

# High Performance Branch Design

Fall White Paper

September 2008

## VRA architects

retail planning, architecture, development consulting, project management

### In this White Paper:

- What's new at the Center For Financial Innovation
- New client case studies and experience with dialogue banking concepts



Center for Financial Innovation 2.0.

### Fall White Paper

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## Center for Financial Innovation 2.0

In 2002, VRA Architects, in concert with the GRFI distribution planning consultancy developed the Center For Financial Innovation, or CFFI, as a real-world laboratory to test dialogue banking concepts and relationship building elements in the branch environment.

In 2003, VRA brought in MB Financial Bank to operate the CFFI, and the new branch design was successful in reducing the cost of branch operation by allowing the bank to operate with 2 to 3 fewer employees, in comparison to a traditional branch, while continuing to deliver excellent service. This has been achieved through the use of ATM's, teller cash recyclers, and a universal operating environment where every employee can spend time with the consumer to understand their needs as well as do a cash transaction, open a new

account, or take a loan application.

The branch includes a business resource center, a consumer coin counter, a living room style waiting area with electronic merchandising where current promotions and the brand is reinforced over LCD screens.

VRA's clients from around the country visited the center and began to adopt these ideas for their own branches, utilizing VRA Architects to help them design, construct and project manage new branch development.

VRA has worked with many clients such as Rabobank in California, Continental Bank in Pennsylvania, Franklin Savings Bank in New Hampshire and Xceed Financial Federal Credit Union with a nation-wide rollout of these concepts.

VRA has continued to refine its dialogue banking concepts and recently completed renovation of the CFFI to incorporate areas of improvement realized over the last 5 years. The current CFFI design includes remote teller drive ups that allow the MB Financial Bank's Personal Bankers to service the drive up customer simultaneously with the lobby without increasing the number of staff required to operate the branch.

The electronic merchandising, cash recycling and other equipment has also been upgraded to take advantage of improvements in this technology.

The CFFI continues to be available to financial institutions interested in understanding the nuts and bolts issues in implementing new banking concepts.

## Attributes of High Performing Branch Systems

- ◆ Branch distribution determined by market potential and product demand fit with the financial institution's core strengths in product and service.
- ◆ The best sites within the best markets are selected and prioritized for development.
- ◆ The branch size and configuration is determined by market potential and modular standard elements.
- ◆ Consistent branding use of technology, and uniform excellent customer experience reinforces the branch identity and cross selling performance.
- ◆ Employee incentive programs must be developed to encourage profitable banking relationships and stake holder responsibility.
- ◆ Understand the value of existing branches and redesign them to meet upside potential and increase efficiency.

## Location, Market and Size Considerations for the Branch



New Altura branch  
In California

Retail bank usage is driven by convenience and visibility of location and the draw of consumers to that location by the environment around it. Common site selection mistakes such as choosing a great site in a poor market, or conversely a poor site in an excellent market can be equally disastrous to the bank's bottom line.

Retail bank profitability is achieved by matching product and service offering to the market demand. A bank that traditionally offers products to entice savers in a mature market area would need to reorient the product mix and employee sales training for a branch in new green field suburban area where demand for loans is prevalent.

For those with the ability to build de novo branches the bank might select markets that match existing highest performing branches, with confidence that its experience, expertise and product mix will fit and be key to profitability.

Market demand or potential can change due to competition, or changes to consumer draw factors around the branch i.e. the Wal-Mart next to the branch closes and relocates to a new site.

Size of a retail branch should be driven by understanding the market potential. For example many smaller 1,000 S.F. or less supermarket or in line storefront branches located in high potential markets never get beyond \$10- \$15 million in deposits because they are too small to comfortably and adequately service the market demand. Furthermore, overcrowded or transaction oriented environments are not conducive to relationship sales. That said, most markets today can be adequately served by branches of 2,000 to 3,000 S.F.

To achieve the new streamlined efficient branch, teller cash recyclers, self service terminals and full function ATM's allow the service level to stretch beyond the traditional footprint limitations.

VRA utilizes and recommends the GRFI market assessment system when planning for High Performing Branch distribution. The GRFI model incorporates competition, demographic, site and market data to select sites, evaluate potential of existing locations and prioritizes and accelerates profitability for branch distribution development.

**The difference between a good site and poor site for a branch bank can be measured in less than 100 yards. -George R. Frerichs**



Center for Financial Innovation 2.0.



New Continental bank branch in Pennsylvania.



New Xceed Financial dialogue banking branch in El Segundo California

## Continental Bank, Building New Traditions

Continental Bank finds success by combining history and their traditional brand linked to new design concepts.

Continental Bank came to VRA and GRFI to select new high-performing branch locations and develop an efficient branch model that it could roll out quickly in mature and green field market areas. The design brief included investment and small business banking focus areas to be developed within each branch and enhance cross selling.

VRA developed exterior and interior design concepts that incorporated Continental Bank's colonial heritage and brand while employing the latest dialogue banking concepts and self-service concepts to compete successfully in a heavily

banked marketplace. The exterior design uses standing seam roofs, limestone and brick façade in concert with large areas of glass to create a 2,500 S. F. branch that appears to be much larger than its size and dominate the urban corners and shopping center out-parcels where the new branches are located.

The interior design incorporates universal dialogue banking stations with remote teller units to serve the drive up, while simultaneously working with lobby customers. This allows the bank to operate with fewer employees in the new branch initially and in the future.

With their new remote tube teller units, each facility has a 2 to 3 lane drive-up that

includes remote video tellers and drive up ATMs. Electronic Merchandising Systems in the Universal Banking Pods and waiting areas engage the customer while queuing or waiting.

