What makes a supermarket bank branch work?
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Abstract:
At the end of 1992, a total of 1,500 financial institution branches were in supermarkets - only 2% of financial institution branches. However, that is 7 times the number of supermarket branches that existed in 1985. Bankers interested in setting up a branch in a supermarket need to spend time researching the chosen supermarket chain before deciding whether to join with it. The best part of town in which to have a supermarket branch is a fast-growing suburban area, but any community with enough traffic will work. Supermarket bank vendors say they will only work with financially strong banks that have a retail emphasis. Suggestions for having a successful supermarket bank branch include: 1. Hire the right people. 2. Bring in loans. 3. Go out in the aisles and recruit customers. 4. Offer specials. 5. Work with the store.

Full Text:
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Put a bank branch in a new store of a large supermarket chain, and shoppers will come to the branch, say bankers who have tried it.

For one thing, the supermarket will have picked out a prosperous location. "If Kroger is spending $4.8 million to put a store in town, they've made sure this is a good spot," says William R. Reed, vice-chairman of $2.2 billion-assets National Commerce Bancorporation, Memphis, whose three banks have 39 branches in grocery stores.

"The minute you open, you have an audience waiting for you," says Francie Henry, regional manager at Fifth Third Bank, Cincinnati. The $10.2 billion-assets bank has 53 branches in stores in Ohio, Kentucky, and Indiana.

Not all banks have embraced this method of serving the shopping public by any means. At the end of 1992, 1,500 financial institution branches were in supermarkets—in other words, 2% of financial institution branches.

But that's seven times the number of supermarket branches that existed in 1985 and double the 921 banks had in 1990, according to International Banking Technologies (IBT), Norcross, Ga.
THE BIG THREE. The interest to date in supermarket branches to some degree results from the aggressive efforts of three currently or previously bank-connected vendors: Financial Supermarkets, Inc., a subsidiary of $130 million-assets Community Bank and Trust, Cornelia, Ga.; IBT, which was originally an offshoot of Heritage Bank of Atlanta, which has since been acquired by Bank South Corp., Atlanta; and National Commerce Bank Services, a subsidiary of National Commerce Bancorp.

Some banks, like Fifth Third, have taken to the idea on their own. The bank was approached by Kroger Co., Cincinnati, in 1986.

FIND THE RIGHT STORE. Suppose you wanted to set up a branch in a supermarket. What would you need to do to make it run smoothly and profitably?

"Bankers need to spend time researching the supermarket chain before they decide whether they want to marry it," says J. Alton Wingate, president and CEO of Community Bank and Trust, which has six supermarket branches. The management must insist upon good customer service, cleanliness, and value, he says.

So far, the majority of bank supermarket branches have been set up in units of large regional supermarket chains. This is because "larger chains usually are more willing to accept change and try new things," Wingate says. However, "the interest of independent supermarkets has increased in the last two years," he says.

Individual stores must be large and attract several thousand customers a week to provide enough traffic.

The best part of town to have a supermarket branch is in a fast-growing suburban area, according to William Reed at National Commerce. The newcomers to a burgeoning suburb tend to be young and ready for a new bank, he says. They are also heavy users of credit and fee products.

Yet any community with enough traffic will work, Reed says. "In a high-income community you will get expensive, high-balance deposit accounts and large loans. In a low-to-moderate income community you will get low-balance deposits and installment loans. Low-income neighborhoods tend to generate more transactions and more fees than affluent ones.

RUN A TIGHT SHIP. The supermarket bank vendors say they will only work with financially strong banks that have a retail emphasis. Wingate at Community Bankshares says the bank must put a senior executive in charge of the program to give it credibility. Here are some other management suggestions:


"A great teller in a traditional branch might not be comfortable in this kind of branch," agrees B. Robert Purple, senior vice-president at $420 million Beneficial National Bank Wilmington, Del. He says you need to get people who can handle a hectic atmosphere. "Some people thrive where things are moving and it's quick."

* TRAIN EVERYONE TO DO EVERYTHING.

"When we send someone, such as loan officer, into a supermarket branch, they have to be able to run the teller line, sell CDs, and do everything that needs to be done," says Earl Shipp, president, Isabel (Oklahoma) National Bank, a $47 million-assets bank that has one traditional branch and one branch in a...
Homeland supermarket a block away.

Because people in supermarket branches handle so many tasks and tend to be removed from the operations center, store branch trainees at $900 million-assets First Midwest Bank, Plainfield, Ill., spend time learning about data entry, bookkeeping, and other support areas, "not so much so that they know how to do it but to know who to call with a problem," says Thomas J. Mahalik, senior vice-president. The bank has four store branches, and a fifth is in the works.

