So, You Want To Open A New Branch Office?

A GUIDE TO BRANCH PLANNING & IMPLEMENTATION

Produced by the Center for Professional Development
Credit Union National Association
Madison, Wisconsin

Stock No. 26893
Darla Dernovsek

CUNA
Credit Union National Association

Table of Contents

CHAPTER 1

A New Branch — Who Needs It?

Experts who predicted the Internet would quickly replace the branch are unlikely to be hungry in the near future. They're still eating their words.

The branch has proven that it will take more than electronic connections to replace members' yearning for face-to-face interaction. From the perspective of credit union members, the branch enables them to quickly make transactions, obtain personal assistance, and explore products and services. From the credit union's perspective, the branch creates a marketplace where the credit union can display its "goods" — the credit union's products and services — while building a stronger relationship with members.

Instead of dwindling, the number of credit union branches has grown steadily in recent years, even as the number of credit unions continued to decline due to mergers. At year-end 2004, there were 9,209 credit unions operating 10,397 credit union branches, according to statistics from the National Credit Union Administration (NCUA). That's an increase of 8.1% from year-end 2003, when 9,574 credit unions operated 9,614 branches. The trend is even more impressive when examined over a longer period of time. From 2000 to 2004, credit unions increased their number of branch offices by 18%, according to the Credit Union National Association's *2004-2005 Credit Union Environmental Scan Report*, also known as the E-Scan.

At the same time, other financial institutions also are pursuing branches as a means to growth. Almost 79% of banks stated that branching will continue to be their main avenue of growth in the *Community Bank Competitiveness Survey 2005 from the American Bankers Association (ABA) Banking Journal*/ABA Community Bankers Council. Federal Deposit Insurance Corp. (FDIC) statistics show that banks increased branch offices from 76,143 in 2000 to 80,636 in September 2004, a growth rate of 6%. The FDIC Future of Banking Study notes that surveys conducted by the Federal Reserve Board show that "the single most important factor influencing a customer's choice of banks is the location of the institution's branches." The study also noted that the number of physical offices per institution increased from 6.3 to 9.5 over the previous decade.

Figure 1.1 Credit Union Branch Growth

	Credit Unions	Branches (excluding headquarters)
Year-end 2003	9,574	9,614
Year-end 2004	9,209	10,397

Understanding the Pivotal Role of the Branch

The desire to build more branches is based on sound evidence of the branch's pivotal role in reaching new members and expanding relationships with current members. Callahan & Associates, Washington, D.C., reported in *Innovative Branch Design and Location Strategies* that credit unions that built at least two new branches in the 12-month period that ran through the end of the second quarter 2004 had an average asset size that exceeded the industry average, including member growth and share growth that were four percentage points higher than the industry average. Credit unions with two or more new branches experienced share growth of 9.45%, compared to an industry average of 5.5%, and member growth of 6.9%, compared to an industry average of 2.92%.

Those statistics reflect two key objectives of almost every branch project: establishing relationships with new members and expanding relationships with existing members. While new branches can also relieve pressure on overused facilities and provide additional space for a variety of functions, their greatest application is increasing the credit union's core business.

Ironically, the online interactions once expected to replace the branch may contribute to its role in expanding relationships. Members who use online banking regularly see articles and banner ads promoting new products and services. That may make them more likely to recognize that the credit union is a full-service financial institution that is well-equipped to become their primary financial institution (PFI).

Credit unions also use branches to test fresh ideas and approaches. A new branch is often the setting for experiments in adopting a retail approach, boosting cross-selling, and increasing efficiency. Both new employees hired for the new branch and existing employees transferred to the new site are likely to be more open to new ideas and less resistant to change than other employees.

Predicting Branch Contributions

It's easy to see why a new branch might be a good idea, but board members value valid projections more than blithe assumptions. Building the case for a new branch begins with predicting both costs and contributions.

Many credit unions aim their predictions at how long it will take to reach a break-even point for the branch. A credit union that aims a branch project at serving existing members may project a break-even period of two to three years, while a credit union that aims a branch project at creating new members may expect to break even at five years of operation. When a branch is particularly successful, credit unions sometimes report reaching the break-even point much sooner, in a year or even less.

On the other hand, credit union executives ruefully admit that even the best plans sometimes fail to take into account the potential negative impact of a poor choice related to a critical element such as location, services, or design. Breaking even at that branch can take much longer or even become unattainable.

Financial institutions have a unique advantage in their ability to monitor the performance of competitors, notes Scott Florini, senior planning consultant at Clayco, St. Louis, Mo. The FDIC and NCUA both provide access to deposit statistics that are broken down by branch, allowing competitors to monitor performance at specific locations over time.

Many credit unions rely on planning assistance from design/build firms or consultants to obtain a deeper analysis of specific branch locations or designs. These sources of specialized assistance can guide the credit union in gathering meaningful information, verifying its accuracy, and interpreting its impact on the branch. Credit unions report that paying for expert analysis is often an excellent investment; however,