



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.



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

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/>

Banking Institutions
& Credit Unions Council





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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/>

Banking Institutions
& Credit Unions Council



60 Second Council Update:



Susan Moury, CFM, Council President

susanmoury@gmail.com

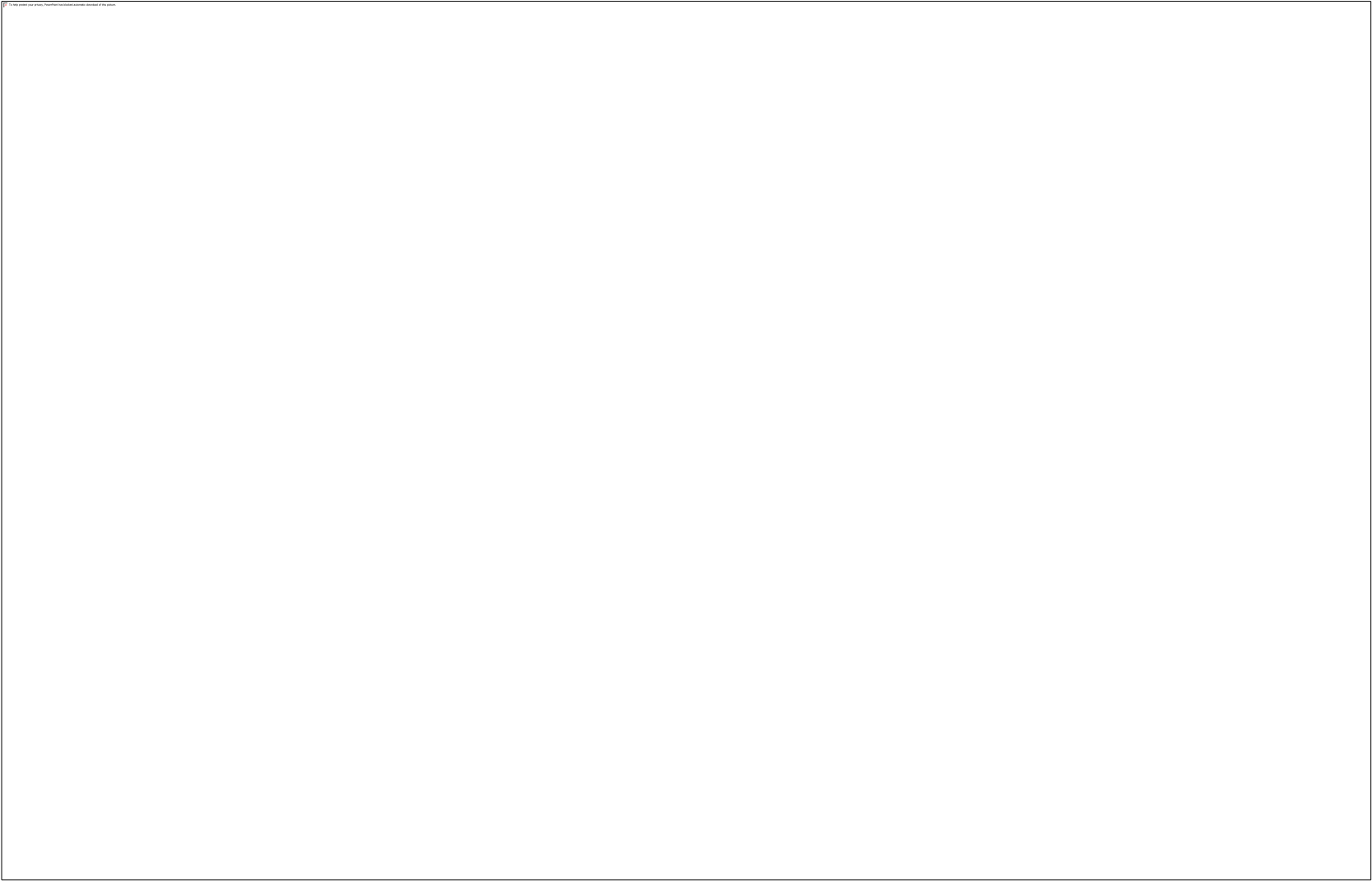
cell – 540-557-7036

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



How to Develop an
Appropriate Investment
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the Future



