



# Managing a Retail Bank's Facilities for Competitive Advantage

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A VFA WHITE PAPER

**VFA**

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## ABSTRACT

A bank's facilities – whether branch locations, back offices or data centers – play an important role in supporting its objectives for attracting customers, retaining employees and operating efficiently. Yet many organizations are only beginning to truly view their facilities as strategic assets. This paper focuses on how retail banks can more effectively align facility management and spending with business goals, including:

- Supporting customer acquisition and retention
- Increasing employee retention and productivity
- Reducing short and long-term operational costs and enhance efficiency

## Introduction: The Changing Landscape of Retail Banking

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The past 20 years have seen significant changes in the retail banking industry. Deregulation opened the doors to new players, including banks from other states and countries, other types of financial institutions, and online banks. New banking laws allowing different types of financial institutions to merge brought national and global corporations with deep pockets into local marketplaces, leading to waves of acquisition and consolidation as banks jockeyed for a larger market share.

The Boston market was a typical example of this trend. BankBoston, the top local consumer bank with over 430 branch locations, was acquired by regional Fleet Financial in 1999, creating FleetBoston, the largest New England bank. FleetBoston went on to expand through acquisition, growing to 1,500 branches across the northeast before Fleet itself was acquired in 2004 by super-regional Bank of America. In 2006, Bank of America was the second largest U.S. bank by assets, with more than 5,800 locations in 30 states.

Despite the rise of online banking, 79% of Americans still prefer to bank at a physical location, including retail branch offices, drive-through banks and ATMs, rather than conducting their banking electronically.

The rush of regional retail banks to expand geographically and of other financial services companies to enter the market has been driven by a desire to access new markets, diversify offerings, cross sell financial services, and leverage economies of scale. Today, retail banks are looking beyond the mergers and acquisitions that previously fueled their growth to strategies to support organic revenue growth.

Since branch accessibility and convenience help drive the sale of deposits, loans and other products and services, continuing to expand retail branch locations is an important component of many banks' strategies to support growth. According to the American Bankers Association, 79% of Americans still prefer to bank at a physical location, including retail branch offices, drive-through banks and ATMs, rather than conducting their banking electronically. In the competitive retail marketplace, the amenities and overall customer experience that a branch offers are also an increasing focus. The *2005 Bank Marketing Survey* found that corporate branding – including providing a positive, distinctive customer experience – was a growing area of emphasis, especially as banks increase in size.

As they have learned from the consolidation process in recent years, banks' ability to attract and retain the best employees also significantly impacts their performance. As a result, many banks are looking more closely at how the physical environment they provide can better support employee productivity. Initiatives to improve the employee work environment range from the renovation of break rooms to improved climate controls, to the addition of on-site day care centers and fitness facilities.

The majority of banks have focused on cost reduction programs over the past decade, leaving many industry analysts skeptical that any significant savings opportunities have been left uncovered. However, banks are continuing to successfully enhance operating efficiency and reduce liabilities through such initiatives as reallocation of facility space and real estate, standardization of branch layouts, and improving systems for contingency planning to minimize business interruptions.

Whether investing in retail stores to spur customer acquisition and cross-selling efforts, improving back office space to support employee productivity and retention, or investing in redundant systems to reduce the risk of downtime, banks can realize significant gains to their bottom line through strategic management of their facilities.

## How Improving the Customer Experience in Retail Branches Drives Top Line Revenue Growth

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Achieving sustainable organic growth in the competitive retail banking market means attracting and retaining customers – and cross-selling to them. Following a wave of CRM implementations designed to support strengthened customer relationships, banks are now increasingly looking to create a better customer experience within retail branches.

One component of this customer experience is the convenience of ATM and branch locations and extended branch hours. Many banks are also striving to provide more personalized service by reorganizing the retail branch space. For example, they may place a manager near the entrance, rather than in a remote office at the rear, to serve as a sort of concierge for customers entering the branch. They may position tellers at freestanding kiosks rather than behind a traditional wall of glass. Some banks have added customer lounge areas. Others have increased private office space for professionals who provide financial advice.