* VISIT THE BRANCHES OFTEN. Reed at National Commerce says this is particularly important when people are new. "Listen to their ideas, tell them when they do something right and when they do something wrong," he says. "You can't put them in and forget about them." As people get more experienced, he says, a phone call will do.

* PROVIDE INCENTIVES. "A bonus incentive program keeps the adrenaline going," says Wingate. "The incentives also bring in twice the amount of deposits," he says. Typically the incentive is $5 per new account. National Commerce pays incentives to supermarket branch employees who reach monthly goals, and is considering providing profitsharing to these people.

BRING IN LOANS. Some in-store branches have a tendency to produce many transactions but few loans.

"If you send an established loan officer into the branch, you will generate loans," says Shipp. "If you send in a head teller and magically anoint them 'loan officer,' loans won't happen." A loan officer works in Idaho National's supermarket branch. The branch's current loan-to-deposit ratio is about 45%, and its goal is 50 new accounts and 20 new loans a month.

Fifth Third has had success in generating mortgage loans in its supermarket branches over the past year, according to Francie Henry. "Rates obviously had something to do with it," she acknowledges. "But when you think about it, when do people look for a house? On weekends and in the evenings. If they see something they like, they want to be able to find out right away if they can afford it. And if it's a couple, they want to be able to both sit down with a banker." The bank promotes its supermarket branches' hours in realtors' offices.

While in some supermarket branches staff simply hand out loan applications to shoppers in a hurry, Bruce Purple at Beneficial National has a philosophy that "the store branch person's role is not necessarily to distribute literature, but to fill applications out for people, promise a quick turnaround, and close them out." If the person is in a rush, the employee may ask for their home phone number or suggest that they discuss it next time. "The average person shops 2.4 times a week," Purple observes.

First Midwest gives all its in-store branch employees loan authority, which helps boost home equity loans.

A different perspective comes from Alton Wingate at Community Bank and Trust. He thinks of his bank's own supermarket branches as low-cost deposit generators, and no loans are made there. But these branches make referrals to the traditional branches, some of which have a 110% loan-to-deposit ratio as a result, says Wingate.

GO OUT IN THE AISLES. In many supermarket branches, employees go out into the aisles for designated periods of the day to attract people into the bank.
Reed at National Commerce says employees' first contact with the customer should be like a first date. "You want to give them your name and try to get their name and say you'd like to see them," he says. "You find out if they know there's a bank in the store and you try to find out where they bank." He says most of the "aisle-time" selling happens in the first year, attracting the first 2,000 customers. "The busier you get, the less time you have to sell," he says. "Later your customers become your salesmen. We always ask customers to make referrals."

John W. Garnett, executive vice-president at IBT, says that if a branch does a good job at working the aisles, it will generate enough business in the first 18 months to require the staff's full time. But he says the branch should then hire a new person rather than stop walking the aisles. The message in the aisles should shift from telling people about the existence of the branch to telling them about specific products and services, Garnett says.

Wingate at Community Bankshares doesn't like the idea of contacting people in the aisles. "You can be overaggressive at this," he says. He advocates a method of "demonstrating" products at a table or booth that encourages customers to stop by. A banker might put out a plate of cookies and talk to shoppers about checking accounts.

At First Midwest, people are trained to read body language and not approach people who look like they might not be receptive.

OFFER "SPECIALS." Supermarket shoppers usually look for low prices and special offers. In keeping with that mentality, the in-store branch ought to run frequent special offers, goes one school of thought. One week it might be auto loans, one week it might be CDs, each week requiring a new set of promotion materials and displays.

This may sound like a lot of work for a small, busy branch. "Sure it's a lot of work," says IBT's John Garnett. "Anything that's worth doing is not easy." His firm, like others, provides materials that can be reused.

Some banks broadcast promotional messages over the stores' public address systems. National Commerce has a professional disk jockey send messages by satellite to the supermarkets it's in once an hour.

WORK WITH THE STORE. "It's a symbiotic relationship," says Earl Shipp of the relationship between the bank and the grocery store it has a branch in. For example, if the store's flower shop is having a Valentine's Day special, the bank might put some flowers on its counter with a sign saying, "be sure to stop and get flowers on your way out," and the bank might buy some flowers to give away in a contest. In return, the managers of the store's departments hand out brochures for the bank and put up its display cards.

"We try to have all our employees learn where all the items are in the store, so if someone comes up to them and says, 'Where's the pork and beans,' they can say, 'aisle two,'" says Mahalik at First Midwest. "The store appreciates this."