Banking Institutions
& Credit Unions Council



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

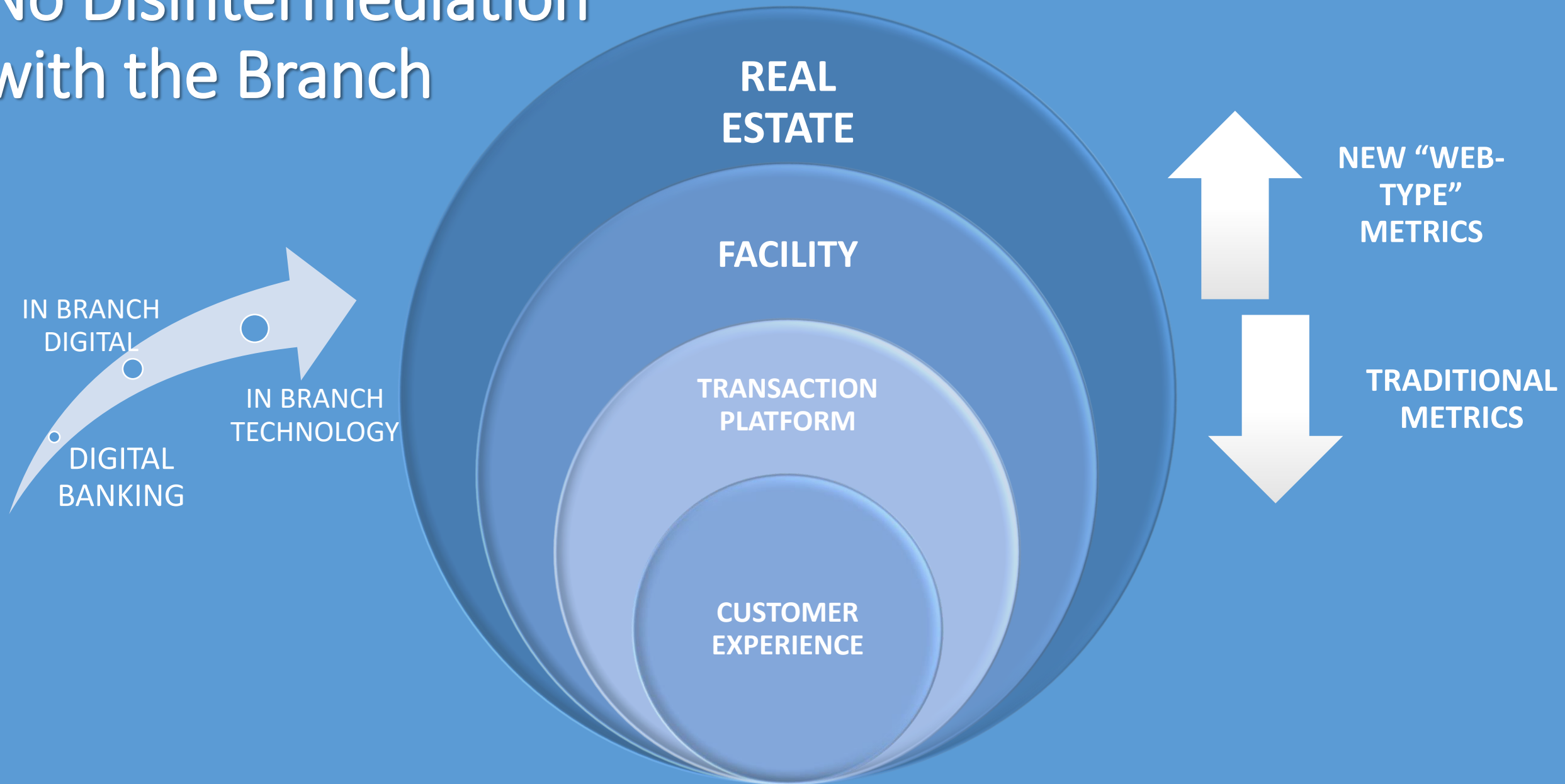
Kitchen Timer

Stop Watch

Cookbook

Wall Phone

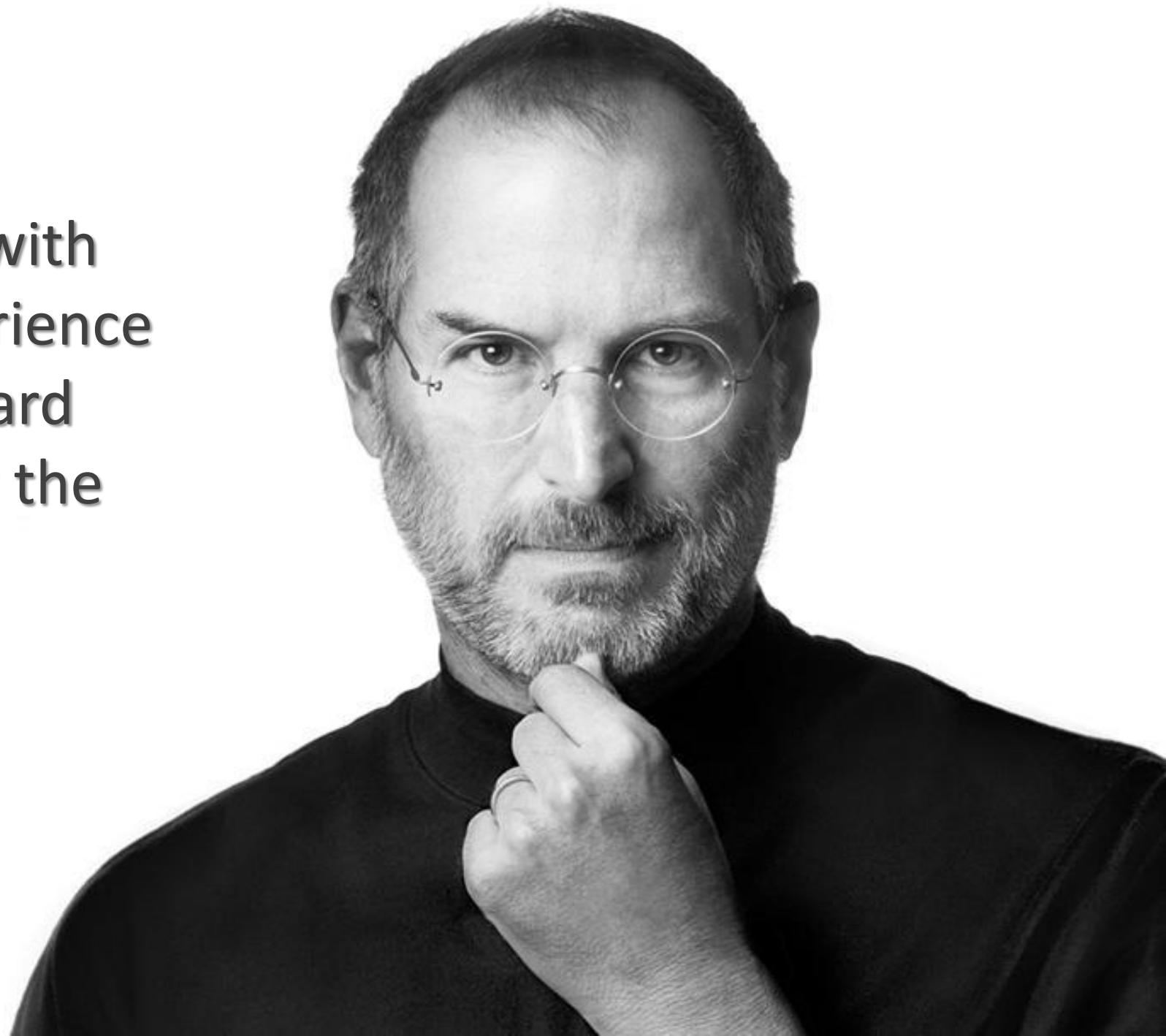
No Disintermediation with the Branch



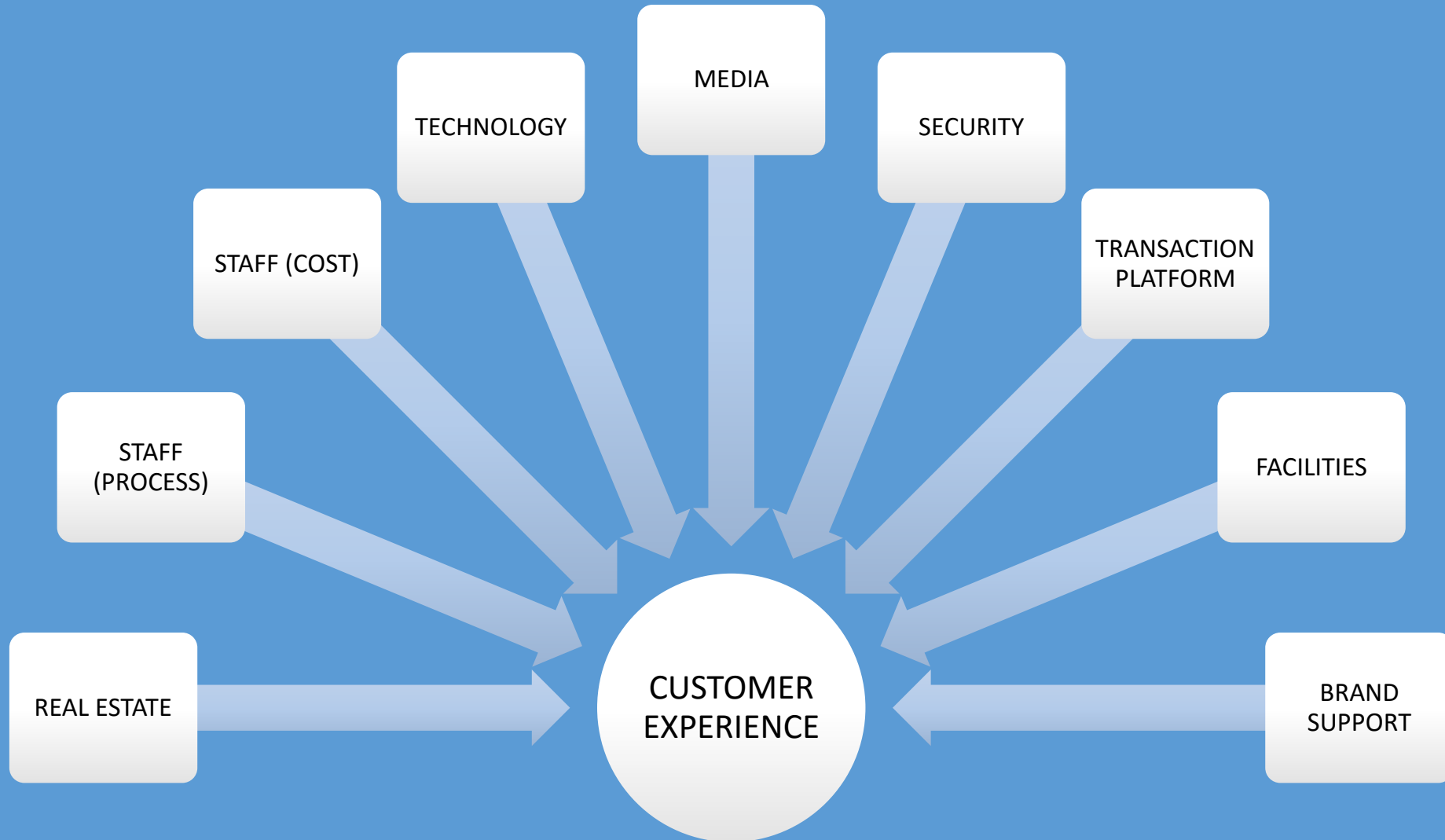
RETAIL IS THE ONLY WAY A CUSTOMER CAN PHYSICALLY CONNECT WITH A BRAND

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

4 Points Community Bank

Lafayette, Louisiana

5 Branches

\$200 MM Assets

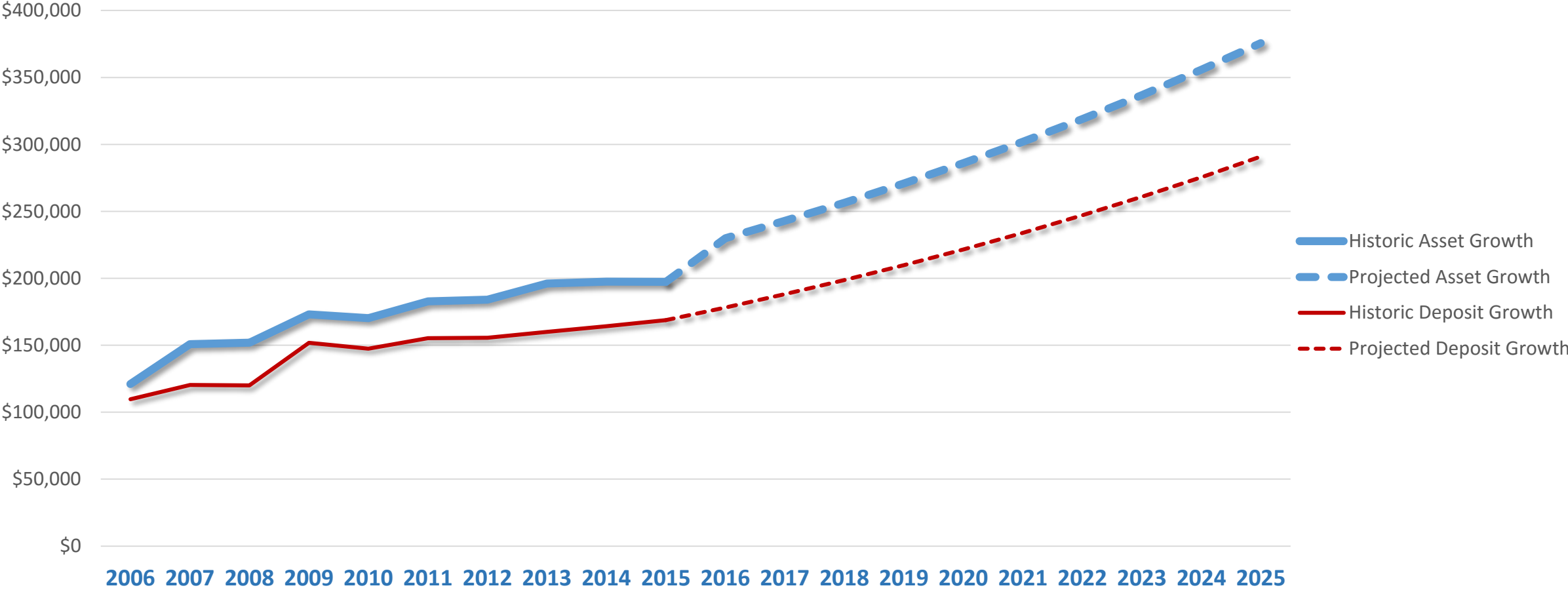
Hypothetical Example



A. WHERE WE'VE BEEN



Historic and Projected Asset Growth



Real Estate



WHERE YOU'VE
BEEN

WHERE YOU'RE
HEADED

HOW TO GET
THERE

DECISION-
MAKING/
CONSENSUS
BUILDING

- **Evaluate What you've got First**
- **Figure out What you Want to Accomplish**
- **Figure out how you will determine success**
- **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?

Where to Start?

Existing Branches - *Real Estate Evaluation*

Handout



IFMATM

International Facility Management Association

**Banking Institutions
& Credit Unions Council**

Webinar Hanout

Current Location Real Estate Assessment

Sample

8 Branch Template

October 25, 2016



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Handout

Your Logo Here

INTRODUCTION

Current Location Assessment | Real Estate

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

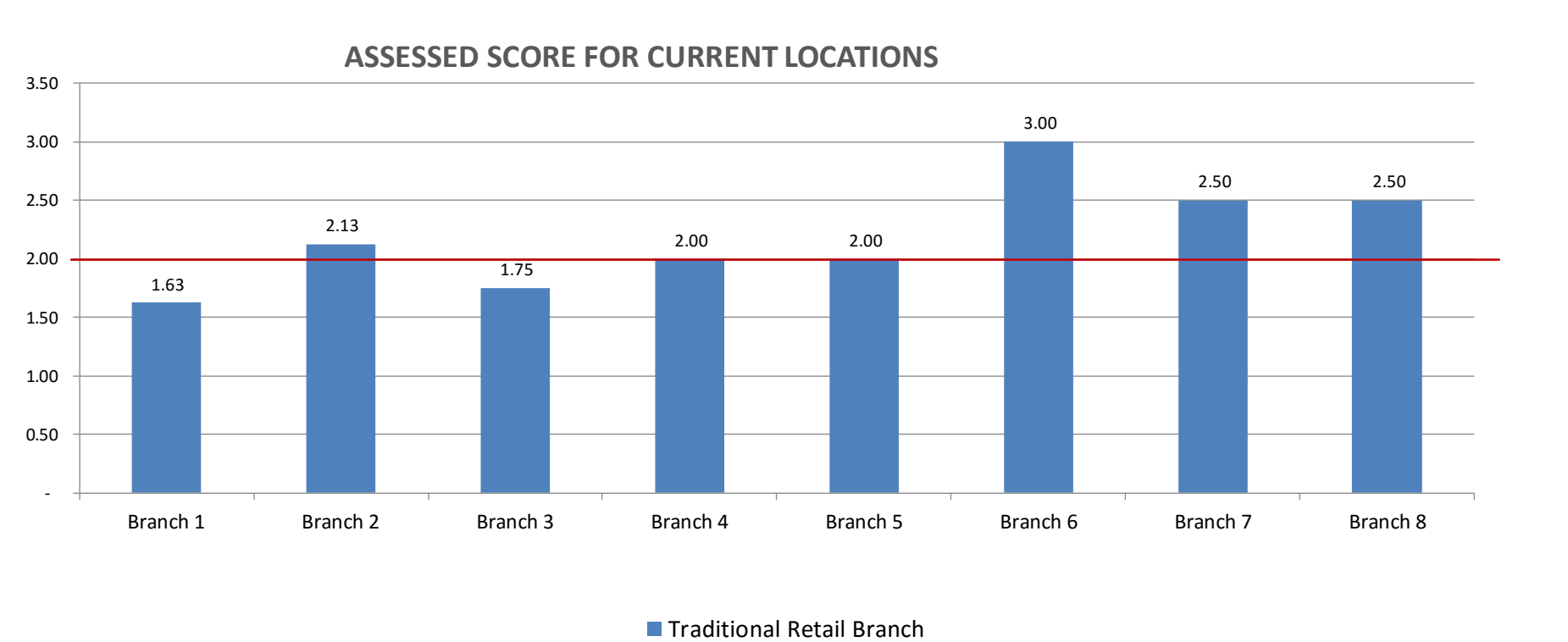
Handout

YOUR LOGO HERE

SUMMARY

Assessed Score for Each Location

CURRENT LOCATION ASSESSMENT



CRITERIA	
1.	Ease of Access to the Area
2.	Good Access to the Site
3.	Good Egress from the site
4.	On a commuter route
5.	In a retail area
6.	On the Goin' Home Side
7.	High Traffic Counts
8.	Intangibles

