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Wells Fargo to Expand Supermarket Branching Strategy in the Midwest

By Olaf de Senerpont Domis

SAN FRANCISCO -- Wells Fargo & Co. is in discussions with supermarket chains in the Midwest to open in-store branches in markets that were served by the former Norwest Corp.

In an interview this week, Wells Fargo chief operating officer and vice chairman Leslie S. Biller said that grocery store banking is an important and logical part of the \$205.4 billion asset company's arsenal of delivery channels. "As part of an integrated distribution strategy, supermarket locations make a lot of sense," Mr. Biller said. "You'll see more and more of those in the future as a result of the knowledge we gained by looking at how Wells Fargo has done."

The former Wells Fargo, which merged Nov. 2 with Norwest corp. of Minneapolis, has been a leader in supermarket banking, with offices in 958 stores across the western United States. Norwest, however, was far behind, with only 122 supermarket branches in its midwestern markets. Mr. Biller, who was president and chief operating officer of the former Norwest, decline to reveal which supermarket chains Wells Fargo is talking to, or in which states the banking company is looking.

"We are looking at some opportunities," Mr. Biller said. Observers said candidates include Wal-Mart, Kroger Co. of Cincinnati, Albertsons Inc. of Boise, Idaho, and Safeway Inc. of Pleasanton, Calif. Wells already has major contracts with Safeway and Albertsons in the West but could be interested in expanding into their stores in the Midwest, according to experts. Supermarket banking has its critics, many of whom argue that in-store branches are not cost-effective. Indeed, the lack of profits has turned some banks away from this method of retail delivery.

For example, Bank of America Corp. last year sold more than 80 Chicago-area branches in Jewel-Osco stores to TCF Financial Corp. of Minneapolis. "On a per-square-foot basis, this is a very expensive way to do banking," said Kenneth Thomas, a Miami-based banking consultant. "The generation of core deposits just isn't there."

But Mr. Biller said that supermarket banking is a critical piece of Wells Fargo's overarching goal to offer customers the ability to use the banking company's services when and where they choose. "What is important about grocery stores is not to look at

them as stand-alone distribution points but as part of an integrated distribution strategy," he said. "It has got to be part of an overall mix." The strategy is something of a turnaround from the old Wells Fargo's attitude toward supermarket banking. In recent years, it closed about 500 traditional branches and opened about 1,000 in-store offices in an effort to reduce costs and increase convenience, a bank spokeswoman said.

It is a risky strategy, Mr. Biller acknowledged. "If you take this too far and don't have enough full-service branches, certainly upscale customers and business customers won't use it to open accounts, and thus you lose your ability to sell," Mr. Biller said. Experts agreed with Mr. Biller, adding that the key to success in supermarket banking is to offer the service as one of several ways for customer to deal with the bank.

"Banks have realized they can't classify a customer as one who uses only one particular channel," said Kim Sutherland, director of Atlanta-based Market Line Associates, which measures the profitability of in-store banking networks.

An Aug. 17 bulletin from the Office of the Comptroller of the Currency said Wells Fargo is closing 22 underperforming banking centers - which are staffed but do not take deposits - in Southern California Vons supermarkets. The ATMs that accompanied these in-store centers will remain, said Lynn A. Pike, president of Wells Fargo's Los Angeles region, on Thursday. She added that the bank is considering upgrading 23 other banking centers to full-service grocery store branches.

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