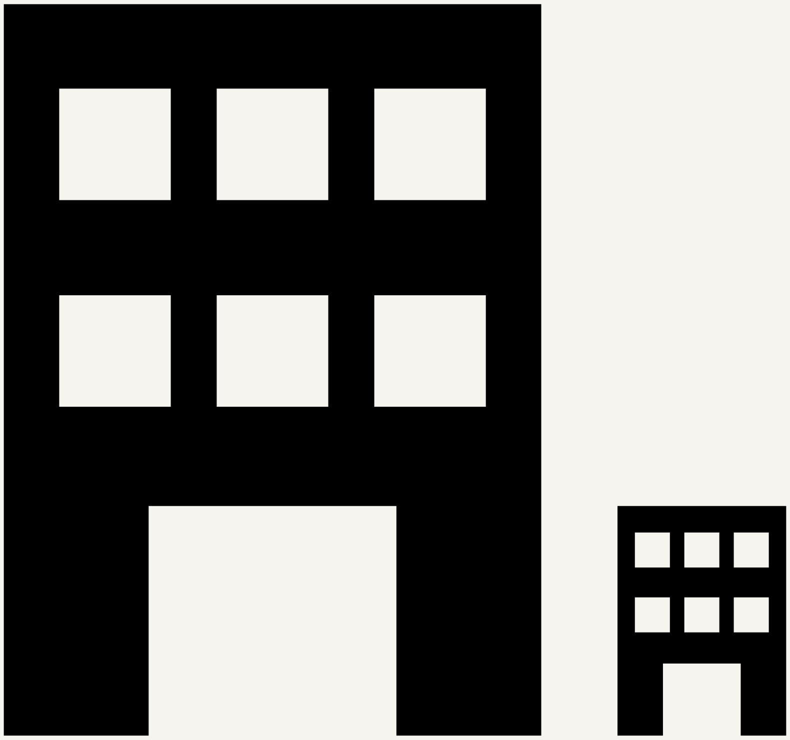
Big Branch, Small Branch, Micro Branch



Big Branch, Small Branch, Micro Branch

The micro-branch presents a unique challenge to design a financial retail space under 1,000 square feet. The challenge is less about the limited square footage as it is about fulfilling the criteria for a branch. The micro branch is not a new trend. The waves of branch transformation of the last ten years stemmed from the desire for a more efficient branch, generally coming in around 2,000 sqft, give or take 400 sqft. This was the first wave of change: from the big branch concept to the small branch concept.

To our understanding, the first digital branch was the NOMA Neighborhood store concept we created for Wells Fargo. This format consisted of three NCR digital solution machines, which at the time were called UEMs (unified endpoint management). These eventually became the ITM (interactive teller machine). At that point, the digital solution was an assisted ATM during branch hours, with a banking associate monitoring its use via a tablet, which enabled them to provide clearances or take over the session. This format was designed to fit within 900 sqft using a typical Main Street retail layout. After hours, the advisory engagement spaces were closed and the branch operated as an ATM vestibule. The digital solution that drove the NOMA concept was a custom one and therefore limited, but the branch was the start of a shift toward smaller branches.

The launch of NCR's ITM was the next wave of branch downsizing, from small to "as small as it can get." Essentially, the ITM offered a new solution: the ability to maintain or provide limited teller services almost anywhere. The issues holding back greater adoption were the customers' lack of understanding of the offering and a lack of creativity when it came to utilizing the ITM as a new type of banking module. I'll explore the latter factor in another article. The customer awareness problem decreased significantly with the onset of the pandemic when ITMs became a go-to solution for serving customers safely.

Since the pandemic, it seems financial institutions have not been sure about what to do next. It hasn't made sense to invest in new branches with the continued fear that a new wave could close doors again, and it wasn't immediately obvious early on what the effects of the lockdowns and Covid-19 would have on shopping and banking behaviors. Over the last year and a half, we have seen a return to normal although with questions still lingering.

Interestingly, one big thing to come out of the pandemic is the preference for physical experiences. This is not to say that things do not continue to shift online and to digital, but there has been a renewed appreciation for visiting stores, socializing, and doing some business in person. For community-focused organizations, such as credit unions, this means the branch continues to be a valued part of the offering. But, recent inflation has pushed up the cost of construction and further challenged the financial sustainability of an investment in a physical branch. Enter, or re-enter then, the micro-branch.

There are numerous examples of micro-branches. The most common, as mentioned above, are essentially small structures that house a walk-up ATM or ITM solution. The key question I want to consider here is whether the micro-branch—a full service (whether through a live or virtual presence) physical branch with a footprint under 1,300 sqft—is more cost-effective at delivering on its expected ROI and customer engagement.

The short answer: it depends. In the current climate of high inflation and high labor costs, a smaller branch can be a lower capital expense and therefore provide a better ROI. However, the building needs to be capable of showcasing the brand and delivering a high-end advisory-based experience, so does a smaller branch actually make sense?