Scoring Key
3 = Good
2 = Acceptable
1 = Inadequate

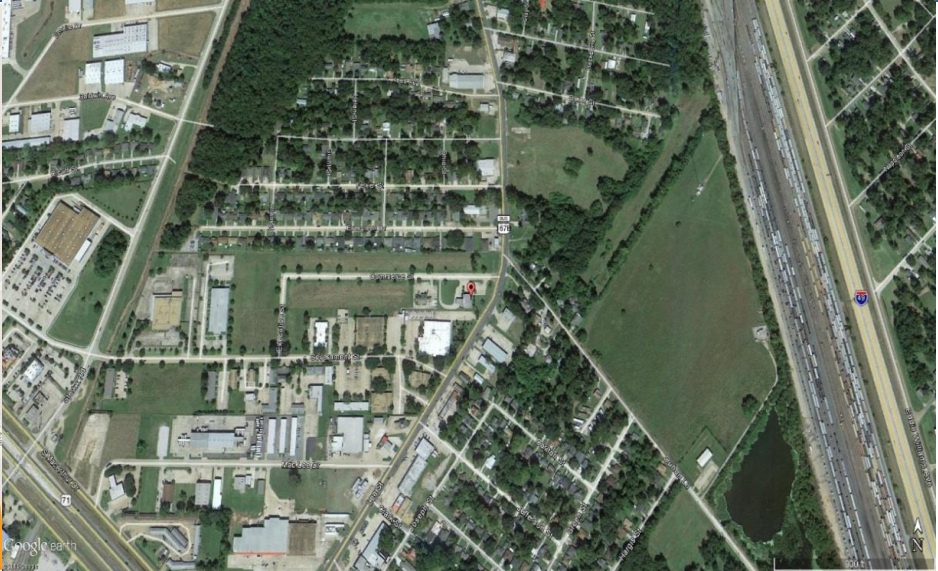
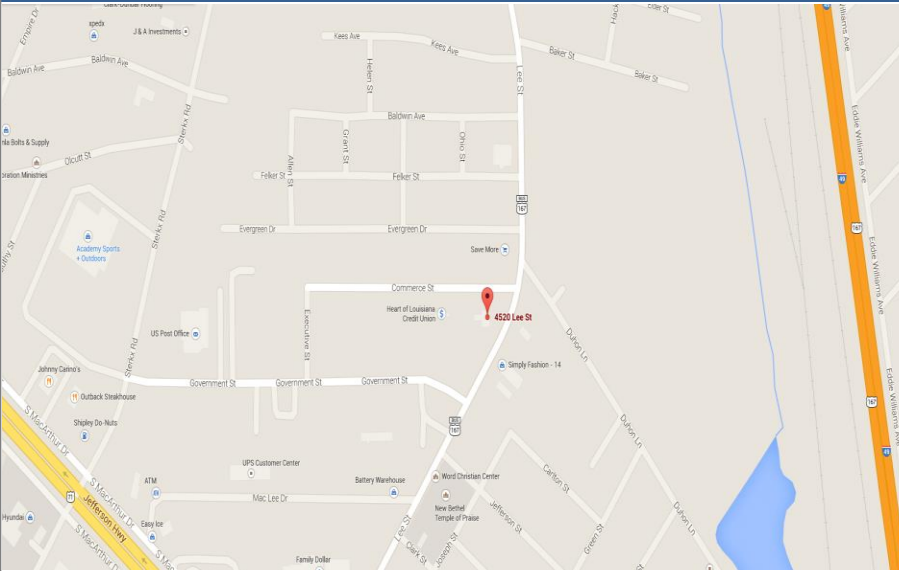
Handout

YOUR LOGO HERE

Branch 1

Parish

CURRENT LOCATION ASSESSMENT



CRITERIA

SCORE

1. Ease of Access to the Area
2. Good Access to the Site
3. Good Egress from the site
4. On a commuter route
5. In a retail area
6. On the Goin' Home Side
7. High Traffic Counts
8. Intangibles
9. Average

2
3
3
1
1
1
1
1
1.63

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?

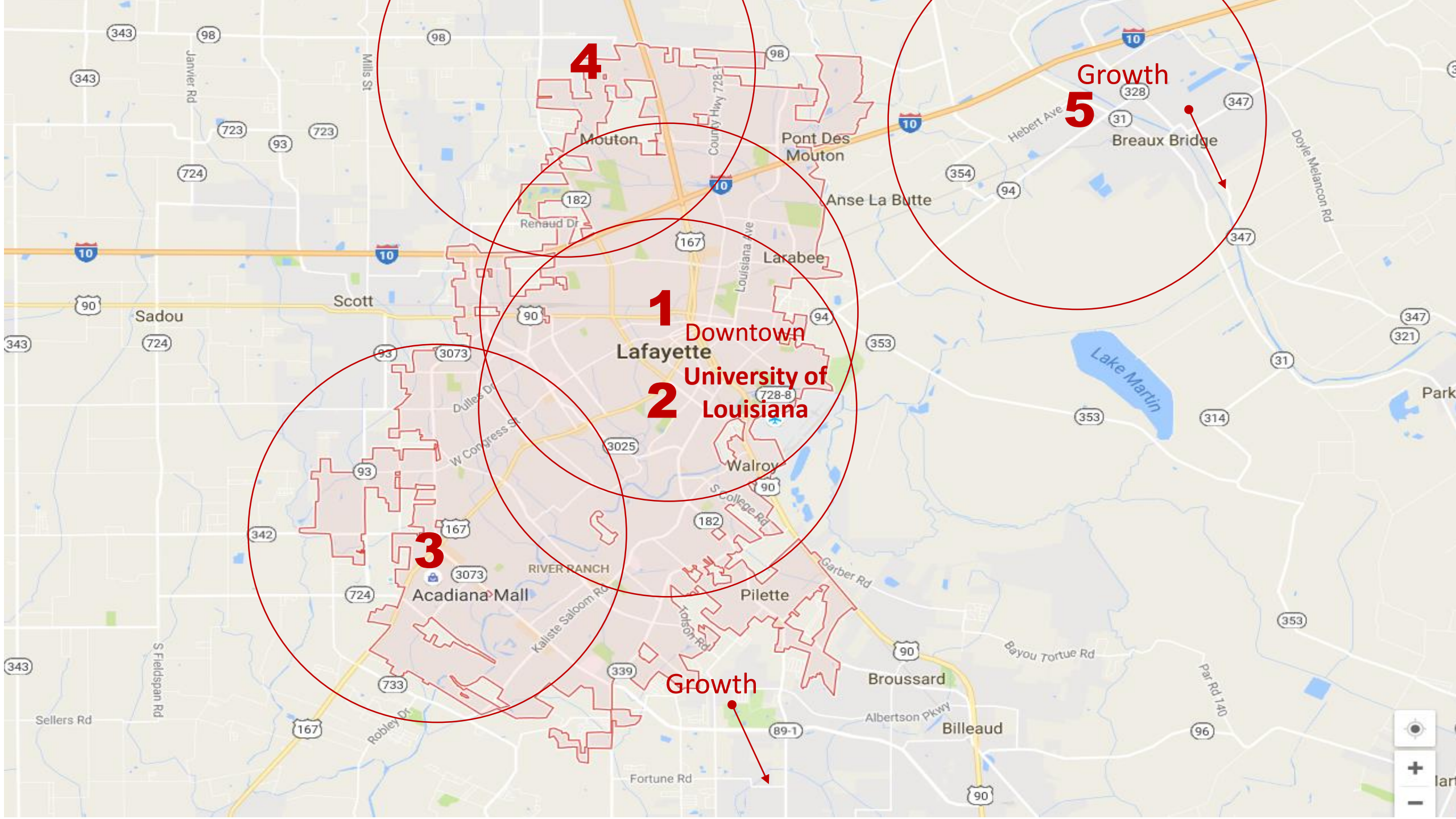
Develop a market presence in a new area?

Grow Assets, income, customers or other?

How will success be evaluated? Market Share? Profits? Deposits? Loans?

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?