Banks have also renewed their focus on aesthetics, with changes such as the use of warmer materials and lighting to give the branch a look and feel more similar to a hotel reception desk. By focusing on the “customer path” taken through the branch, and consistently locating services and media elements along this path, banks are also looking to offer a similar customer experience from branch to branch. Ultimately, banks are striving to provide a consistent “look and feel” to their branches, extending from signage and ATMs to overall branch layout and fixtures, that both supports a strong brand identity and complements customer service.

Effectively managing the implementation of these kinds of changes requires banks to have detailed information about the layout and condition of their branches, and the ability to determine the requirements for complying with new branch brand standards and their associated costs. Ultimately, they need to be able to prioritize the upgrades across their network of branches, and schedule projects cost-effectively with minimal business interruption. Many banks are facilitating this process by creating multiple branding “tiers” to which each branch is assigned. Banks can then use assessment data on a branch’s branding condition to establish the cost of moving a branch from one tier to the next.

## Consistent Store Branding Drives Increased Customer Revenue of 20% per Square Foot for a Retail Branch Network

Creating a strong, consistent brand image in its retail stores was a high priority for one of VFA's retail bank customers, whose marketing executives believed such upgrades would make the bank more competitive and improve its ability to attract and retain customers. The first step in supporting this objective was getting a better understanding of facility conditions and requirements at each branch location, and ranking those requirements based on brand standards.

The bank's retail network consisted of over 1,000 branches and 700 ATMs, with more than 2 million square feet of administrative buildings. Since many of these locations were recently acquired from other banks, there were often differences in facility size, configuration, inventory and appearance. However, because facilities and maintenance data were decentralized – and inconsistent or outdated – it was difficult to get an accurate picture of the facilities portfolio that was both detailed and comprehensive.

The bank embarked on a multi-stage project to update its facilities to deliver a consistent brand image and support improvements in customer service. VFA first worked with the bank to conduct an assessment of retail branch conditions, employing VFA facility software as a central database for the assessment information.

VFA augmented its standard facility and systems assessments with a branding audit of each retail branch and ATM. The purpose of the branding

### Bank Tiers Formed the Basis for Facility Investment Strategy Following Assessment

The condition and branding assessment of each bank branch focused on the following criteria:

- ADA compliance
- Conformance to standard for retail bank design
- Overall physical appearance
- Existing retail functionality
- Building infrastructure condition

With requirements and their associated costs identified for each category, the bank pursued an upgrade strategy based on bank tier:

Tier 1: Invest to meet minimum set of acceptable standards.

Tier 2: Invest to enhance retail functionality and operational configuration.

Tier 3: Invest to enhance to full design standard/retail functionality and maximum brand statement.

audit was to create a baseline evaluation of the image presented by the retail stores as a basis for improvements. The audit inventoried infrastructure elements and signage contributing to brand image and assessed their current condition and appearance. Also considered in the brand audit were such elements as ATMs, customer service areas, teller areas, general office space, employee break rooms, training rooms, special areas such as power rooms, and restrooms. In each of these areas, the condition, appearance and finishes of ceilings, flooring, doors, lighting, walls, and security systems were evaluated. Where relevant, window treatments, privacy partitions and appliances were also assessed.

Once the assessment data were collected, including specific requirements for repair and renovation, VFA facility automated the process of establishing associated costs based on RSMeans cost data. Employing decision-support tools for financial analysis, what-if scenarios and ROI calculations, the bank created a cost-effective plan to bring the facilities surveyed up to brand and condition standards. The plan proposed improvements at the surveyed facilities – with a three-year budget and schedule for implementing them – that would generate additional customer revenues, reduce the cost of the remedial work and, through measures such as quantity purchasing of materials and services, improve project productivity. The plan’s quantification of the savings and new revenues that would be generated was instrumental in allowing project sponsors to win approval and funding.

Using capital project planning tools to most cost-effectively bundle and schedule renovation projects, the bank reduced the number of weeks each facility needed to be closed for renovation by 50 percent compared to past renovations, avoiding significant revenue loss. It also minimized renovation project costs, including savings from:

- Reducing waste through more accurate purchasing, planning and project bundling
- Decreasing material costs from bulk purchasing
- Lowering average labor costs through more frequent competitive bidding
- Reducing emergency repairs
- Minimizing the impact of renovations on employee productivity

However, the complete story is not in only cost savings but in enhanced customer revenue: The bank estimates that the updated, brand-standard retail stores generate 20 percent more customer revenue per square foot of facility space.

