Grow Revenue by Using the Right Branch Incentives

MISPLACED INCENTIVES DIVERT SCARCE RESOURCES by pursuing short-term gains. Each reader likely has his or her story of this in action. For me, it was the day I received a phone call at home from the local bank wanting to speak to my college-aged daughter about a home equity loan. I had little doubt that this was the result of a calling blitz that was measured by the number of applications taken.

The most common branch incentives that I encounter center on deposit balances or new-account acquisition. When we create incentives based on deposit size, we should not be surprised when a branch manager calls headquarters for a rate exception on a $200,000 certificate of deposit. If rewarding checking account acquisition, are we confident customers aren't being "sold" into a checking account, whether appropriate or not?

There are many tools to maximize branch productivity. The most effective are personnel related.

Fewer customers use the branch

Bankers are learning. The aggregate deposit growth incentives now focus on *core deposits* instead of *all* deposits. This is a step in the right direction. But if incentives are going to move us closer to achieving strategic objectives and growing revenue, perhaps we should think differently.

If you Web search on "branch transaction decline," and you'll find myriads of articles on how customers are weaning themselves from using branches. But the investment to operate a branch has not declined in nearly the same proportion. So, what we have is an underutilization of bank resources. And branches eat up a considerable amount of resources.

Studies tell us that customers use branches to open accounts and solve problems. Both are excellent *sales opportunities*. In addition, although customers may not frequent the branch, it remains an indelible symbol of a bank's commitment to its community. So, it is important that bankers make optimal use of this resource and their investment in the branch network. The days of standing behind the teller line or on the platform waiting for customers to walk in are over.

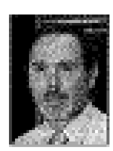
Financial incentives

There are many tools to maximize branch productivity. The most effective are personnel related. Hire staff that has the desire to execute the bank's strategy. Develop them. And properly incent them. There are many types of incentives: monetary and nonmonetary. Although I will suggest monetary incentives, don't underestimate the importance of supervisor and/or peer recognition. If your branch employees do a great deal, than make it a big deal!

Does your bank measure branch profitability? If so, then why would you not develop a team incentive to grow profits? Direct (excludes bank overhead) pretax profit improvement would motivate branches to align themselves with bank profitability. And make incentives meaningful, such as 5 percent to 15 percent of employees' salary. Branches would have to increase deposits approximately $1.2 million at a 2 percent spread to pay for the extra compensation expense. Is this really a high hurdle if you had the right employees motivated to do the right things every day? And, can we evaluate support center expenses, shifting investments to business units more critical to successful strategy execution, such as our branches?

Imagine the behavior changes! Would the branch manager focus on bringing in the $200,000 CD customer or the operating account of Joe's Tire and Battery? Incentives that reward employees for growing net interest income instead of footings will cause a fundamental change in how branches operate day to day. And, it could cause a tectonic shift in the source of revenue growth at your bank. ■

ABOUT THE AUTHOR



JEFF MARSICO is executive vice president of The Kafafian Group Inc., Parsippany, N.J., where he specializes in strategy development, performance measurement and profit improvement for community financial institutions. He serves also as an instructor at the ABA School of Bank Marketing and Management. Telephone: (973) 299-0300 extension 120. Email: jmarsico@kafafiangroup.com