4

Growth
5

1

Downtown
Lafayette
University of
Louisiana

2

3

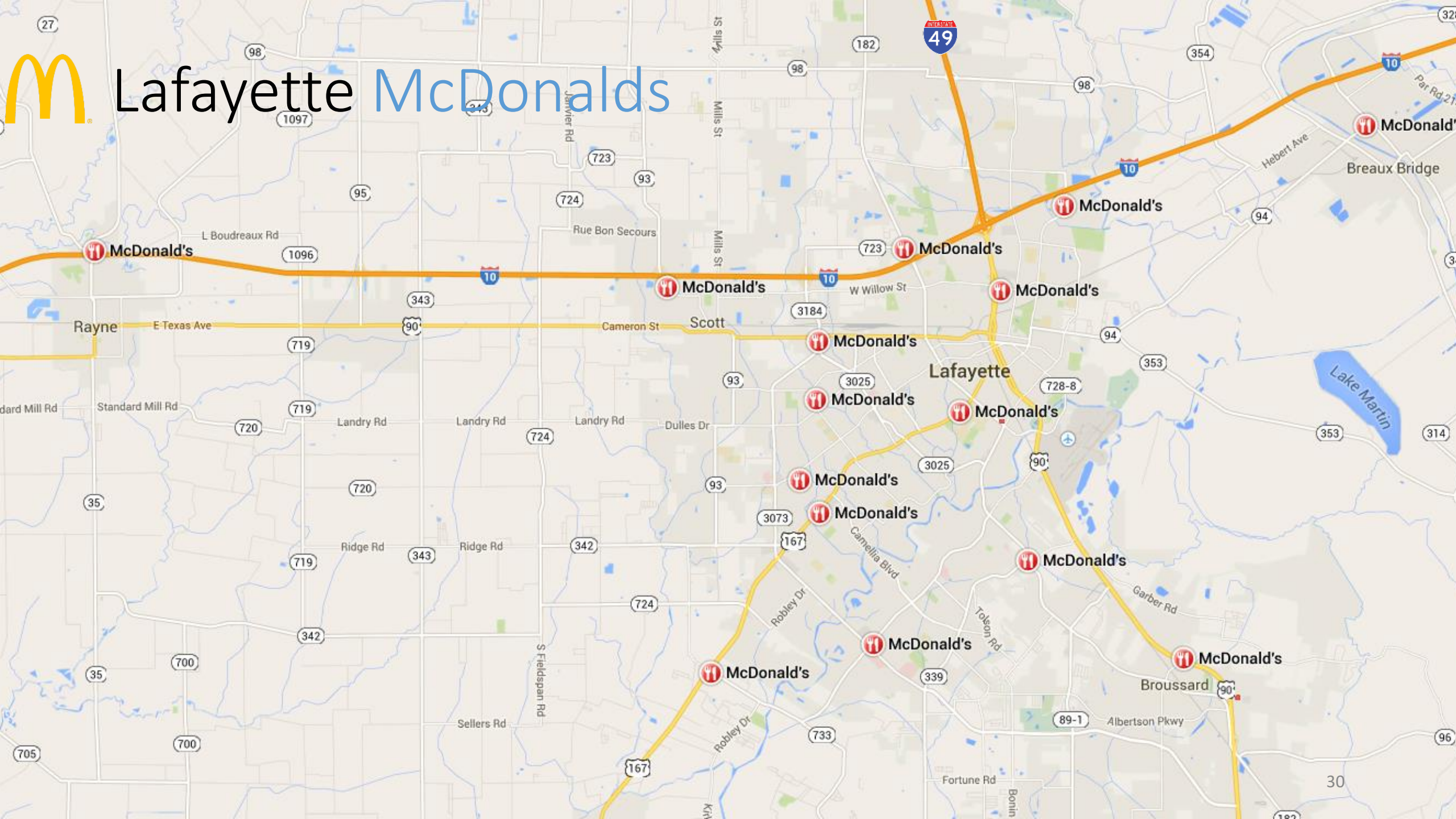
Growth



Lafayette Walmart
 Branches Last a Long Time (40 Years)
 You Need a Strategic/Long Term Perspective



Lafayette McDonalds

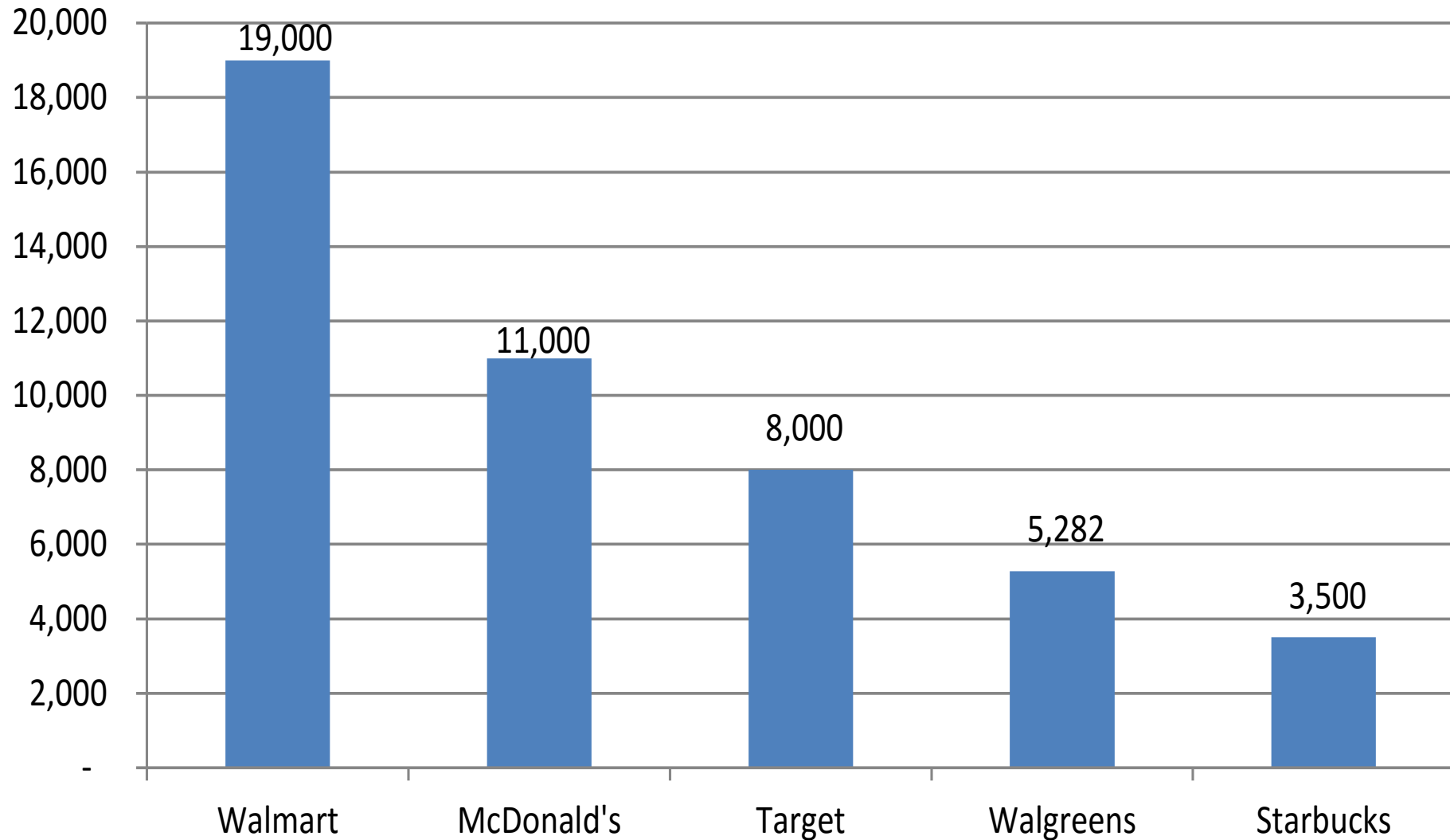




Branch Location Strategies

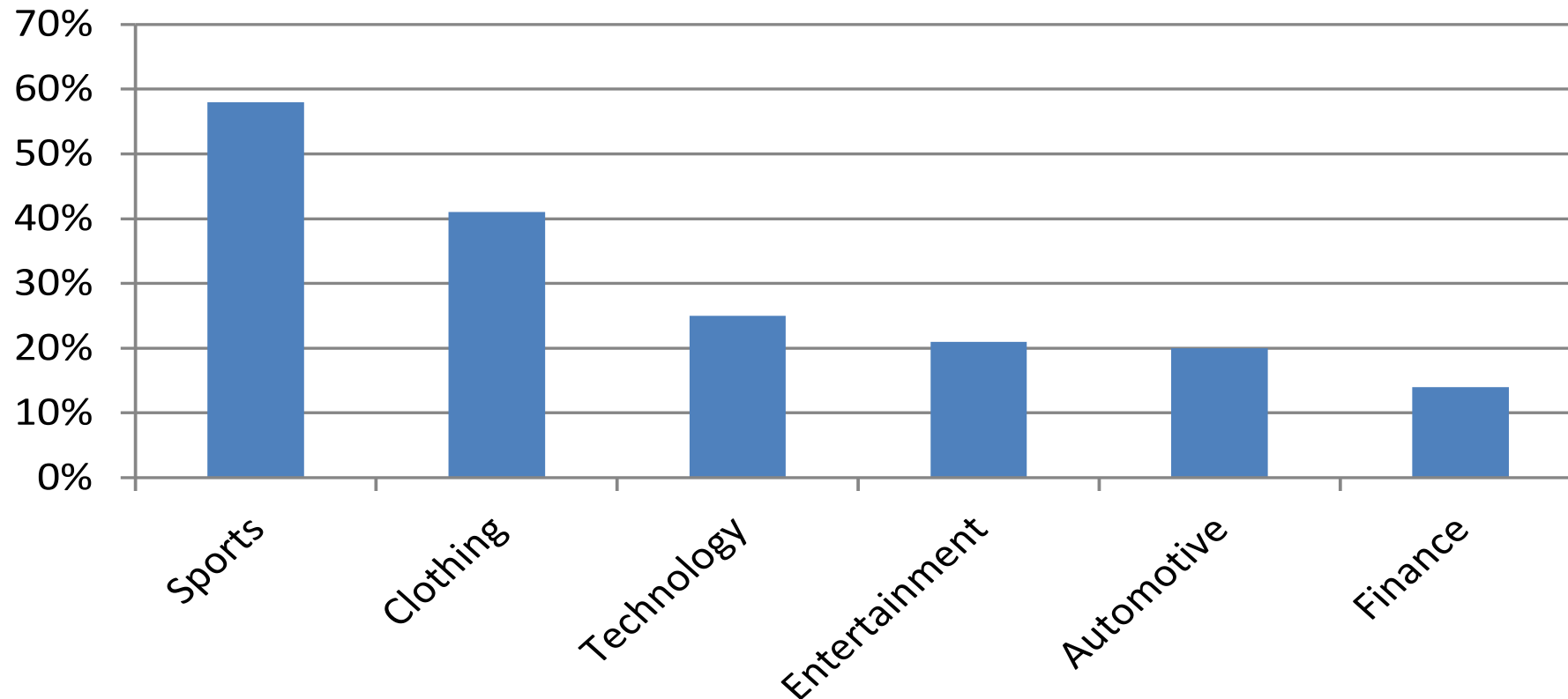
Trending 2016	Conventional Thinking
At “Bottlenecks” or where people commute on the “Goin’ Home Side”	High Traffic Count Locations
By Wal Mart	By the Mall
By Starbucks, McDonald’s	Where people live
Use Walmart or McDonald’s for a “Blanket the City Plan”	Plan the next Branch without consideration of the following 2
	4 points of the Compass

