How to Determine an Appropriate Branch Investment Strategy for the Branch of the Future

October 25, 2016

Presented by Barry Lynch, CFM, SFP, NCARB, MBA, IFMA Fellow
“How Much” is a Cascade of Questions:

“How Much We Should be Spending on the Branch of the Future” Depends upon:

- How much we should be Spending on:
  - Branch Facility Operating Costs
  - Branch Staffing Costs
  - Facility Renewal (Deferred Maintenance)
- What is Happening in the Market Area
- What we Hope to Accomplish in the Market Area
- What the Branch of the Future is going to be
- And so on...

- Today’s Presentation will Focus on a Process to Answer these Questions and Will Provide Insights into How to Re-examine How You Think about Branches.
Today’s Presentation Brought to You By:

Banking Institutions and Credit Unions Council of the International Facility Management Association

**IFMA**
- Founded in 1980 IFMA
- World's largest and most widely recognized international association for facility management professionals
- 24,000 members in 104 countries
- 133 chapters and 15 industry councils
- Together they manage more than 78 billion square feet of property

https://www.ifma.org/
How to Develop an Appropriate Investment Strategy for the Branch of the Future

Banking Institutions and Credit Unions Council

Focus on common concerns and special needs specific to Banking Institutions and Credit Unions.

Members benefit through:

• Focused networking
• Online community
• Targeted information:

http://bicuc.ifma.org/
How to Develop an Appropriate Investment Strategy for the Branch of the Future

60 Second Council Update:

Susan Moury, CFM, Council President
susanmoury@gmail.com
cell – 540-557-7036
office - 301-497-7000 x7140

• Successful Roundtables at Facility Fusion and World Workplace Conferences
• Have Been Challenged with Scarcity of Volunteers. We need to:
  • Repopulate 30+ Benchmark Surveys on Website
  • Start sending out new Benchmark Surveys to See How Things Have Changed
  • Repopulate the Website with Previous Webinars and Roundtable Information
  • Help with the e-Newsletter
• Welcome Ron Williams - As Council Vice President
• Jackie Heyen – Treasurer
• Erin Monticue - Secretary
• Monthly Webinars Back on Track
• November – Gensler’s Workplace Survey
• December - Branch of the Future Roundtable – we need Members who can share their experiences and hopefully a few photos
We always knew great workplace design drives creativity and innovation. Now we can prove it.
Our Presenter

Barry Lynch, CFM, SFP, NCARB, MBA, IFMA Fellow

Strategic Facility Planner

Labarre Associates

• Strategic Facilities Planning
• Real Estate
• Architecture
• Construction
• Facilities

Today’s Presentation will be from the perspective of a Strategic Facility Planner, a perspective that embraces a Real Estate, Facility Renewal, Architecture, Interior Design and Financial viewpoints.
If you can afford to renovate EVERY Branch with your “Branch of the Future Concept” then there is no need to attend Webinar.

If you can’t afford a uniform renovation for every Branch, this Webinar will provide a process, some tools and ideas about how you might go about “stretching” your capital dollars. After you go through the data gathering and analysis process, and cap it with financial analysis for different scenarios, you will gain some significant insights into how effectively your total Branch Network functions, where you should invest your money and why.
Disintermediation in the Kitchen

Cell Phone Replaces:
- Watch
- Kitchen Timer
- Stop Watch
- Cookbook
- Wall Phone
No Disintermediation with the Branch

RETAIN IS THE ONLY WAY A CUSTOMER CAN PHYSICALLY CONNECT WITH A BRAND
You’ve got to start with the Customer Experience and work back toward the technology, not the other way around.