Continental also implemented custom interactive coin-counting systems that have touch-screen presentations to attract children and adults, and a small business center to create a space for local entrepreneurs to gather, and a meeting environment for its small business customers.

The new branches are located in Blue Bell, Limerick, King Of Prussia and West Norriton, PA and have been very successful in quickly and economically expanding Continental's deposit and customer base.



Universal relationship Banker pods at the Continental branches



Self service touch screen coin counter.

## Xceed Financial Building, Branching and Re-Branding for Success

Xceed Financial Federal Credit Union's goals were to expand its existing branch distribution through development of new branches and mergers.

GRFI developed a distribution strategy to vet merger candidates, identify upside potential in existing branches and identify high-performing new branch locations.

VRA worked with the credit union to design new branches and improve the profitability of existing branches by utilizing dialogue banking concepts that increase member contact and improve service, transaction and sales efficiency.

The Pilot Branch designs include Wealth Management and Business Banking areas to support the credit union's expansion into these product categories.

While the new branch locations were being selected and

acquired, the existing branches were renovated to develop the new brand image and realize the productivity and efficiency gains of the new dialogue banking concepts.

Typical branch size is dependent upon the real estate available and market potential, and range from 1,900 S.F. to 3,000 S.F.

The first re-configured branches were completed in the spring of 2008, and were immediately successful; allowing the credit union to test its sales compensation and new operating models so that the credit union could be ready to roll out the concepts to de novo branches and merged credit union locations.

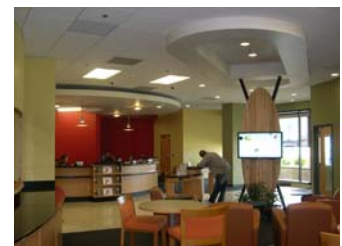
VRA's designs use a new, vibrant color palette that reinforces the Xceed brand and helps to differentiate Xceed from the competition. The new facility template

includes sit-down and stand-up universal sales and transaction pods with teller cash recyclers, as well as full-service safe deposit boxes and coin-counters and ATM's to handle convenience transactions. The branch environment facilitates member interaction with staff and cross selling via electronic merchandised waiting areas that include a coffee bar and large club chairs that encourage the member to dwell in the space.

Xceed utilized VRA to provide zoning, site planning, lease review, retail design and construction documents for all the facilities. Local contractors were used in each market while VRA provided a coordinated and centralized project management services to keep the projects moving on time and within budget.

The new branches have been well received by members and the credit union's operating efficiency and growth in targeted product categories has improved substantially.

Xceed Financial was able to develop new and reconfigured branches in as little as a six months in California, New York, and Texas by utilizing VRA's Project Management Team.



New Xceed Financial branch in Texas





VRA Architects provides turnkey design/project management services to clients throughout the United States, Canada and Latin America, specializing in retail banking facilities. To plan and implement facility expansion and improvement we offer the following turn-key solutions:

- Site survey zoning and due diligence services
- Site selection and market potential assessment
- Architecture, engineering and interior design
- Project and Construction management
- Branding, Merchandising and fixture design
- Internet based electronic merchandising and
- Custom fixture systems

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Our principals and associates have been involved in facility planning, design and development since 1985, and we have worked with more than 300 clients as both prime and associate consultants on over 680 facilities worldwide.

Our designs facilitate dialogue between the consumer and the banker, and at the same time, our designs make the retail and commercial transaction more efficient, and make it less costly to deliver excellent service.

## Optimizing Branch Investment

### Current Challenge

Due to the recent turbulent financial situation, a significant number of branch distribution systems will change ownership in the coming months.

### Achieving Optimum Returns on Your Branch Investments

Many of the acquiring organizations do not have the capabilities to audit and/or process the market/site information that should be developed for these acquisitions quickly.

Understanding and acting upon current market-site and facility audit information is paramount to achieving an optimum return on recent and considered acquisitions.

### Determining Branch Potential

For more than thirty-five (35) years The Frerichs Group has helped clients achieve optimum branch and service-related potential.

These objectives have been achieved through a combination of Mathematical Modeling and Architectural on-site facility audits. Now, as in the past, we assist clients in their efforts to extract optimum dollar potential from their branch systems.

### Average Untapped Upside Potential

Experience has confirmed that on average any system with 10 or more facilities has an upside profit potential of at least 20%. During a period of tight margins these opportunities are beneficial in achieving higher levels of profit at virtually no additional costs.

In larger systems of more than 20 units, we often find trade areas with untapped potential in the 40% range. Larger systems see combined profit increases in the 25 -- 30% range.

### Prioritize Development Opportunities

With the projected revenues from one or more potential sites, optimum development strategies may be implemented to maximize and prioritize profit potential.

### How is the Additional Potential Identified?

GRFI's Regression Modeling identifies specific untapped product-service potential that could be realized through the upgrading of facilities coupled with new technology, operating models, and renewed sales efforts and/or marketing programs

GRFI's Modeling, in conjunction with the VRA Facility audits, allows us to determine

aggregate market potential by product, on both a dollar and index basis. This procedure allows the financial institution to establish realistic market share goals and objectives for each trade area -site or facility evaluated and understand the cost associated with implementing the program.

### Financial Impact of New Branch Operations

With business potential data in hand, GRFI conducts a breakeven, payback and capital recoup analysis as described below to simulate future branch operations and forecast revenues for the facility. Comparing refurbishing and operating expenses against newly projected revenues allows us to develop revised operating strategies that have realistic and manageable timelines and resources.

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