio and unique demands)

It is easy to define general branch structures in theory, but much more complicated to precisely specify the unique types and select the appropriate dimensions according to the strategic ambitions of the bank. One of the possibilities is the branch model supporting sales and growth.

The **operational model based on personal client relationship** is basically a **sales-oriented operational model** which **model can only be defined as part of a sales-oriented organization**.

The growth-oriented branch types can flexibly adjust themselves to the actual needs of local markets, **having the possibility to grow**, in case of sufficient expansion in the number of clients, product- and service-portfolio they can transform themselves into a branch type which offers more advanced client service methods.

A possible branch typology of sales-oriented branch models:

- A – This branch type is basically specialized in retail and SME clients with the main aim to serve the most frequent demands of clients.
- B – It can serve its whole clientele universally, but for a number of more complex activities (for example corporate financing) it needs assistance.
- C – It can serve its clientele universally, without any assistance, but in the field of investments it has a rather informational and simple transactional role. It has an increased acquisition activity.
- D – Its activity corresponds with type C, but it also performs Investment Consultancy on a high level. It has an increased acquisition activity. This type is also responsible for mentoring the “A” and “B” branches in the area.

The activities and served group of clients performed by the Branch’s types mentioned above are summarized in the next table:

Activity	Group of clients	Types of branches			
		„A”	„B”	„C”	„D”
Account management	Retail clients	■	■	■	■
	SME clients	■	■	■	■
	Corporate clients	■	■	■	■
Credit accommodation	Retail clients	▨	■	■	■
	SME clients	□	▨	■	■
	Corporate clients	□	▨	■	■
Investment consultancy		□	▨	■	

■	Task done by the type of branch independent (without any support).
▨	Task done by the type of branch with support.
□	Task not done by the type of branch.

**Network management models which present flexible support** strongly belong to the sales-oriented branch models, and – according to the development and expansion of the network – it has the following main levels:

1. One-level central management
2. One-level central management with local mentor branches
3. Two-level management: stronger central coordinating role, weak regional centre and mentor branches
4. Two-level management: high-level central coordinating role, strong regional centre performing mentoring activities

5. Two-level management: high-level central management, strong regional centre coordinating mentoring activities

**When selecting the network management model the following aspects have to be analyzed among other things:** - Does the bank establish Business Regions? - Is there an organizational mentoring activity? - How is the supervision of the regions put into practice? – What is the role of the central coordination?

### **Focusing on the efficiency of branches**

Banks put more and more emphasis on increasing efficiency of the operation of the centre (regional centre) and the network. In the case of branches the focus is on the efficiency of the sales, acquisition activities, client service activities and resource usage.

***An international bank carried out an analysis concerning the efficiency of their branch staff. As the result showed the time they spent with clients was only 20-30 percent of their everyday activities. The result is thought-provoking!***

When designing a branch model the components affecting branch efficiency, such as the branch organization, human resources (competences, tasks and authorities) branch processes, supporting IT and background bank organization have to be taken into account. The optimal design of the branch infrastructure, construction and operation processes – according to bank requirements – can only be implemented if all the above components are taken into account.

### **Focus on the expansion of branch efficiency, but what are the main dimensions?**

- Effective **sales** (*Who? Whom? and How?*)
- Effective decision making (*Decision maker, - process, supporting systems*)
- Efficient **organization**
  - Supporting new branches
  - *Collaboration of branches and agent*
- Efficient usage of **resources**
  - *Centralization and automatism of back-office tasks*
  - *Possibility of cutting costs*

According to the expert opinion of AAM the only way to develop towards more efficiency is to analyze the organization as a whole.

### **How can we interpret the operational efficiencies of branches? What are the possible indexes to measure it?**

Efficiency can be defined in many ways, a possible definition is:

***„Achieving a given aim with using the least possible resources”.***

When designing branch models the following aims can be set: - Reaching the target clientele; - Increasing acquisition; - Increasing cross sales; - Contributing to a more client-oriented service; - Promoting client retention.

According to the experience of AAM achieving organizational aims is the most successful when the bank is able to establish and provide the sufficient workforce, expertise, know-how, B/O support, IT system support and operations processes to the participants of the network.

When we speak of efficiency, measures shall neither be forgotten. It is just right to ask which the indicators to measure the different efficiency dimensions are.

*Possible efficiency indexes of sales and client acquisition:*

- Ratio of branch headcount and client number,
- Ratio of branch headcount and sum total of deposit,
- Ratio of branch headcount and sum total of loans amount.
- Usage rate of electronic banking products,
- Number of banking products/services used by a client.

*Possible efficiency indexes of branch service:*

- Average waiting time,
- Average service time,
- Client return per branch officer.

*Possible efficiency indexes of the resource utilization:*

- Working time ratio of F/O and B/O ,
- Working time ratio of active and passive sales,
- Branch profitability index.

Besides increasing the efficiency of branches the client requirements regarding branches and branch staff have to be also taken into account, i.e. when designing or adjusting the branch model, a **great emphasis should be placed on the real needs of the existing and potential clientele of the bank.** (Are we sure that this is what our client wants – the client we make our living on?)