*Steve Jobs*
The Customer Experience Touches Almost Every Area of Operations
There is No "Silver Bullet" for the Branch of the Future

Location Still Matters
Getting the Right Locations Takes Time
Networks don’t have to shrink Automatically
Not Every Branch Should be “The Apple Store”
Branches Still Need Spacious Lobbies
Drive Thru’s – Enough for 20 Years from Now?
Exit Strategy Needs to Be Identified for Every Branch
Problem-Solving Process: Strategic Facility Planning

WHERE YOU’VE BEEN
WHERE YOU’RE HEADED
HOW TO GET THERE
DECISION-MAKING/CONSENSUS BUILDING

It is a 4-Step Process That Involves:
• Real Estate
• Facility Management
• Operations
• IT
• Architecture
• Interior Design
• Construction Management
• Financial Analysis
The “Steps” to Determining an Appropriate Investment Strategy for the Branch of the Future

1. Real Estate
   - Evaluate Current Branches (Handout)
   - Describe your Branch Network Strategy
   - Develop a Network Vision
   - Identify “holes” in the Network
   - Identify Market Values

2. Facilities
   - Operating Cost
   - Sq. Ft. & Key Metrics
   - Functional Inventory (Drive Thru Lanes etc.)

3. Balance Sheet
   - Book Value
   - Facility Renewal Liability

4. Income Statement
   - Facility Operating Cost
   - Staff Operating Cost

5. Staff
   - Staff by Position

6. Transaction Platform

7. Customer Experience
   - Integration with IT and Training

8. Integration with Brand Experience
How to Develop an Appropriate Investment Strategy for the Branch of the Future

4 Points Community Bank
Lafayette, Louisiana
5 Branches
$200 MM Assets

Hypothetical Example
A. WHERE WE’VE BEEN
How to Develop an Appropriate Investment Strategy for the Branch of the Future

Historic and Projected Asset Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Historic Asset Growth</th>
<th>Projected Asset Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>2007</td>
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</tr>
<tr>
<td>2012</td>
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</table>

Historic Deposit Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Historic Deposit Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
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<tr>
<td>2007</td>
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<td>2012</td>
<td>$350,000</td>
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<tr>
<td>2013</td>
<td>$400,000</td>
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</table>

Projected Deposit Growth

<table>
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<th>Year</th>
<th>Projected Deposit Growth</th>
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</thead>
<tbody>
<tr>
<td>2024</td>
<td>$50,000</td>
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<tr>
<td>2025</td>
<td>$100,000</td>
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</table>
How to Develop an Appropriate Investment Strategy for the Branch of the Future

WHERE YOU'VE BEEN

• Evaluate What you’ve got First
• Figure out What you Want to Accomplish
• Figure out how you will determine success

WHERE YOU’RE HEADED

• How to Get there – Iterative process:
  • Architect - Site and Building Size. Cost.
  • Real Estate Broker – locations and cost?
  • Financial – How will this location help us make money?
  • Financial Analysis – what are the break even points?

HOW TO GET THERE

DECISION-MAKING/CONSENSUS BUILDING
Where to Start?

Existing Branches - *Real Estate Evaluation*
CURRENT LOCATION ASSESSMENT

The purpose of this report is to provide feedback about how well current Branch locations meet traditional real estate criteria for a good “Retail Branch location.”

The criteria used for this report consist of the following:

- Ease of access to the area
- Good access to the site
- Good egress from the site
- On a commuter route
- In a retail area
- On the going’ home side
- High traffic counts
- Intangibles

The eight criteria received a score of 1, 2 or 3 according to the following:

1 = Inadequate
2 = Acceptable
3 = Good
**CURRENT LOCATION ASSESSMENT**

**ASSESSED SCORE FOR CURRENT LOCATIONS**

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>Scoring Key</th>
</tr>
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<tbody>
<tr>
<td>1. Ease of Access to the Area</td>
<td>3 = Good</td>
</tr>
<tr>
<td>2. Good Access to the Site</td>
<td>2 = Acceptable</td>
</tr>
<tr>
<td>3. Good Egress from the site</td>
<td>1 = Inadequate</td>
</tr>
<tr>
<td>4. On a commuter route</td>
<td></td>
</tr>
<tr>
<td>5. In a retail area</td>
<td></td>
</tr>
<tr>
<td>6. On the Goin’ Home Side</td>
<td></td>
</tr>
<tr>
<td>7. High Traffic Counts</td>
<td></td>
</tr>
<tr>
<td>8. Intangibles</td>
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</table>