Improvements to a bank’s retail stores to promote brand consistency led to a 20% improvement in customer revenue per square foot of space.

## Increasing Competition for Knowledge Workers Ups the Ante on the Value of Employee Retention and Productivity

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Like many other industries, retail banks in the U.S. are facing an increasingly competitive market for knowledge workers. CoRE 2010, a CoreNet research study examining trends in corporate real estate management, reports that corporations will more and more view facilities as a differentiator in competing for limited “intellectual capital” workers. In the banking industry, the challenge of attracting and retaining top performers has been compounded by the significant merger and acquisition activity, which often leaves key employees unsure about their future.

With estimates of the costs of hiring and training a new employee ranging from 25 percent to 200 percent of the employee’s annual compensation, keeping top performers happy yields quantifiable cost savings for banks. And those figures don’t include the difficult-to-estimate costs of customer service disruption, and loss of experience, continuity and corporate memory.

Employees’ working conditions – including their physical environment – can play an important part in supporting productivity, and even in reducing absenteeism and turnover. In other words, it can pay – quite literally – for banks to make improvements to an employee’s physical environment that promote satisfaction and productivity.

Retail banks are increasingly recognizing the payoffs from such initiatives. In many cases, they involve relatively minor changes to the overall workplace environment. For example, one study estimates that by controlling indoor temperatures, increasing sunlight and improving indoor air quality, employers can increase workforce productivity by over 7 percent per year. One top U.S. bank, in a newly constructed building for more than 4,000 employees, is including an air filtration system designed to remove 95 percent of the particles, ozone and chemicals from the air outside.

In order to improve the work environment across a diverse building portfolio while avoiding wasteful expenditures, retail banks need to be able to answer questions such as:

- Are we providing an environment that is conducive to overall employee productivity?
- What are the special physical space requirements of different job roles?
- What changes do we need to make to improve the work environment, and what will they cost?
- How do we define our criteria for workplace investments, and how can we effectively prioritize projects according to those criteria?

By developing criteria for evaluating the space requirements of different types of employees, banks can establish indices for space per employee to support target productivity levels and gain insights into how to better utilize space and reduce overhead costs.

## Targeting Workplace Improvements to Support Productivity Gains

The foundation for planning workplace improvements is detailed information about space configuration, finishes, and condition and remaining useful life of systems and fixtures. In many cases, banks undertake the assessment of the workplace environments at the same time they conduct facility condition assessments which look at major building systems. In addition to the facilities condition assessment, a professional assessor can collect supplemental information related to workplace conditions based on specific survey questions, which may relate to such building features as:

- Office size and partition height
- Break room placement and condition
- Restroom placement, condition and accessibility
- Air and pollution-control systems
- Lighting, including adequate lighting in stairwells and the availability of natural light
- Security and emergency power systems
- Aesthetic and ergonomic features, such as furniture, décor, flooring, and wall and ceiling finishes

Banks target specific facilities for this type of analysis based on various factors. In cases involving the acquisition of new property, a bank may undertake this analysis as part of an initial condition assessment to gather baseline facilities data. Banks may also focus on facilities with a high relative level of employee attrition or absenteeism based on averages for the company, region or industry. Data about turnover and absenteeism rates – and their associated costs – can form the basis for setting guidelines for investments in physical workplace renovations, both in terms of spending levels and priorities.

Evaluating the space requirements of different employee roles, including what types of jobs could be effectively conducted remotely, for example, from a home office, can also help banks make objective decisions about space consolidation and investment across their facilities. By developing criteria for evaluating space requirements of different types of employees and collecting the relevant facilities data, including information on office square footage, cubicle material, office furniture and lighting, banks can establish indices for space per employee to support target productivity levels and gain insights into how to optimally consolidate facilities, better utilize space, target specific facilities for disposition, and reduce overhead costs.

VFA worked with the Corporate Workplace department of one large retail bank to proactively assess its workplace environments. The bank's goal was to understand how best to target investments that would promote the retention and productivity of existing employees and position the bank competitively with potential hires. VFA assessed over 40 million square feet of administrative office buildings nationally, capturing information about the condition of office spaces and common areas, as well as specific information related to employee satisfaction and productivity, such as space per employee and adequacy of natural and artificial lighting. The assessment also captured information about security by floor and by building. All this information is centrally available to the bank's Corporate Workplace team to allow them to determine where investments are most needed, and how to most effectively bundle projects.