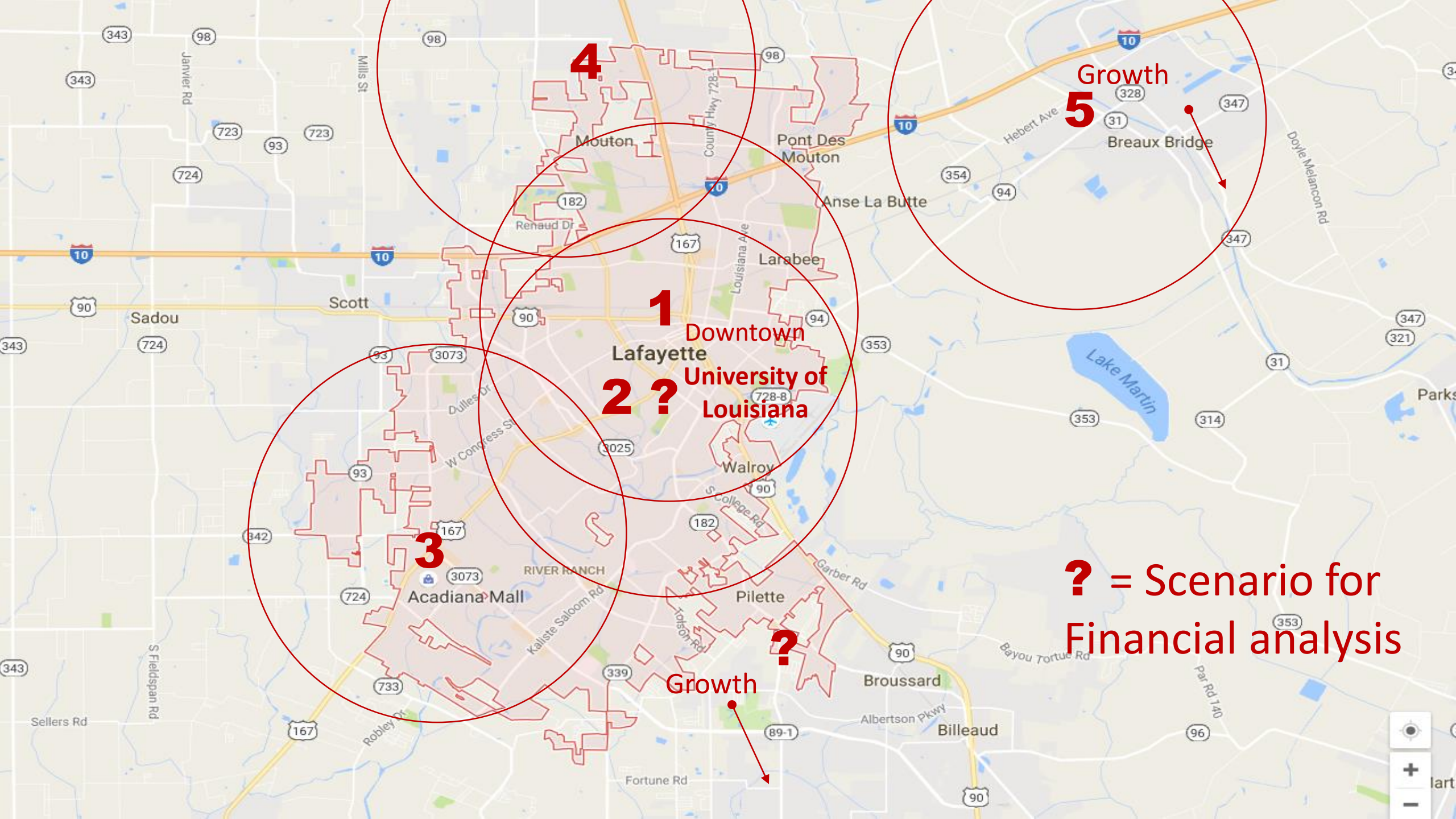
Customers per Week per Location



Both the Biggest Advantage and Disadvantage in Branch Real Estate Decisions

Level of Emotional Engagement





4

Growth
5

1

Downtown
Lafayette
University of
Louisiana

2 ?

3

?

Growth

? = Scenario for
Financial analysis

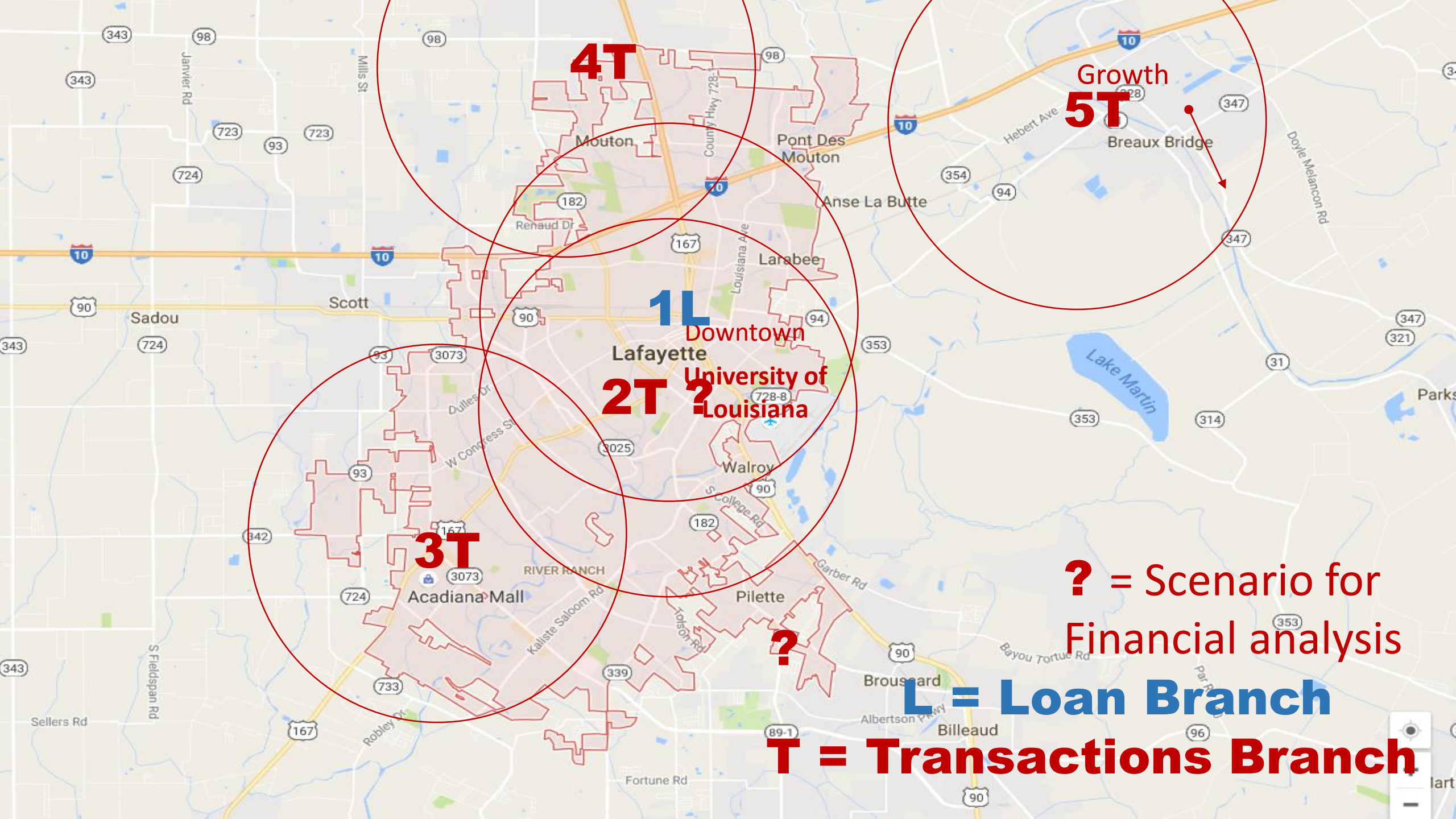
What Kind of Branches Do you Have?

Transaction Branch?

Loan Branch ?

Information Gathering:

- Teller Transactions
- Accounts Opened
- Drive Thru
- ATM
- Loans



4T

**Growth
5T**

1L

**Downtown
Lafayette
University of
Louisiana**

2T ?

3T

?

**? = Scenario for
Financial analysis**

L = Loan Branch

T = Transactions Branch

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

Strategy?

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

		Transaction Platform			
		Conventional Teller Line	Smart ATM	Remote Teller	Island with Cash Recycler
Branch Type	Small Freestanding Branch	1	2	3	4
	Repurposed Freestanding	5	6	7	8
	In Line (Retail)	9	10	11	12
	Niche	13	14	15	16