<table>
<thead>
<tr>
<th>Branch 1</th>
<th>Branch 2</th>
<th>Branch 3</th>
<th>Branch 4</th>
<th>Branch 5</th>
<th>Branch 6</th>
<th>Branch 7</th>
<th>Branch 8</th>
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<tbody>
<tr>
<td>1.63</td>
<td>2.13</td>
<td>1.75</td>
<td>2.00</td>
<td>2.00</td>
<td>3.00</td>
<td>2.50</td>
<td>2.50</td>
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</tbody>
</table>

**Scoring Key**

3 = Good
2 = Acceptable
1 = Inadequate
### CURRENT LOCATION ASSESSMENT

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ease of Access to the Area</td>
<td>2</td>
</tr>
<tr>
<td>2. Good Access to the Site</td>
<td>3</td>
</tr>
<tr>
<td>3. Good Egress from the site</td>
<td>3</td>
</tr>
<tr>
<td>4. On a commuter route</td>
<td>1</td>
</tr>
<tr>
<td>5. In a retail area</td>
<td>1</td>
</tr>
<tr>
<td>6. On the Goin' Home Side</td>
<td>1</td>
</tr>
<tr>
<td>7. High Traffic Counts</td>
<td>1</td>
</tr>
<tr>
<td>8. Intangibles</td>
<td>1</td>
</tr>
<tr>
<td>9. Average</td>
<td>1.63</td>
</tr>
</tbody>
</table>

**Scoring Key**

- 3 = Good
- 2 = Acceptable
- 1 = Inadequate

**Notes:**
Are you upside down on any Branches?

Branch Real Estate Economics

- Replacement Value
- Market Value
- Book Value
- Required Facility Renewal Expenditures
Are you upside down on any Branches?

Strategy for Each Branch:

- Hold
- Hold & Improve
- Replace/ Move
- Sell
What are we trying to accomplish?

Improve existing customer service with a better location in an existing market?

Develop a market presence in a new area?

Grow Assets, income, customers or other?


What is the break-even point for a potential market for a specific branch type (retail In-Line, purchased, new construction)? How long do we think it will take to reach that point? What is our exit strategy if things don’t work out?

What is the final number of Branches for each market (long term plan)? What will drive the timing of new Branch construction?
Lafayette Walmarts
Branches Last a Long Time (40 Years)
You Need a Strategic/Long Term Perspective
# Branch Location Strategies

<table>
<thead>
<tr>
<th>Trending 2016</th>
<th>Conventional Thinking</th>
</tr>
</thead>
<tbody>
<tr>
<td>At “Bottlenecks” or where people commute on the “Goin’ Home Side”</td>
<td>High Traffic Count Locations</td>
</tr>
<tr>
<td>By Wal Mart</td>
<td>By the Mall</td>
</tr>
<tr>
<td>By Starbucks, McDonald’s</td>
<td>Where people live</td>
</tr>
<tr>
<td>Use Walmart or McDonald’s for a “Blanket the City Plan”</td>
<td>Plan the next Branch without consideration of the following 2</td>
</tr>
<tr>
<td></td>
<td>4 points of the Compass</td>
</tr>
</tbody>
</table>
Both the Biggest Advantage and Disadvantage in Branch Real Estate Decisions

**Level of Emotional Engagement**

- **Sports**: 60%
- **Clothing**: 40%
- **Technology**: 20%
- **Entertainment**: 20%
- **Automotive**: 20%
- **Finance**: 10%
Downtown University of Louisiana

4 Growth

5 Growth = Scenario for Financial analysis
What Kind of Branches Do you Have?

**Transaction Branch?**

**Loan Branch?**

Information Gathering:

- Teller Transactions
- Accounts Opened
- Drive Thru
- ATM
- Loans
Downtown University of Louisiana

Growth Scenario for Financial analysis

L = Loan Branch
T = Transactions Branch

? = Scenario for Financial analysis
New Buzzword: “Analytics”

It’s What you do with Data From “Where You’ve Been” & How you Use it to Create Value for the Enterprise
Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win.

