

Case Study: Pacific Northwest Bank Innovates the Branch of the Future

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To boost foot traffic in its retail bank stores, Umpqua Bank developed a business strategy embracing a retail philosophy, a strong customer-oriented culture and delivery of a unique customer experience. Executing that strategy required Umpqua to present a different type of banking experience — one that exploits space design, technology, social networking opportunities and community involvement.

Key Findings

- Most traditional bank branches are seen as administrative offices; they not only don't promote a sales experience, but impose an unnecessary cost burden while not supporting the customer.
- Offering a place for customers to linger ("sip, surf, read, bank") has been a strategy for Umpqua's bank stores since its first store prototype opened in 1995. Since then, the store concept has evolved, culminating in Umpqua's latest endeavor, the Innovation Lab in Portland, Oregon.
- The Innovation Lab is designed to welcome customers and prospects, encouraging them to linger and interact with other customers, bank experts and nearby businesses — and to act as a testing ground for implementing new initiatives and technologies, whether they are new technology products, services or community events.
- Creating this new customer experience required heavy use of technology and a de-emphasis of traditional administrative functions.

Recommendations

- Establish a cross-functional innovation team (including marketing, product, operations, IT and training) to identify requirements and innovation barriers.
- Align your business strategy with channel, customer service and *technology* execution. Banks often try to implement innovative new channels, branches, and services without reconciling the implementation to their core value proposition, business strategy and/or culture.
- Focus implementations on the customer, including customer process — not the bank process or the bank's interpretation of the process. Co-opt customer involvement in the design and development to ensure better fit to customer wants and needs.

WHAT YOU NEED TO KNOW

Banks generally believe that most financial products are commodities that lack distinction. Therefore, the path to success for retail banks is to develop an ongoing relationship with customers that is marked by ongoing sales. That's because single-product relationships tend to deliver relatively lower profits — or even losses — when compared with multiproduct relationships.

The key to realizing the ongoing relationship is to aim for a point of differentiation with the customer. Umpqua Bank has devised a bank "store of the future" to differentiate itself, one that exploits a retail mind-set, a heavy investment in user-friendly IT, and a store layout designed to create a pleasant, repeatable customer experience that integrates a physical interaction with technology.

CASE STUDY

Introduction

Umpqua Holdings is the largest community bank headquartered in the U.S. Pacific Northwest, with \$8.2 billion in assets and 147 retail stores in northern California, Oregon and Washington. Its subsidiary, Umpqua Bank, was founded in 1953 to provide banking services to families and farmers in rural Oregon.

In 1994, Umpqua launched a "bank store" concept to use what, for a bank at the time, were unconventional marketing techniques to grow its five-branch operation and attract new customers by embracing a retail philosophy as the underpinning of the bank's brand. The bank opened its first concept store in Roseburg, Oregon, in 1995, inviting customers to shop for financial products, use its Internet cafe and sip the bank's own blend of coffee.

In 2003, the company launched a next-generation store model that heightened the customer experience and added a community center element. There are now 15 such stores.

In 2006, the company introduced its neighborhood stores, designed to maximize space and enhance employee efficiency. These cost 50% less than traditional branches and trimmed the construction period from 120 days to 45 days. There are currently four neighborhood stores. To fuel ongoing innovation, in 2007, Umpqua opened the Innovation Lab, a unique full-service store that serves as the bank's testing ground for new ideas.

The Challenge

Customer preferences about financial services and products are changing. Many customers "bank with their fingers" — either online or via automated teller machines (ATMs). Banks in general find it difficult to entice customers into their branches.

Umpqua, which thinks of itself not so much as a bank but as a retailer that sells financial products, wanted to spur customers and prospects to come into its stores while offering a customer experience that would improve retention rates and deepen product sales. Critical to this was the realization that most traditional branches were seen as administrative offices that not only don't promote a sales experience but also impose an unnecessary cost burden.

The Approach

After much success with its initial store model, Umpqua — in conjunction with Ziba Design, a Portland, Oregon, design and branding firm — conducted a study in 2002 to determine local consumers' attitudes toward banking. The study identified two key findings:

- People have grown skeptical and distrustful of big banks.
- They are unhappy about interacting mainly with their bank via online banking and ATMs. Instead, consumers preferred the human touch, desiring to transact their financial dealings with customer service representatives.

In response to the survey findings, Umpqua determined it needed to present a friendly, client-focused banking experience in a new type of "bank store" — one that exploited technology, face-to-face contact and online social networking opportunities, as well as community involvement and outreach. (Umpqua determined that "store" connotes buying things, whereas "branch" connotes administrative activities.) The focus on technology was new. Customer use of IT was not a significant component in Umpqua's earlier, next-generation stores.

Ziba was assigned to design the Innovation Lab and place it in Portland's emerging South Waterfront District. The result: a 3,100-square-foot retail store in which people can "sip, surf, read, bank." It opened in November 2007 (see Figure 1).

Figure 1. Umpqua's Retail Experience



Source: Used with permission of Basil Photography (June 2008)

Making the Branch a Neighborhood Club

Customers entering an Umpqua "store" first encounter a lounge area with comfortable chairs and cafe-style tables embedded with laptops. Here, customers can sip a cup of coffee, read the morning paper, pay bills or surf online via Wi-Fi connections, check out local bands on the bank's online music store, or enter Umpqua's social network site, called LocalSpace. There, they can find information on area businesses, chat online with LocalSpace members, and identify which merchants are offering cash rewards to Umpqua debit card holders.