Let's start with the basic dimension of a branch: a physical representation of the brand within the local community. Funnily enough, this is often the most overlooked aspect of the branch with financial institutions considering the brand to be little more than a sign in the yard and on the building. Signage is not branding. Your brand is the feeling a customer has when they leave your store. That feeling becomes embedded in their association with the brand and is the feeling they have when they see it again.

A few years ago, there was a study in which researchers flashed brand logos to people faster than the respondents could recognize them. The respondents were then asked to perform a series of tasks. The researchers found that when they flashed the Apple logo, the respondents were more creative in their immediate next tasks. The brand, though not consciously seen, triggered creative thought. That is the potential power of a brand. How much thought are you putting into how your branch will make people feel when they see it, how it will visually engage and attract them into the building? How will visitors feel once they enter through your doors?

Plenty of time is spent on coloring and signage, but unfortunately, little is spent on creating a brand image and a feeling. When you factor in brand image, you should also adjust your business model to consider brand impact. For example, think about the cost of a billboard or some other outdoor marketing and factor it into your business model as well as the design. Can the space or site be activated seasonally, monthly, or weekly to engage the community and drive awareness and visits?

Next, focus on conversations that lead to sales. If people come to your branch in a transaction mindset and your only goal is to efficiently serve them and get them back on their way then you may as well not build a branch. Branches are for conversations first, and secondarily for building relationships and helping people grow and sustain their financial health. Inside the branch, it becomes more about your staff and customer engagement platform. The architecture supports, enables, and defines the context of this interaction. If you are building a small branch merely to handle transactions, then I recommend an ATM-in-the-parking-lot approach. So, build a space that is transaction-lite and advisory-heavy.

The setting is vital because you are creating a place for engagement with your customers/members. The third dimension is the build. Does a smaller footprint cost less? The planning and construction of a ground-up physical branch, whether it is 5,000 sqft or 500 sqft both require the same investments. The difference is the level of investment.

A smaller 500 sqft branch requires less material, a simpler and more cost-effective structure, less infrastructure, and fewer finishes. But it also requires the same basics as the 5,000 sqft branch: ground work, paving, lighting, foundation, structure, cladding, infrastructure, HVAC, roofing, etc. The savings are the structure's simplicity and lower material costs, like for example, a smaller heating and cooling unit, less piping, less material. That is why the cost-benefit comparison of branch size does not differ much from say, 1,500 sqft to 2,500 sqft. Although there is a 1,000 sqft difference, the cost variance between the ground-up of these two sizes tends to be small because both branches require the same basic infrastructure—there is simply is bit more space with the larger one.

One note: every design is different, of course, and there are small designs that can be expensive and large designs that can cost less. For example, the cost changes if your branch size requires two bathrooms, a mothering room, and water fountains versus just a single bathroom and a water cooler. This is a key aspect of the "micro" concept. More offices mean more staff, which means more resources for staff and potential customers. This requires an efficient floor plan, one that still provides the necessary privacy and queuing areas, and a consideration of the building volume. The volume becomes important because the footprint is small, resulting in a smaller structure that has to compete for attention. The building needs to have a high impact while maintaining the low-cost advantage of the smaller format's size.

The point is here that simply making a smaller branch does not lower your cost and increase your return. You need to be smarter about how you lower the build costs while still considering the fundamental value of the branch to build a business model that aligns with that value.

The program of a micro-branch needs to be limited: small enough to require little resourcing while providing enough value to the customer to justify the investment. This is why the new micro-branch tends to have an ITM either inside or on the site. It is simply a tool that increases value in a smaller footprint. I've argued, though, that the micro-branch is not about digital engagement, it's about personal advisory engagement, even if the engagement is digital. The value of the physical branch is the ability to meet with an advisor. Digital tools continue to shift lower-value transactions out of the hands of staff and investment needs to be made in the service engagement. The micro-branch is successful when the physical building effectively arrests attention through its presence, entices visits, and delivers an experience that's better and more personal than any other channel can provide.

The Micro-Branch summary:

First, it's about branding.
- Focus the overall form on brand presence and brand communication; *We are in your community.*
- What does the place offer them?
- Consider volume over footprint.
- Consider form and materiality over applied signage; *Does it have affect?*

Second, it's about conversations.
- What is bringing them inside?
- How are you engaging attention and then receiving them upon entry?
- Lead with advisory-based experiences that increase wallet share and products sold.

Third, it's about building relationships and helping people grow and sustain.
- The place and experience must offer more than the basics.
- How is the space activated? (content, merchandise, events, marketing)
- What is the sequence from reception to meeting?

And fourth, it's about efficiency.
- Maximize spend for effect and minimize overall spend.
    - Use daylight to make a small space feel bigger
    - Use lighter colors
    - Consider volume and proportion
- Keep the back of house resources to minimum;
    - E.g. keep occupant load to where 1 restroom is sufficient
    - Consider overhead space to free-up floor space