Sun Tzu, *The Art of War*

*But Sometimes with Branch Network Planning, You Have to Go Through the Entire Process Before Your Strategy Emerges.*
B. Where We’re Headed
There are only 16 Possibilities

<table>
<thead>
<tr>
<th>Branch Type</th>
<th>Conventional Teller Line</th>
<th>Smart ATM</th>
<th>Remote Teller</th>
<th>Island with Cash Recycler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Freestanding Branch</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Repurposed Freestanding</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>In Line (Retail)</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Niche</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>
TRADITIONAL BRANCH

TELLER

PRINTED MARKETING MATERIAL

CHECK WRITING STAND

GATEKEEPER

ADDITIONAL SERVICES

AMBIANCE: RESERVED, FORMAL, ALOOF, TRADITIONAL

STAFF: ONE PERSON ONE JOB

ENTER
BRANCH OF THE FUTURE

DIGITAL CROSS-SELL PLATFORM

RESEARCH

SELF-SERVICE ATM

CONSULTATION

STAFF: CROSS-TRAINED

Entering

TELLER ISLAND WITH CASH RECYCLER

AMBIANCE: FRIENDLY, COLLABORATIVE, INFORMAL & TRENDY
Design Precedent

Retail Operations Changing
E Trade was a Pioneer in Branch of the Future
Option 1
Island with Cash Recycler

Photo: James Peck Photography
Island with Cash Recycler
## Island with Cash Recycler

### How it Works
1. Site Specific “Greeting” Protocol
2. Teller Assists Transaction at “Teller Pod” - an island with a Built-In Cash Recycler
3. Minimal barrier between Teller and Customer

### Advantages
1. Progressive Image
2. Cash Control – eliminates the need for a cash safe
3. Limits “Robber” Money
4. Minimizes “Close Out”
5. Can Speed up the Transaction Process

### Disadvantages
1. “Hidden Costs” of IT Integration and HR Training
2. Doesn’t necessarily decrease the need for Tellers
3. Tellers still need a Work Area so there is not a great deal of sq. ft. savings

### Caveat
Requires extensive coordination with IT for systems Integration and with Branch Operations for Training in “Universal Banker” or similar Operations model

### Cost
Cost of the machines is only part of the cost equation. IT and Training can be significant.
Option 2
Remote Teller
## Remote Teller

### How it Works

1. Tellers are Centralized in a “Call Center”
2. Tellers Assist Customers with transactions and advice via video screen communication
3. Can be used in place of a Teller at Branch
4. Some Machines can Double as ATM’s

### Advantages

1. Can cost effectively increase service levels
2. Can provide Cost Savings
3. Can be “Ramped Up” via an In-branch model until a critical mass for call center is reached.

### Disadvantages

1. Need to Roll Out on a relatively large scale to realize benefits
2. Industry trend is towards more privacy, which requires more space
3. “Hidden Costs” of IT/Operations Integration

### Caveat

Industry is trending towards enhanced privacy screens and even “rooms.” Requires extensive coordination with IT & Operations

### Cost

Highest Up-Front Cost with Highest Long-Term Benefit
Option 3
Smart ATM
# Smart ATM

## How it Works

1. Call Center is Staffed to Assist in Transactions
2. ATM’s are used instead of Tellers in the Branch

## Advantages

1. Can be placed in Branch, Drive-Thru or “Other” location
2. Some can convert to ATM in “off” hours

## Disadvantages

1. Need to Roll Out on a relatively large scale to realize benefits
2. It’s hard to roll out a “test” due to costs of machines, call centers & IT
3. “Hidden Costs” of IT/HR Integration
4. Machines are bulky

### Caveat

Requires extensive coordination with IT for systems integration and with Branch Operations for Training in “Universal Banker” or similar Operations model

### Cost

Medium Up-Front Cost with Highest Long-Term Benefit
C. How to Get There
If you are a "Linear Process" Person:
This process will drive you nuts, because you will have gathered all this data and you won’t have a clear answer yet.
Downtown
University of
Louisiana

1L

3T

2T

4T

5T

Growth

Breaux Bridge

L = Loan Branch
T = Transactions Branch

? = Scenario for Financial analysis
### Branch # 2  - 1,500 Sq. Ft.