## A Strategic Approach to Facilities Operations Cuts Bank Costs and Enhances Efficiency

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Over the past decade, most banks have undertaken cost-cutting programs as they have consolidated and re-engineered operations. However, when it came to facilities spending, banks often found they had little detailed or consistent data on which to base decisions about where spending could be curtailed and where a minor investment could yield a high return. This situation was particularly true for rapidly growing super-regional banks, with a large portfolio of branches across a wide area, many of which had been acquired from other banks. Therefore, condition assessments to document operational status, financial value, and conformance with regulations are often a precursor to operational efficiency initiatives. This information forms the foundation for a range of decisions, including the reallocation of facility space and real estate, as well as "lease versus own" decisions.

### Understanding Long-Term Costs and Priorities

The foundation of any initiatives designed to streamline operations and efficiency is a solid understanding of long-term costs and priorities. This information is critical to effectively answering such questions as:

- Do my current assets align with future business forecasts and goals?
- How do my organizational objectives impact the value different facility investments will have over the long-term?
- How much money will we need and when?
- What are the cost differences between operating a current facility and building new? Owning and leasing?

To make smart decisions about capital asset investments, banks need to be able to forecast future costs – both of ongoing facility operations and maintenance and of capital projects – based on accurate historical information and a clear picture of future requirements. Maintaining up-to-date information about facility and system condition is critical to this process. Also important is a consistent and objective methodology for identifying the organization’s long-term objectives and tying them to specific criteria for prioritizing capital projects. Finally, the ability to conduct what-if analyses that yield detailed results about condition and cost implications for a facility or entire portfolio over the long term ensures banks can effectively plan for future needs.

Some of the common criteria that banks use to evaluate the priority of capital investments, to which they may assign different weights based on their business objectives, include:

- Ownership
- Term remaining on lease
- Facility size
- Building function
- Building condition index (FCI)
- Building tier, if applicable

By employing statistical ranking methods including pair-wise comparisons, retail banks can simplify the process of comparing multiple criteria, and of ranking requirements based on organizational priorities.

Generally, banks invest more in facilities that they own or lease under a triple net lease contract, than those they lease for shorter terms. Similarly, they tend to focus more attention on maintaining detailed data for owned facilities. However, a detailed understanding of deferred maintenance requirements and costs can also provide important leverage in the case of leased facilities where a significant portion of this cost is the landlord or property manager’s responsibility.

Similarly, detailed information about a facility’s operational and renewal needs provide a strong foundation for lease versus own decisions, and choices about new building investment. For example, how much savings will the bank realize through the construction of a new facility that employs more energy-efficient design and technology compared to current costs? How much additional savings can it gain from rebates from utility providers?

With detailed information about the current condition of facilities and systems, a clear understanding of organizational objectives and their application to capital project priorities, and the tools to develop detailed costs estimates based on different project scenarios, banks are effectively pursuing a variety of strategies that are enabling them to reduce operational costs and enhance operating efficiency, from promoting standardization of branch layouts to proactively managing lifecycle maintenance.

By developing a common floor plan and employing standard mechanical and electrical equipment, banks can both reduce design and procurement costs and help direct customers to the services they want in any branch they visit.

## Promoting Efficiencies through Standardization

Consistent retail branch layouts are one method banks are using to support greater operating efficiency. By developing a common floor plan – with platform areas, teller stations, media elements (such as ATMs), check-writing stations and office space located in the same general area in each branch – and employing standard mechanical and electrical equipment, banks can both reduce design and procurement costs, and help direct customers to the services they want in any branch they visit. Some banks are also incorporating new marketing components into their standard floor layouts, for example, placing large screen televisions in high traffic customer areas to promote additional services or special offers to customers. In addition to supporting a consistent brand and customer experience, standardizing such elements across branches helps banks ensure successful approaches are effectively replicated across their network.

An initial step in implementing consistent layouts involves location surveys, including maps of current service locations. As part of such an initiative, banks often also document customer traffic – what paths customers typically take and what they see on those paths – to better align media and services with bank goals and improve the customer experience. This type of audit can also be an opportunity to identify key differences in local markets which may require adjustments to the standard layout to promote the growth and profitability of regional franchises.