TELLER

PRINTED MARKETING MATERIAL

CHECK WRITING STAND

TELLER QUEUE

GATEKEEPER

ADDITIONAL SERVICES

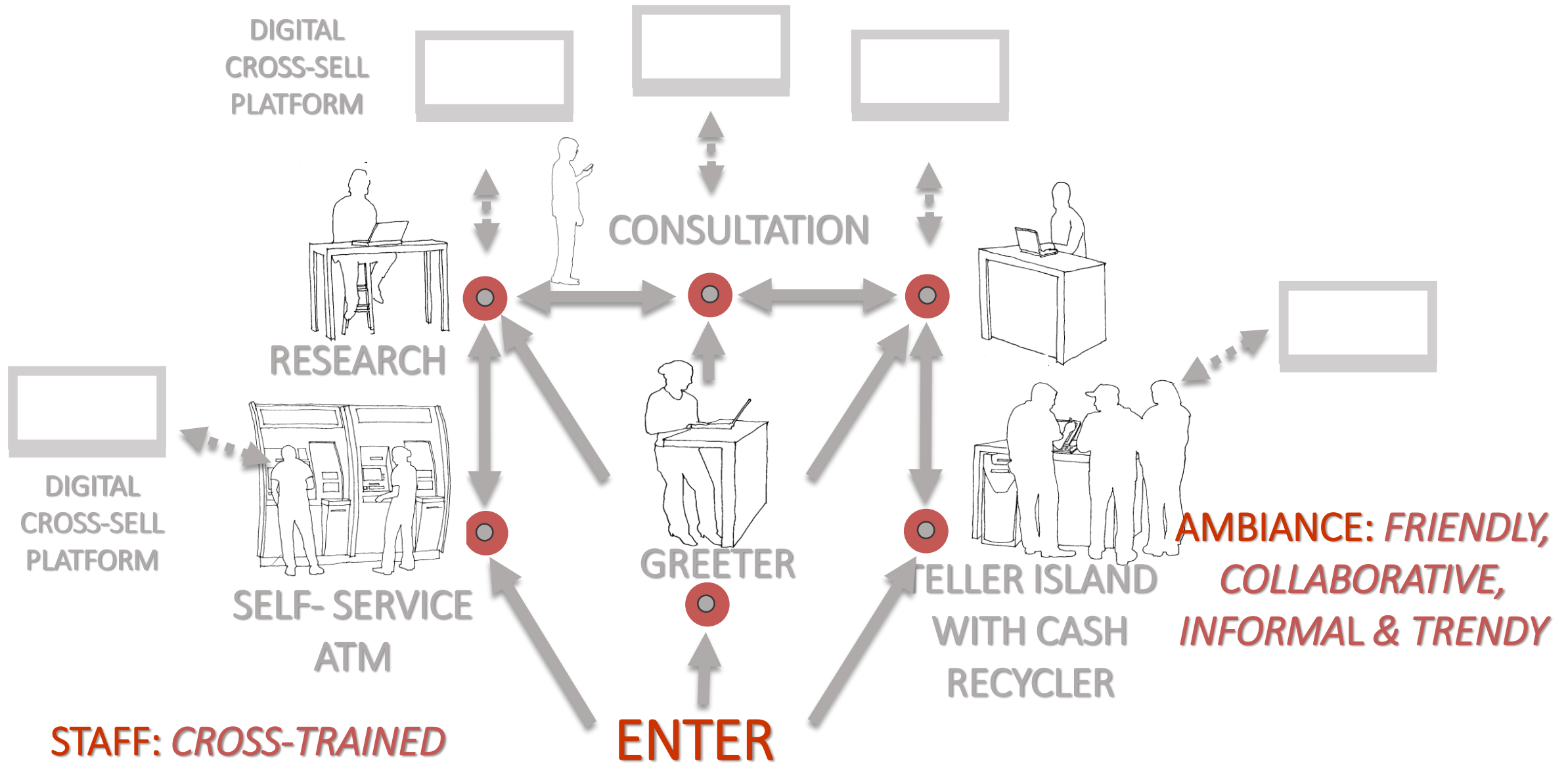
AMBIANCE: RESERVED, FORMAL, ALOOF, TRADITIONAL

STAFF: ONE PERSON ONE JOB

ENTER

ENTER

BRANCH OF THE FUTURE



Design Precedent



Retail Operations Changing

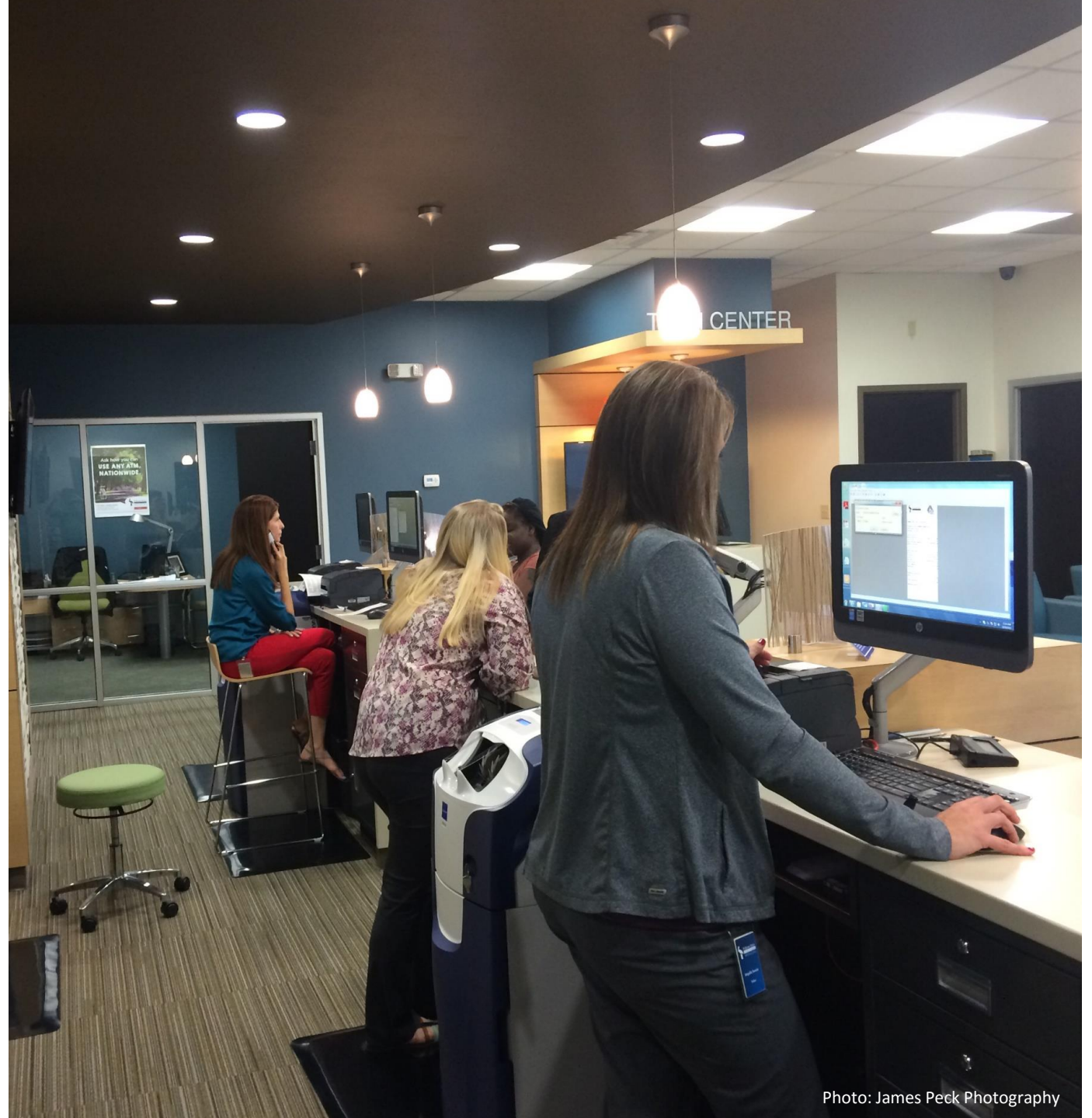


E Trade was a Pioneer in Branch of the Future



Option 1

Island with Cash Recycler



Island with Cash Recycler



TELLER WORK
AREA

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 Tellers



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

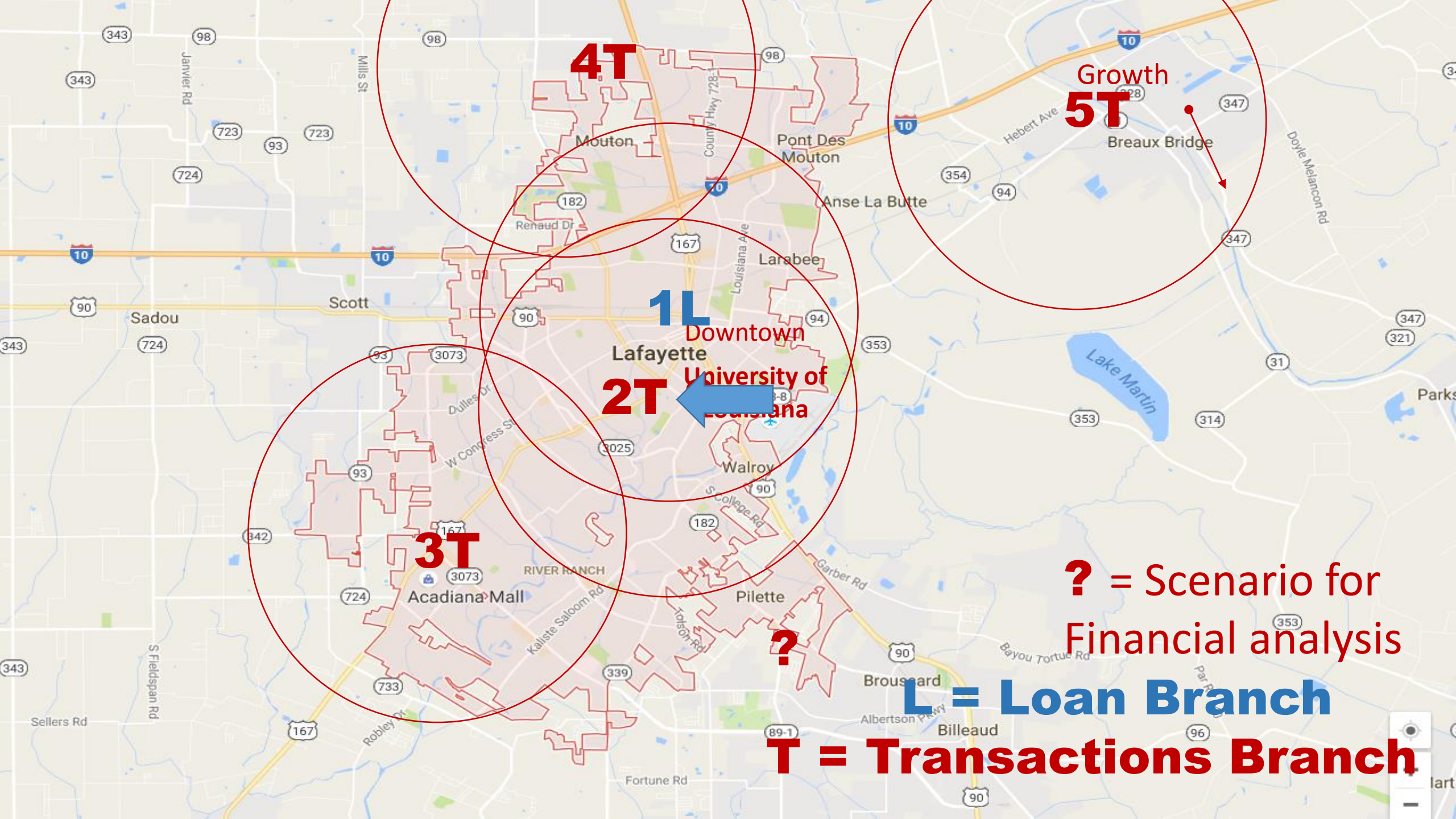
Cost – Medium Up-Front Cost with Highest Long-Term Benefit

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.



4T

Growth
5T

1L

Downtown

Lafayette

University of
Louisiana

2T

3T

?