<table>
<thead>
<tr>
<th>New Branch Replacement Value</th>
<th>Addition</th>
<th>Renovate w/ Recyclers</th>
<th>Renovate Required</th>
<th>Renewal</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,013,647</td>
<td>456,200</td>
<td>1,154,453</td>
<td>277,099</td>
<td>204,774</td>
<td>161,786</td>
</tr>
</tbody>
</table>

**Capital Expenditures**

Bar chart showing the breakdown of capital expenditures for Branch #2: New Branch Replacement Value, Addition, Renovate w/ Recyclers, Renovate Required, Renewal, and Book Value. The values are represented as follows:

- **New Branch Replacement Value**: 3,013,647
- **Addition**: 456,200
- **Renovate w/ Recyclers**: 1,154,453
- **Renovate Required**: 277,099
- **Renewal**: 204,774
- **Book Value**: 161,786
- **Remaining Book Value**: 22,967
### Branch # 2 - 1,500 Sq. Ft.

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#### Capital Expenditures

- New Branch Replacement Value: $3,013,647
- Addition: $456,200
- Renovate with Recyclers: $1,154,453
- Renovate Required Renewal: $277,099
- Required Renewal: $204,774
- Book Value: $161,786

*Note: The chart shows a significant expenditure for New Branch Replacement Value, with lesser amounts for Addition, Renovate with Recyclers, and Required Renewal.*
Downtown
1L
University of
Louisiana
2T
Growth
5T

L = Loan Branch
T = Transactions Branch

? = Scenario for Financial analysis
### Reduce Branch 500 Sq. Ft.

<table>
<thead>
<tr>
<th></th>
<th>3,000</th>
<th>2,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Square Feet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost per Sq. Ft</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>660,000</strong></td>
<td><strong>550,000</strong></td>
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</table>

*Reduction* 17%
### All-In Cost Analysis

<table>
<thead>
<tr>
<th>CONSTRUCTION</th>
<th>3,000 Sq. Ft.</th>
<th>2,500 Sq. Ft.</th>
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<tbody>
<tr>
<td>Land</td>
<td>700,000</td>
<td>700,000</td>
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<td>5 Year Depreciation</td>
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<tr>
<td>7 Year Depreciation</td>
<td>120,000</td>
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<tr>
<td>15 Year Depreciation</td>
<td>200,000</td>
<td>180,000</td>
</tr>
<tr>
<td>40 Year Depreciation</td>
<td>660,000</td>
<td>550,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,728,000</strong></td>
<td><strong>1,578,000</strong></td>
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</tbody>
</table>

**Reduction** 9%
Branch # ?  - 3,000 Sq. Ft. or 2,500 Sq. Ft.
Tasks:
Define “Scenarios”
Develop Budgets
Preliminary Analysis
D. Decision-Making/Consensus-Building
Tasks:
Financial Model
Sensitivity Analysis
If you Start with a Feasibility Study:

You have already reached a decision. The Study is validation of the concept.

With a Strategic Facility Planning Approach, You Really Re-Examine How You Work, Your Cost Structure, What You Would like to do and What you Can Afford
Planning – **THIS I KNOW**

- People tend to start with “their comfort zone”
- Buildings Last a long time – 40 years – plan for it
- Branch locations need to work together to achieve goals
- Think Chess, Not Checkers
- You are not rolling out a Branch. You are rolling out a CUSTOMER EXPERIENCE.
Real Estate – **THIS I KNOW**

- Planning before Real Estate
- Start with evaluating “what ya got”
- Understand:
  - Where Customers Live
  - Where they work & Commute
  - Where they shop
- Need data to support decisions, but it is less important than knowing the area and the future of the area
- Site Rule of Thumb - Need 30,000 sq. ft. Which 2/3 Acre
How to Develop an Appropriate Investment Strategy for the Branch of the Future

Architecture – THIS I KNOW

• Every Financial Institution is unique
• Increased Complexity of Planning – Tech+Branding+Staffing
• Maybe try a renovation for “universal banker” first
• New Freestanding Branches - $2 Million and up
• Smaller with no purpose is counterproductive
• Drive Thrus – what will be the volume 20 years from now?
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