## Minimizing the Risk of Business Interruption

Downtime from equipment failure is expensive. For an industry that relies on ATMs and back-end transactional systems to serve customers, sometimes 24 hours a day, minimizing business interruptions is critical to satisfying customers and avoiding significant additional expenditures. Pinpointing areas of risk associated with outdated structures, systems or equipment is critical to avoid this expense and allocate capital and maintenance investments wisely.

There are two major components to mitigating the risk of business interruption. The first is ensuring proactive preventative maintenance. Doing too little too late can greatly increase maintenance and replacement costs for facilities and equipment. For example, the breakdown of an electrical panel supporting many computer systems could result in losses of \$30,000 per hour for a bank. In contrast, an annual preventative maintenance program on this panel can be conducted for a fraction of this cost. In addition to reaping short-term savings, preventative maintenance can also extend asset life for long-term savings.

Cost-effective preventive maintenance requires accurate information about the condition, lifecycle and value of capital assets, including facilities and their major systems, as well as specialized assets such as signage, media elements, security systems, vault areas, data recovery and backup systems, and power rooms. This information serves as a basis for prioritizing requirements, bundling them into cost-effective projects, and creating an optimal maintenance schedule that ensures the most critical maintenance issues are addressed in a timely manner to avoid breakdowns and avoid more costly repairs.

Conducting periodic condition assessments and formulating a cost-effective preventive maintenance plan, as well as a schedule of replacements and upgrades, can minimize downtime – and reduce the resulting costs of business interruption.

The second component of risk mitigation is disaster planning. In addition to knowing the age and condition of facilities and their major systems and equipment, as well as the costs of repair and replacement, retail banks need contingency plans for how they will conduct operations in case of a disaster such as a hurricane or flood, which makes a specific facility unusable.

Many banks have disaster recovery centers that are maintained in standby mode. If a critical call center or data center goes down, the alternate facility needs to be fully operational within hours. Therefore, such facilities should not be overlooked in the assessment process, and banks need to monitor key metrics and investment in these secondary facilities to ensure they will meet critical needs when called on.

Finally, a reduction of deferred maintenance can not only reduce a bank's risk of downtime, but can also add value to a bank's real estate portfolio and, consequently, the price of common stock.

## Limiting Liability from Non-Compliance

There are several regulations that impact the operations of bank facilities, particularly those frequented by customers, such as retail branches. Information about facilities and systems is important to banks in understanding outstanding requirements and in creating cost-effective plans to achieve compliance. Yet many banks can't answer questions such as:

- Do we have an accurate financial valuation of our facilities and infrastructure?
- Do our facilities comply with current regulations?
- Where and how are we at risk of non-compliance, and what is the cost of remediation?

The American Disability Act, for example, requires that facilities include handicapped-accessible parking, pedestrian paving, entries, doors, hardware, handrails, drinking fountains, restroom fixtures, showers, elevators and Braille signage. By conducting periodic audits specifically to identify ADA compliance issues, banks can quantify the issues, and prioritize remedial actions.

The Sarbanes-Oxley Act, while not relevant to facilities operations per se, does mandate accurate financial reporting on the value of capital assets. General condition assessment surveys covering the age and operational status of facilities and equipment can serve as a basis for accurate financial valuations of those capital assets. Experts and industry standards can help banks to establish these asset values, and address financial reporting requirements outlined in Sarbanes-Oxley.

## Leveraging the Strategic Value of Facility Assets

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Facilities capital management and planning provides a strategic lever that can have a sizable impact on a bank's income statement in the short term and help lower a bank's total cost of ownership over the long term. By looking more strategically at their facilities assets, retail banks can leverage them more effectively to support their business objectives.

By transforming facilities management and planning from a reactive process to a forward looking strategic planning process, banks today are improving top line revenues and lowering operating costs. Ultimately, this approach will better enable retail banks to more effectively and efficiently compete for customers, employees, and market share.



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VFA helps organizations strategically manage their facility portfolios with Capital Planning and Management Solutions (CPMS™) that combine software, assessment services and business process consulting. Organizations in government, education, healthcare and corporate markets employ VFA solutions to manage almost two billion square feet of real estate.

Contact us to learn how VFA can help your organization to optimize its facilities investment.

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