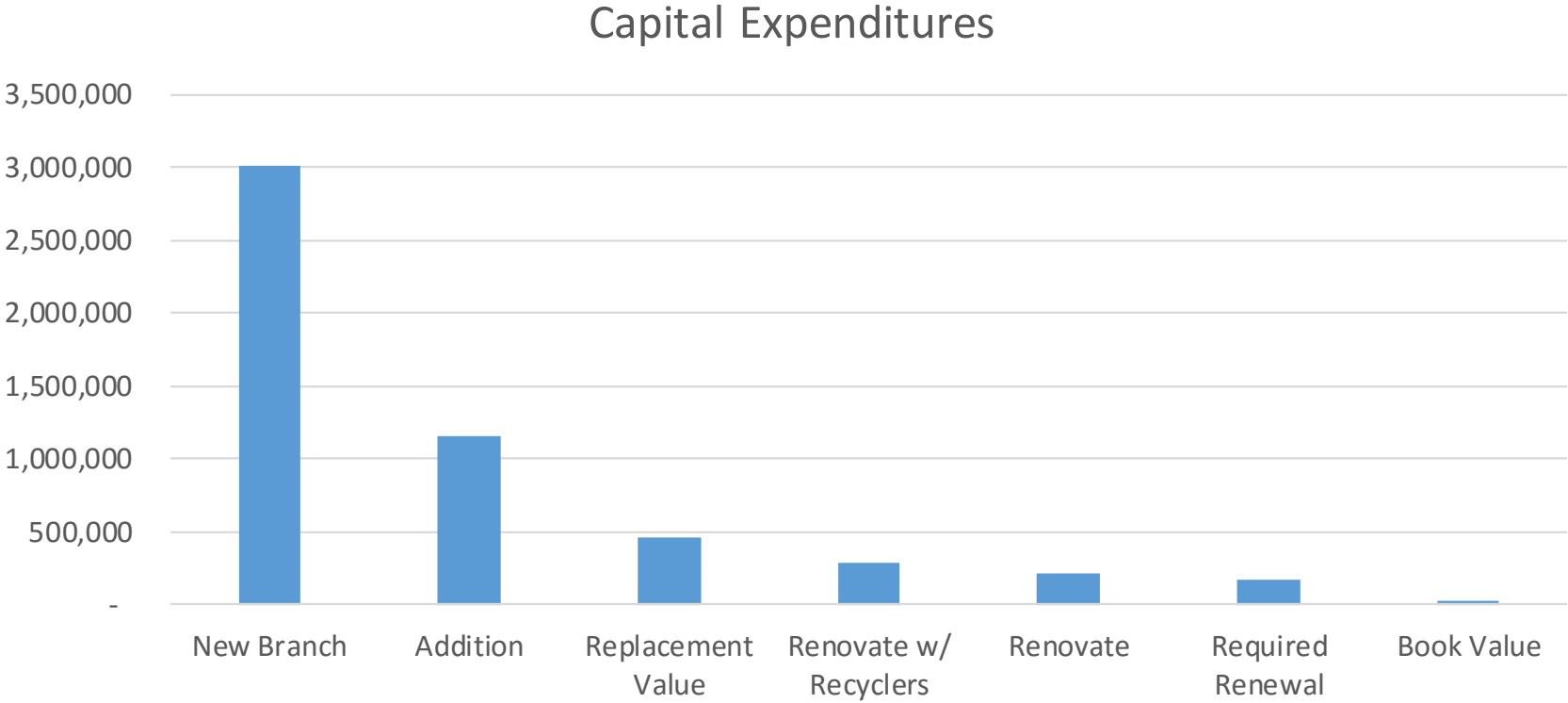
? = Scenario for
Financial analysis

L = Loan Branch

T = Transactions Branch

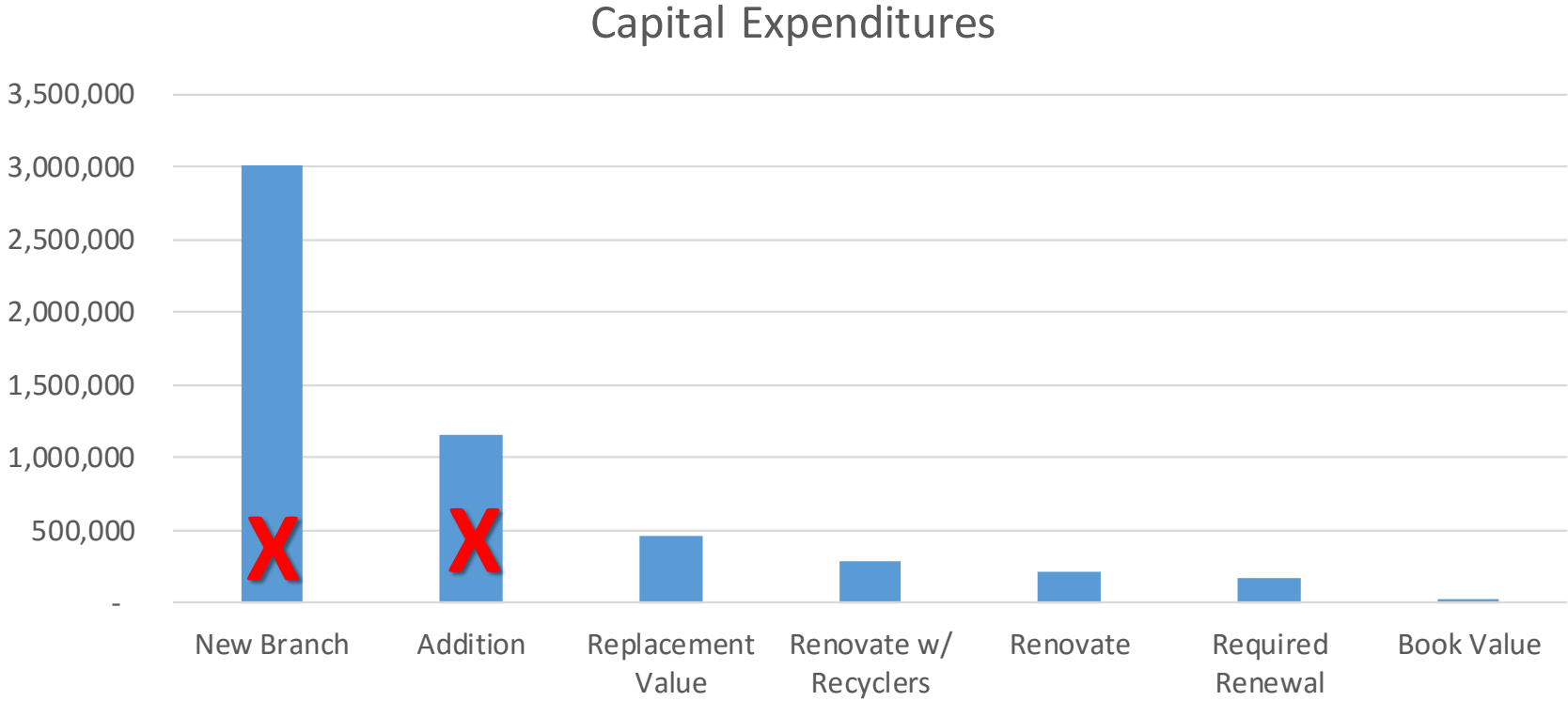
Branch # 2 - 1,500 Sq. Ft.

New Branch	Replacement Value	Addition	Renovate w/ Recyclers	Renovate	Required Renewal	Book Value
3,013,647	456,200	1,154,453	277,099	204,774	161,786	22,967

