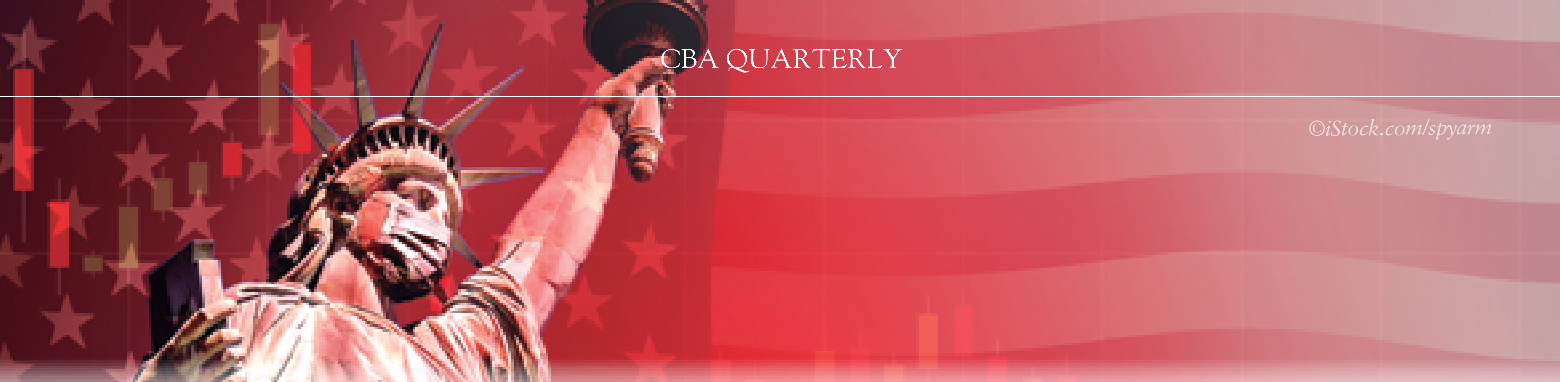


The COVID-19 Cost Shift

By Thomas J. Long, Founder and Principal, The Long Group

The COVID-19 pandemic has disrupted banking. Changing consumer behavior has created new habits that will last a lifetime. Remaining relevant in an evolving competitive landscape reshaped by the pandemic is the challenge. Financial institutions that successfully realign network delivery to traverse this challenge will emerge with the ability to capture present and future opportunities.

Productivity and Efficiency

Placing emphasis on growing revenue faster than expenses is required to become a more productive and efficient organization. While narrowing margins are challenging every financial institution's ability to reinvest in the business, building the infrastructure to attract, retain and develop relationships remains a priority.

Absent a clear reinvestment strategy, organizations that layer on additional expense over time without a corresponding lift in revenue create inefficiency and weaken their ability to compete.

Cost Shifting

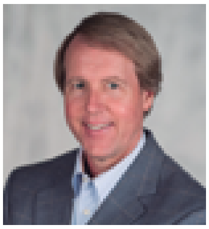
Every institution has a defined capability to absorb change, determined by its ability to cost shift. Examining a legacy cost structure is necessary to build a scalable business model. Cost shifting identifies legacy expense reduction opportunities and defines the organization's capacity to layer on additional investments. Cost shifting controls a financial institution's internal rate of inflation by removing expenses that should no longer be supported to encourage and fund necessary business line investments.

Every economic contraction challenges businesses to do more with less. Today, financial institutions are presented with an opportunity to redefine new business acquisition and existing relationship management with cost structure implications. Consider three impactful opportunities revealed by the pandemic and associated with declining branch-based transaction volume and accelerating digital migration. The cost structure conversation involves an assessment of the number of branches required to serve a given market, an evaluation of the branch staffing necessary to assist clients and the broader requisite skill set of the workforce.

Branch Rationalization

The branch system continues to grow quiet because of pandemic-related evolving consumer behavior. The branch network of organizations large and small requires inspection. Branch rationalization involves the examination of both client usage as well as market-based growth opportunities to determine the optimal branch configuration necessary to penetrate the market. Evaluating and mitigating the business risk associated with client attrition is critical to executing a branch rationalization strategy. Branch consolidation cost savings represent a vehicle to enhance the functionality of complementary sales channels and to expand the reach of the institution by funding entry into new markets.

Workforce Rationalization



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With a decline in branch-based transaction volume of more than 30 percent, financial institutions are provided with an opportunity to right size and transition the retail workforce. Clearly, less transaction volume equates to less staff generating a significant reduction in headcount. Quantifying the cost savings and upskilling the workforce delivers a superior, consultative client experience, offers compelling customer service and provides the financial benefits associated with relationship building.

The Journey from Service Efficiency to Sales Effectiveness

Branch and workforce rationalization, or cost shifting, provides the financial flexibility to develop a capital reinvestment strategy to remain competitive. Traditional investments in technology have supported gains in transactional efficiency, allowing the branch to focus on the revenue generating activities associated with sales. However, sales are no longer the primary domain of the branch system. Today, three in five sales are captured outside of the branch network spanning the customer and prospect touch point spectrum that includes the call center, online and mobile platforms. Developing relationships requires interaction and creating business development advantages necessitates aligning and investing resources across touch point platforms. In a persistent narrow margin environment, competing for revenue requires improving the capability of alternative sales channels.

Agility Matters

Financial institutions have a unique opportunity to address cost. Organizations that compete more effectively will remove branch-based expenses that were once recognized as legacy costs while building revenue generating capability across the touch point platform.

Each organization has more financial flexibility than imagined. Simply put, financial institutions that most appropriately deploy economic resources will create the revenue generating advantages to survive and thrive. Agility matters.

Thomas J. Long is the principal at The Long Group LLC. For more than 25 years, The Long Group has been providing tactical guidance and insights to financial institutions through strategic planning, staffing and productivity analysis, customer and market analytics, distribution planning, and marketing. The Long Group's proprietary consumer and business financial database forms the basis of its trademarked, predictive analytics platform. Long can be reached at tomlong@longgrouponline.com or at 603-424-5664.