IBT's Garnett says stores like banks to market as aggressively as possible. "They would like to see 50 of their customers using the bank branch in the store," he says. The shopper/bank customer has an extra reason to visit that particular store, even if the store across the street has a lower price on eggs.

One more point about cooperating with the store: Provide good service. "Any problem a customer has
with a checking account or a loan becomes Kroger's problem," notes Reed at National Commerce.

POSSIBLE PROBLEMS, The supermarket environment presents some challenges to banks. Here are two examples:

Long lines--The large volume of people in the store can be too much for the three or four representatives manning the counter. "This is always a problem," says Henry at Fifth Third. However, she thinks customers tend to be more tolerant of lines in a supermarket than in a traditional branch.

Burnout--The pace and hours of a supermarket branch can wear on employees after a while. Community Bank and Trust rotates people into the regular branches if necessary.

COMING TO A STORE NEAR YOU? J. Alton Wingate predicts, "You will see supermarket banking everywhere--it’s the bank of the future."

If you're interested in the concept, you can contact one of the three vendors mentioned (addresses below). Or, you can contact a store or supermarket chain in your area.

* Financial Supermarkets, Inc., 400 Main Street, Cornelia, Ga. 30531.

* International Banking Technologies, Inc., 1770 Indian Trail Road, Norcross, Ga., 30093.

* National Commerce Bank Services, Inc., One Commerce Square, Suite 850, Memphis, Tenn. 38150.

WHY PUT A BANK IN A STORE?

1) TO MAKE MONEY. "The in-store branch has the potential of attracting $10-$15 million in deposits," says J. Alton Wingate, president, Community Banks shares, Cornelia, Ga. "Some branches are 75% loaned out."

(2) TO SAVE TIME AND REDUCE THE EXPENSE OF A NEW BRANCH. Supermarket branches cost about one fifth of traditional branches. They can be constructed in about 45 days. The break-even point for a supermarket branch is typically one to two years; traditional branches take about five years.

(3) TO BE VISIBLE AND CONVENIENT TO CUSTOMERS. "We see more customers in our supermarket branch on a Saturday than we see in our lobby in a month," says Earl Shipp, president, Idabel National Bank, Okla.

(4) TO GENERATE LOANS. Two branches of Nashville Bank of Commerce are near each other, one in a supermarket and the other a traditional branch. The traditional branch has been in business 20 years and has $16 million in loans. The grocery store branch existed for seven years and has $11 million in loans. "Grocery stores quickly attract younger people and therefore more loans," says William R. Reed, president of the $168 million-assets subsidiary of National Commerce Bancorporation.

(5) TO OUTMANEUVER THE COMPETITION. "Usually if you put up a new branch in a growing area, four or five banks will set up right next to you within two years," says Reed at National Commerce. "Banks just line up like ducks. When a grocery store stakes out a spot, other stores will wait a few years before opening new stores in the community, and when they do, they'll often be a few blocks away."

(6) TO ATTRACT PEOPLE WHO ARE INTIMIDATED BY BANKS. "It's much easier to ask for information in a grocery store than in a traditional branch," says Francie Henry, assistant vice-president and regional manager at Fifth Third Bank, Cincinnati. "If someone is hovering, a store-branch person will come out and start a conversation with them."

(7) TO COMPLY WITH CRA. Shipp considers the store branch part of his bank's Community Reinvestment Act efforts—"it gives us a broader outreach in the community, the number of hours and the number of customers is greater," he says. A supermarket branch could serve a low-income community.

STORE BRANCH SNAPSHOT

These are some characteristics of the typical supermarket branch, based on conversations with bankers and vendors:

COST: $150,000 to $250,000 for construction and basic equipment.

FACILITY: teller counters, private loan office, new accounts desk or window, automated teller machine. (Possibly safe deposit boxes, second ATM, information terminal.)

LOCATION: near front door and check-out counters.

SIZE: 350-500 square feet.

HOURS: long enough to be open whenever the store has a steady stream of shoppers.

NUMBER OF STAFF: three to five people at all times, six or seven full-time equivalents.

SIZE OF STORE: minimum of 25,000 square feet.

NUMBER OF CUSTOMERS IN STORE PER WEEK: minimum 10,000.

CUSTOMERS: according to a study conducted by National Commerce Bank Services, Inc., Memphis, 55% are women and 43% are men (2% wouldn't say); 30% are 26-35 years old, 27% are 18-25 years old, 27% are 36-50 years old, the rest are over 50 and/or didn't answer the question.