

EXECUTIVE SUMMARY

Financial Facility Design & Development Trends

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National and regional banks continue to build branches and acquire each other at record levels while locally-owned community banks compete with them for both talent and real estate.

At the same time, credit unions are discovering the benefits of community charters and new branches. Insurance and investment companies are beginning to explore the need for brick and mortar branches as well, after successfully entering the internet, telephone and direct marketing banking channels. Even paycheck loan stores are considering branching out into new financial service product lines.

As the competition increases, branch design continues to evolve.

While freestanding branches are still favored, storefronts, and even supermarket and modular branches have become a necessary form of branch building due to intense retail competition in commercial real estate markets.

Branch building size and development trends: Due to increased use of teller automation and increased

real estate and zoning pressures, the average size of new retail branches is shrinking from 5,000 S.F. to 4,000 S.F.

Use of cash management solutions is decreasing the number of tellers required in a branch. ATM and internet banking delivery channels are slowly increasing their overall share of transactions, and therefore less teller and cash transaction space is being built into branches.

A backlash against the proliferation of financial institutions and their lack of sales tax revenue generation for local governments has caused increased regulations and restrictions to be imposed by government in the form of financial institution development moratoriums and denial of "special use" or "conditional use permits" for drive-up banking facilities. Combined with increasing real estate acquisition costs, we are observing a move towards leased storefronts and shared-out parcels that might have been avoided in the past.

Regional and national financial institutions today need flexible design program elements that can be utilized in new freestanding facilities, lease

storefronts or legacy branches to maintain brand identity, sales culture, new technology rollouts.

Conversely, many of the new locally operated “community banks” and credit unions are taking advantage of their smaller size to customize and differentiate their branches to reflect their community and consumer culture, and local product/service potential on a branch-by-branch basis. Financial institutions continue to develop limited service, loan focused, or private banking facilities on smaller sites when freestanding sites for traditional full service branches are not available.

The community bank’s focus on high balance, high value consumers and the business community, allows for wide variance in the areas of service level and design where local decision making, familiar faces and handshake are the main form of relationship marketing.

The latest trends in banking revolve around creating a positive customer experience.



Branch Design Trends

I. Elements of the Positive Experience

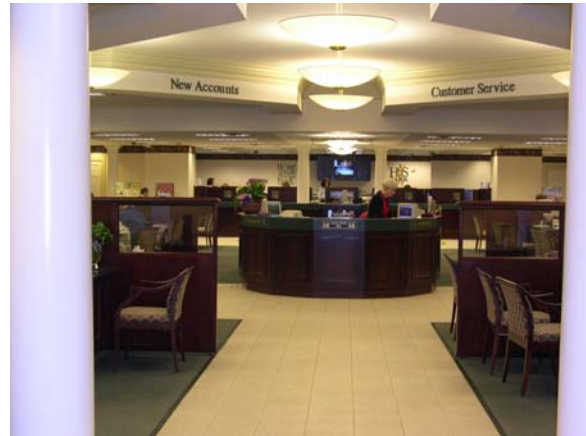
Defining the Brand Experience

- Color Identity
- Information / Education
- Entertainment

- Electronic Media & Merchandising Programs
- Treating the Customer as Guest / Superior Service

Borrowing the playbook from top retailers like Starbuck’s™, Nike™, and Target™, financial retailers are striving to differentiate themselves by “Creating a Memorable Experience.” Most consumers equate going to the bank with a trip to the post office (a necessary evil).

Even while electronic banking transaction alternatives have proliferated, consumers have shown they prefer to build relationships with a financial institution at the branch face-to-face, and financial institutions have responded.



Financial Retailers are Re-defining the Consumer Banking Experience by:

- Offering personal service more akin to a concierge than a clerk
- Eliminating long lines at the teller window
- Offering coffee, juice and cookies
- Automating coin deposits
- Providing conference rooms and seminar rooms for customer use
- Featuring the business or customer of the month
- Creating a “lifestyle” magazine to replace brochures

- Introducing a “family room” type atmosphere to allow consumers to be comfortable while being entertained and educated by video programming in the waiting area, tossing out the formal image of banking.
- Providing play areas for busy parents’ children
- Using color and brand identity to create a memorable identification with “a positive branch experience”
- Creating “boutique” areas within the branch to serve specific niche markets like small business and investments
- Marketing directly to the 70% of their customers who frequently use the drive-up in lieu of the branch lobby

II. Enhancing Relationship Sales

The primary trend in branch design continues to be enhancing the sales environment at the expense of transaction functions.

By automating and creating higher efficiencies in the transaction processing areas, financial institutions are reallocating sales area and banking talent to the sales platform.