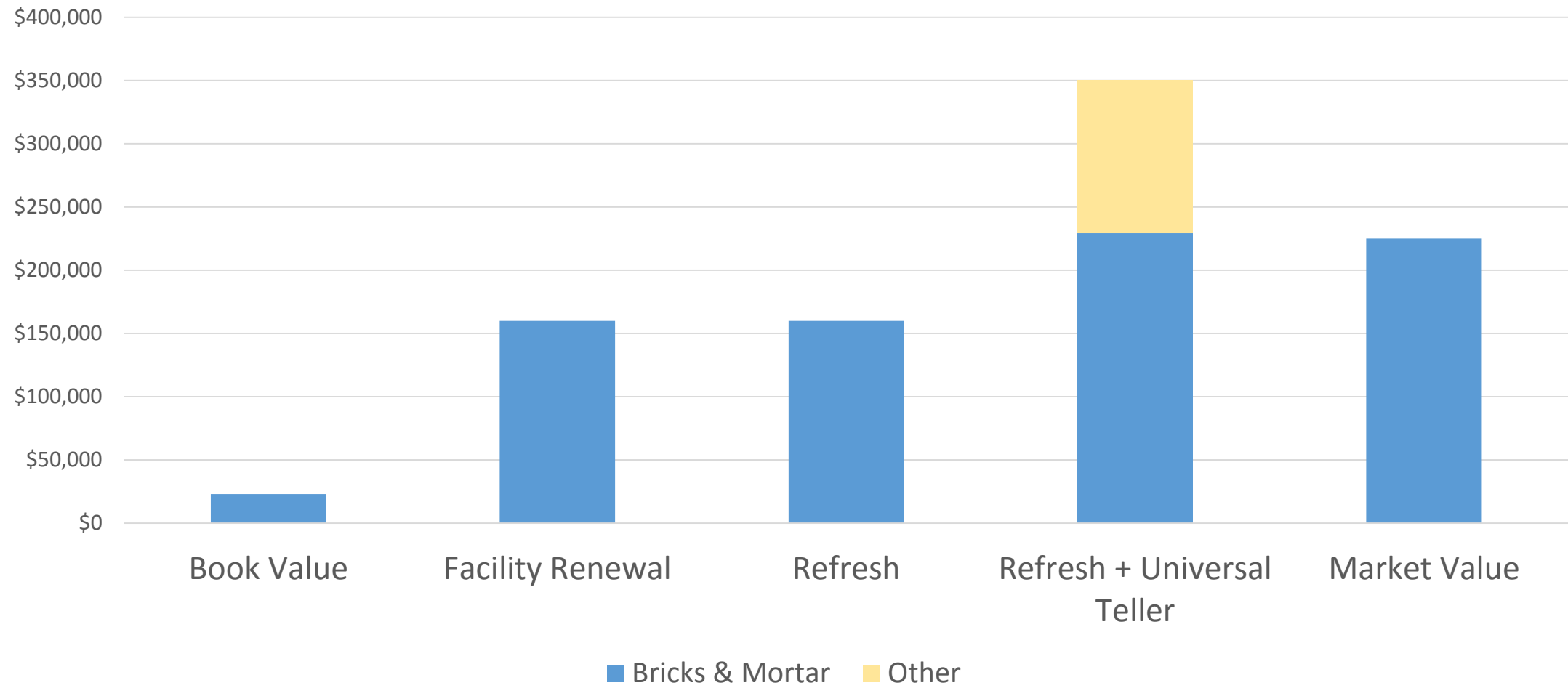


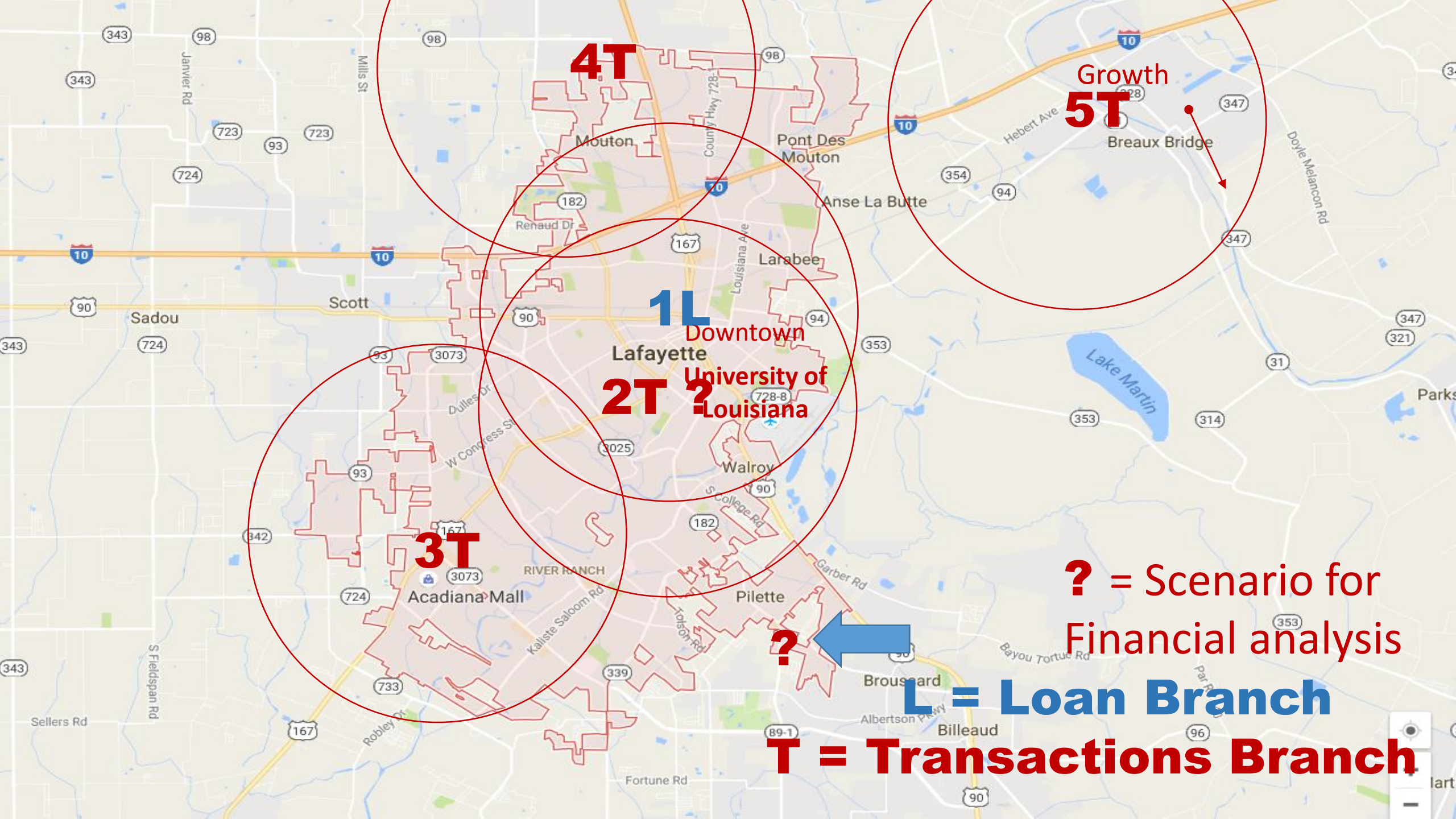
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Branch # 2 - 1,500 Sq. Ft.





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University of
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L = Loan Branch

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Financial analysis

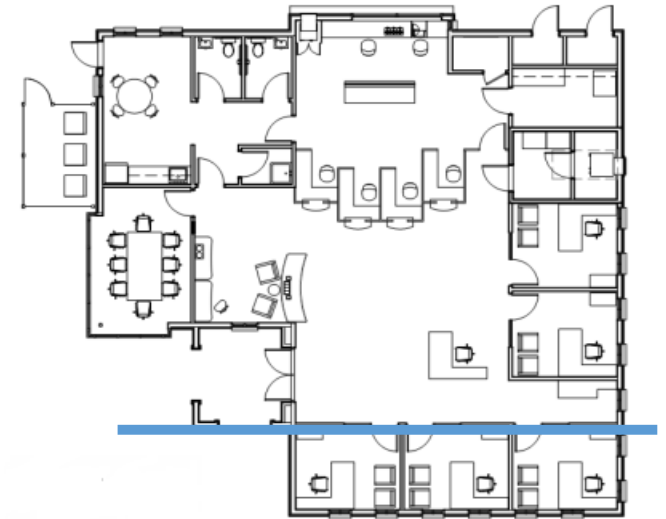
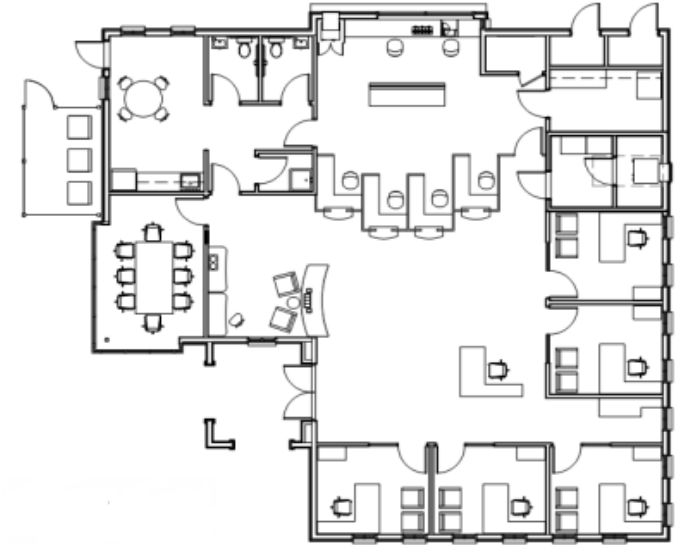
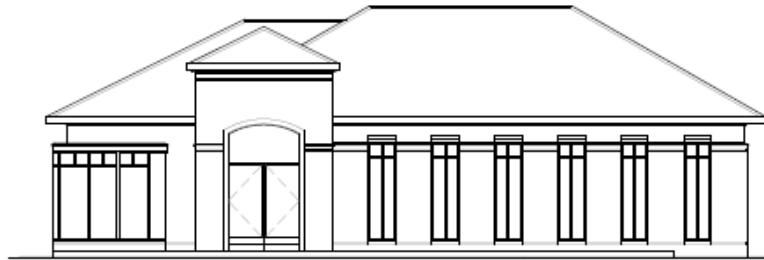
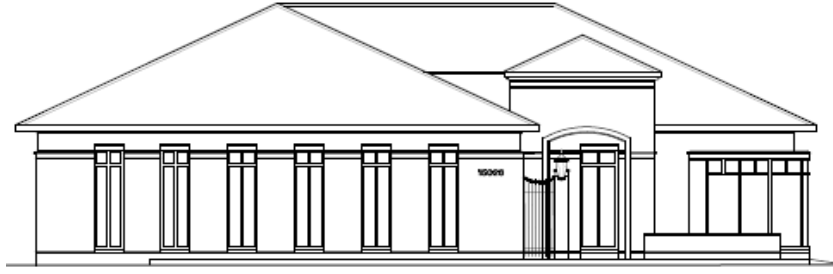
Branch # ? - 3,000 Sq. Ft. or 2,500 Sq. Ft.
Construction Cost Only - Analysis

Reduce Branch 500 Sq. Ft.		
Square Feet	3,000	2,500
Cost per Sq. Ft	220	220
TOTAL	660,000	550,000
<i>Reduction</i>		<i>17%</i>

Branch # ? - 3,000 Sq. Ft. or 2,500 Sq. Ft.
All-In Cost Analysis

CONSTRUCTION	3,000 Sq. Ft.	2,500 Sq. Ft.
Land	700,000	700,000
5 Year Depreciation	48,000	48,000
7 Year Depreciation	120,000	100,000
15 Year Depreciaiton	200,000	180,000
40 Year Depreciaiton	660,000	550,000
TOTAL	1,728,000	1,578,000
<i>Reduction</i>		<i>9%</i>

Branch # ? - 3,000 Sq. Ft. or 2,500 Sq. Ft.



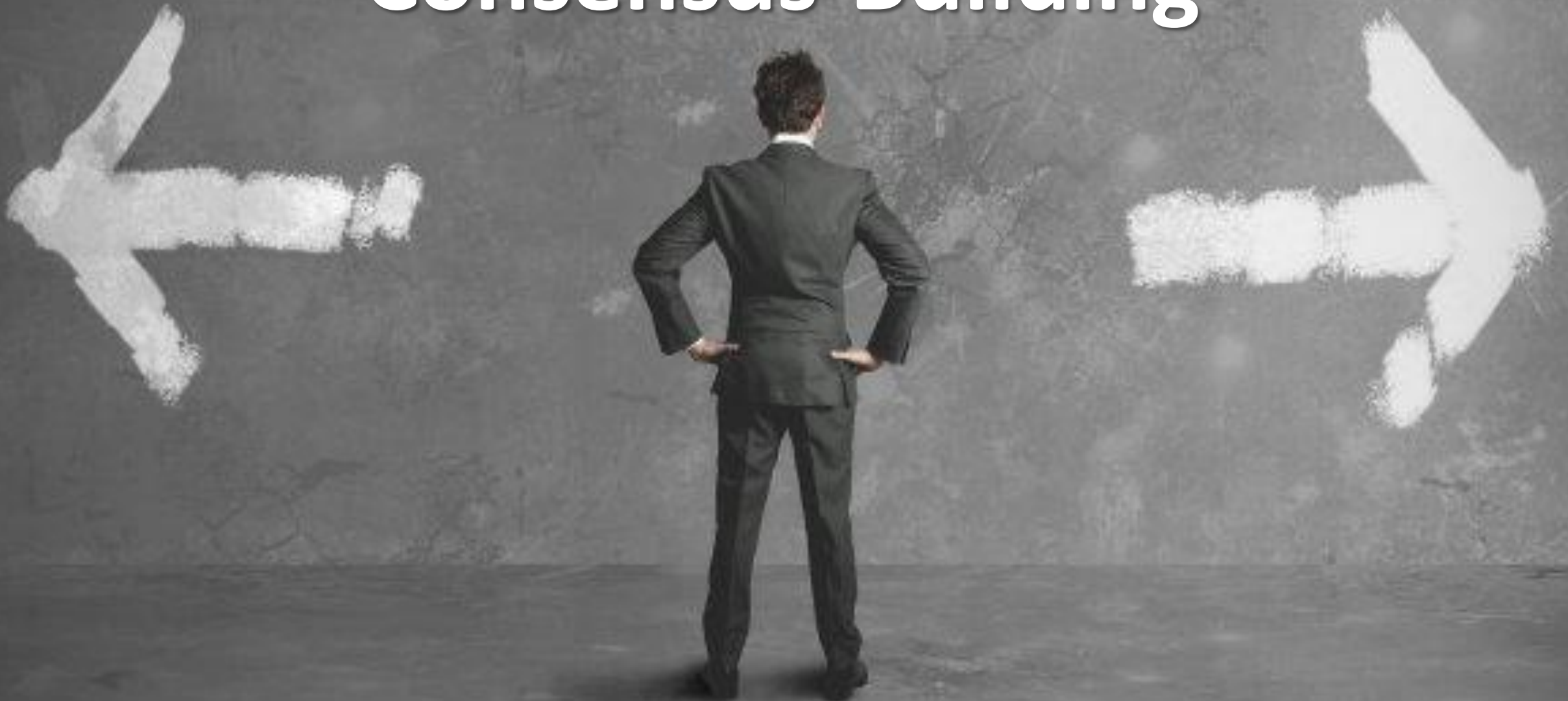
Tasks:

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

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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