LocalSpace was designed to bring small business owners together to share best practices on running and growing their business, and develop a community of interest around financial services. The Umpqua store also hosts in-person community activities — for example, movie nights, a Wii bowling league, "stitch-and-bitch" knitting clubs, Business Therapy and concerts. Umpqua's aim is to have the Innovation Lab be a destination, not only for South Waterfront customers and prospects, but for people and businesses throughout the Portland metro area.

The store's design forces customers to walk through the bank and pass by merchandising modules before reaching the teller area. The modules display Umpqua-branded coffee, mugs, water bottles and baseball caps, as well as products for sale from local merchants. An interactive 25-foot touch screen displays resources for small businesses and invites users to watch a podcast on small-business-related topics (see Figure 2). The screens also show movies or PowerPoint presentations, and run video games. At the community wall, customers gaze at art photo images of the neighborhood and are encouraged to add their own photos. The community wall also hosts an interactive survey where people can vote on hot topics of interest to the neighborhood.

Figure 2. Umpqua's Large Display Wall



Source: Used with permission of Basil Photography (June 2008)

The traditional teller — designed to be less intimidating by de-emphasizing administrative activities — is at the rear of the store (see Figure 3). There is no teller cage. Instead, small lamps

separate teller stations, which helps to reduce intimidation and the formality often seen in traditional bank branches.

Figure 3. Cage-Free Teller Stations



Source: Used with permission of Basil Photography (June 2008)

Tellers count out cash on their work surfaces and pass it to the customer on a tray, accompanied by a foil-wrapped chocolate coin embossed with the Umpqua logo. In the middle of the back section is a "concierge" service desk. An Umpqua associate is stationed there during business hours to answer questions about accounts and service, bank hours, and community activities. A nearby high-end plasma screen allows customers to learn about banking and investment products, account information, and rates. An interactive screen allows the user to print out specific materials of interest.

As Ray Davis, president and CEO of Umpqua Bank told us: "Umpqua has long been known for its innovation around the customer experience. The Innovation Lab setting allows us to experiment with new technologies and strategies in a customer setting, ensuring the technology and the stores themselves remain relevant in the future."

Technology and Employees Can Enhance the Customer Experience

Umpqua believes that most banks think of technology as a necessity for speed of service and customer access. Umpqua instead views IT as a tool that enhances the customer shopping experience. To that end, it partnered with leading technology firms to power the interactive walls, telephone data and video feeds, network infrastructure, wireless Internet access, and PCs for customer and employee use.

Companies participating in Innovation Lab include Cisco, Intel, Lenovo, Microsoft and NCR. In particular, Cisco's Unified Meeting Place — available in the lounge area and "i-café" — identifies a route through which the customer can initiate contact with a bank product expert via instant messaging or live video-to-video or schedule a face-to-face visit. Cisco also provides the tools to manage, develop and secure the interactive content.

Umpqua also takes a different approach to staffing. By advertising in retail publications, the bank hires many of its associates as retailing advisors, not as traditional bank tellers. The bank sends new hires of all its stores — not just the Innovation Lab — on field trips to learn from retailers, such as Nordstrom, known for their friendly customer experience, and to attend training offered through the Ritz Carlton.

Results

- Umpqua's growth strategy since 1994 has seen the number of stores increase from five to 147, and assets from \$140 million to \$8.2 billion.
- Its retail philosophy has been inculcated throughout the company. In 2007, Umpqua was named No. 34 on Fortune Magazine's 100 Best Companies to Work for; in 2008, the ranking climbed to No. 13.
- Since it opened in October 2007, the Innovation Lab has hosted 63 community events, attracting more than 2,000 viewers and participants.
- The new bank store has attracted more-affluent and younger customers (ages 26 to 35) than is typical in its other stores. And customers also use more financial services per household.
- It is built on a corporate culture of extreme service that delivers a customer experience that encourages people to do more than just bank. Employees are eager to nurture that culture, even through nine bank acquisitions. New employees integrate quickly, because they are inspired by the fresh approach.

Umpqua will monitor customers' and employees' experiences and the use of the new technologies in the Innovation Lab for implementation in its next-generation and neighborhood stores.

Critical Success Factors

The success of Umpqua's concept is based on:

- Executive belief that Umpqua must give people a reason to come into the bank's stores
- Executive willingness to radically alter the traditional retail bank branch approach and to buy into innovative branch design
- Executive commitment to being a "community" bank, no matter how large Umpqua becomes
- Adherence to the need to compete with more than interest rates
- A focus on building and sustaining foot traffic, offering retail products from other nonbanking brands

- Early establishment of a cross-functional innovation team — comprising marketing, product management, operations, IT and training — to identify requirements and barriers to innovation

Recommendations

- Establish a cross-functional innovation team (including marketing, product, operations, IT and training) early to identify requirements and innovation barriers.
- Understand and accept the difference between design and build to establish a reasonable project budget.
- Prioritize critical technologies — for example, those that enable account origination, loan origination, bill pay switch and the Web site — so that they can be integrated into the customer experience as soon as possible.
- Be flexible on cost issues with technology partners. Don't waste time and energy on less-than-committed partners.

RECOMMENDED READING

"Case Study: Turkish Bank TEB Builds an Innovation Culture"

"The Future of Money and How Banks Should Prepare"

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