Design trends that can both focus the sales person and attract the consumer include:

- Creating self-directed education and information centers within the branch that focus on core products as well as investments, business banking or other market appropriate consumer demographic segments.
- Understanding the cultural differences of different consumer ethnicities, gender, age and economic experience and designing the relationship banking platform to decrease customer intimidation and increase customer comfort and contact. For example, a suburban branch may cater to families by adding a child’s play zone thus freeing the parents to make financial service decisions without interruption. A branch in a mature market area, however, might do well to create an area that caters to the social and convenience needs of elderly or retired customers by providing copy, fax, stamps, and refreshments, in an area

that won’t displace or irritate other more time sensitive consumers.

The same principles can be used to highlight investment services, business banking or insurance product areas.

Design the branch and the interior sales platform to be visibly approachable but have adequate privacy to conduct sensitive interviews and collection of consumer information. Inform, educate and entertain customers while promoting the bank’s services, products and brand identity. Examples of successful design concepts include:

- Use of color, graphics, ceilings, floors and millwork to guide the consumer through the branch and direct them to greeter and sales areas.
- Locating sales and greeter zones at the entry for the branch to eliminate confusion.



- Use of enhanced way-finding and service level signage to identify core product and service areas and differentiate non-traditional / non-insured products.
- Continued and expanding use of electronic merchandising systems. These systems allow mass customization of message on a branch-by-branch basis or overnight updating of all branches system wide. With a variety of video slide, video animation and video poster formats these systems are poised to replace larger poster, and kiosk and wall display systems.

This is due to combination of factors including rapidly decreasing video display cost, new and easier video programming software / management tools, and the need for more strategic and specific video merchandising to compete in diverse consumer market places, i.e. one branch's dominant customer segment is different and might support increased sales of deposit products, while another's might best support consumer loans. There is no need to communicate message frequency (to all branches) when easy segmentation of message via electronic display could be much more meaningful to the customer and more profitable to the financial institution.



- Electronic merchandising also provides the ability to associate the marketing message with today's current events, educational and entertainment content and this provides an enhanced experience and benefit to the consumer.
- Point-of-service and sale merchandising will continue to support relationship sales environment but now frequently takes the form of a lifestyle magazine that presents the financial institution products in the context of goal and dream fulfillment for the consumer, instead of a typical brochure communicating rates, fees, minor differences of commoditized products.
- Financial institutions continue to experiment with unique sales platform designs, including greeter kiosks, stand-up dialog banking kiosks and sit down customer consultation rooms,

with the goal of enhancing customer contact and relationship building.

III. Using Design Strategies to Reduce Staff Overhead and Increase Efficiency

Once the investment has been made in bricks and mortar branches, a well-located facility can deliver a return on investment (of construction and land cost) in three to five years. However, during future operation of the branch, the annual cost of staff has been the biggest impact on profitability and a well-designed branch can minimize future staffing expansion.



Design strategies that allow the branch to grow profitability include:

- Designing for efficient operation during peak and spare hours in both the sales platform and transaction areas. Good planning allows for excellent visibility, and control of the customer service experience by as few as two relationship managers (Traditional New Accounts or Customer Service Staff).
- Planning for future transaction growth by building in room for future ATMs, teller cash dispensers, and cash recyclers instead of additional tellers.
- Designing for universal sales and transaction positions where all services from loan application to a cash transaction can be handled by cross-trained personnel during non-peak times or in low density suburban or rural branches.

- Leverage the internet and interactive electronic systems within the branch environment to enhance waiting areas and generate customer profiles, loan applications and to help guide the consumer and banker in defining the best product and service relationship balance.
- Design the branch to be efficiently utilized on an extended hour basis for customer loan closings and consultation without opening non-sales areas of the branch.
- Use the “hoteling” concept to allow flexible use of conference areas and closing offices by investment, insurance, trust and financial planning staff on a part-time or appointment basis.
- Privacy can be maintained through utilization of modular furniture with careful attention to acoustical, floor, wall, and ceiling finishes while maximizing the potential number of sales positions within the branch.
- Segment merchant and commercial transactions from consumer transactions at the teller line to decrease consumer wait times.
- Utilize teller cash dispensers to minimize the number of drive-up lanes required and/or increase drive-up through-put.
- Utilize automated self-service merchant cash and coin dispensing equipment to move this service out of the teller line and into the 24-hour zone, increasing customer convenience and reducing teller staff operations.
- Locate drop boxes, envelope depositories or use automated receipt producing night drops to off load simple deposit transaction away from the teller area.
- Consider remote video teller units in lobbies or high volume facilities in combination with cash dispensers in order to combine drive and lobby teller functions into a super-efficient remote transaction processing center.

What does the future hold?

Will an efficient, exciting, and entertaining retail banking experience keep us in the branches?

Will consumers migrate to a future OnStar™ banking network and bank from their car instead of the drive-up?

Will your kids want to bank only on their PDA / cell phones while you still bank at Starbucks™ in the morning?

Stay tuned.

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