

Strategically Transform Your Branch Facility Operating Cost Structure

If your efforts to control facility operating costs for Branches have involved lots of work with limited results, you're not alone. A recent study found that more than 50% of organizations averaged only a 2% reduction in total facility operating costs despite heroic cost-cutting efforts.ⁱ You can move beyond line-item budget reduction by implementing strategic cost-control programs like preventive maintenance, which can improve results. However; your overall facility operating cost may not decrease as much as you like because the majority of your cost components (i.e. depreciation, taxes, utility rates and insurance) are out of your control. There is hope for transforming your enterprise. By reconsidering branches as a strategic investment, then using the Strategic Facilities Planning process to rethink, reposition and redefine your branches, you can improve your bottom line and improve customer service.



Figure 1 – Cost Control Pyramid

Getting Started

Many organizations can have 50 or more budget line items that track facility costs. The Building Owners and Managers Association (BOMA) has developed a simplified cost structure that allows you to aggregate costs in a format that, when combined with the rentable area for your branch, allows you to compare your facilities' operating cost in a meaningful way against your peers by using cost per square foot as a measure.ⁱⁱ

EXISTING COST STRUCTURE (BOMA FORMAT)				BENCHMARKS	
	Cost	Rentable Sq. Ft.	Cost Per Sq. Ft.	BOMA NEW ORLEANS	BOMA NATIONAL AVERAGE
Building Operations					
Cleaning	\$4,800	3,800	\$1.26	\$ 1.02	\$ 1.35
Repair/ Maintenance	\$8,000	3,800	\$2.11	\$ 2.13	\$ 1.20
Administrative	\$4,800	3,800	\$1.26	\$ 0.62	\$ 1.41
Utilities	\$6,000	3,800	\$1.58	\$ 1.60	\$ 2.08
Grounds Maintenance	\$7,200	3,800	\$1.89	\$ 0.11	\$ 0.51
Security	Exclude	NA	NA	NA	NA
Total Operations	\$30,800	3,800	8.11	\$ 5.49	\$ 6.55
Fixed Expense (Taxes & Insurance)					
Property Tax	\$5,000	3,800	\$1.32	\$ 1.84	\$ 2.20
Insurance	\$1,200	3,800	\$0.32	\$ 0.25	\$ 0.40
Total Fixed Expense	\$6,200			\$ 2.08	\$ 2.60
Depreciation	\$13,000	3,800	\$3.42	NA	NA
Total Cost	\$50,000	3,800	\$13.16	\$8.78	\$8.28

Figure 2 - Current facility operating cost per sq. ft. for a typical size branch compared against New Orleans and National Benchmarks (Median Cost per sq. ft.)

Renegotiating the cleaning, maintenance and grounds maintenance contracts can yield significant savings although there may be an issue with the commensurate drop in the quality of services delivered. Administrative costs, which usually consist of salaries pro-rated to each

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branch will either remain constant or increase unless staff positions are eliminated. There is usually an annual increase in utility and insurance rates each year leading to higher costs in these areas. Although property taxes don't increase every year they have risen at a historic rate of 2% per year in the U.S.ⁱⁱⁱ Figure 3 shows costs and the percent of reduction or increase after cost reduction efforts.

COST STRUCTURE AFTER LINE ITEM REDUCTIONS

	Cost	Rentable Sq. Ft.	Cost Per Sq. Ft.	Revised Cost	Reduction Percent
Building Operations					
Cleaning	\$4,800	3,800	\$1.26	\$4,200	-13%
Repair/ Maintenance	\$8,000	3,800	\$2.11	\$7,300	-9%
Administrative	\$4,800	3,800	\$1.26	\$4,800	0%
Utilities	\$6,000	3,800	\$1.58	\$6,600	10%
Grounds Maintenance	\$7,200	3,800	\$1.89	\$6,000	-17%
Security	Exclude	NA	NA	NA	NA
Total Operations	\$30,800	3,800	8.11	\$28,900	-6%
Fixed Expense (Taxes & Insurance)					
Property Tax	\$5,000	3,800	\$1.32	\$5,500	10%
Insurance	\$1,200	3,800	\$0.32	\$1,400	17%
Total Fixed Expense	\$6,200			\$6,900	11%
Depreciation	\$13,000	3,800	\$3.42	\$13,000	0%
Total Cost	\$50,000	3,800	\$13.16	\$48,800	-2%

Figure 3- Revised Branch facility operating costs showing cost categories that have increased in yellow.

If your cost per square foot for a category is significantly above the median, there might be a cost cutting opportunity. If not, your time might be better spent looking elsewhere or implementing strategic cost control programs.

Strategic Cost Control Programs

Preventive Maintenance – A Preventive Maintenance Program consists of two parts:

- **periodic, planned visits to branches** where the facility technicians perform an inspection, change light bulbs and furnace filters, clean ATM's and VAC units and other items that keep your good -

looking branch looking good. Cost avoidance can be realized by bundling the tasks that multiple vendors might perform on multiple visits to one technician on one trip.

Fix it When it Breaks Strategy

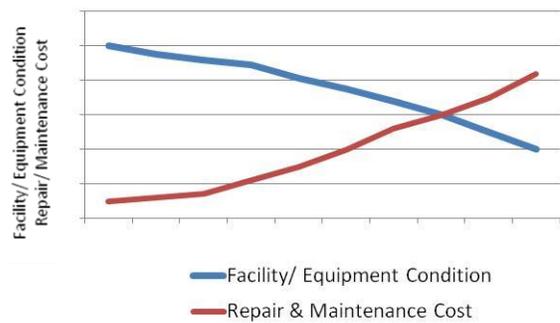


Figure 4 – The facility or equipment deteriorate over time and repair/ maintenance costs increase over time

Preventive Maintenance Strategy

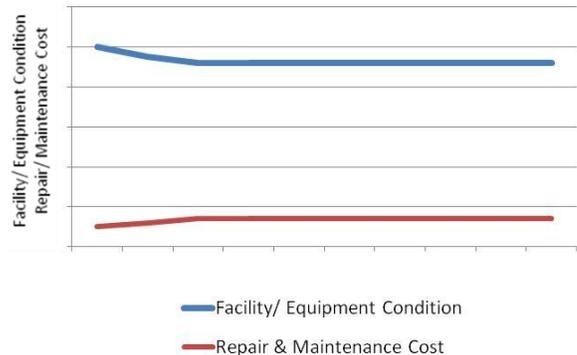


Figure 5 – Preventive Maintenance prevents rapid deterioration, but requires consistent maintenance expense

- Preventive Maintenance goes beyond the Tech's site visit to include a system to manage data and space with computer-aided facility management (CAFM) applications. Work requests are centralized in a call center where an

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informed decision about how to address the problem in the most appropriate manner is made. Finally the program includes a robust oversight system that employs analysis of data provided with the CAFM system and includes forward-looking forecasts for maintenance expense and capital spending.

For organizations with more than 5 branches (\$250,000 or more in branch operating expense) it makes sense to have an oversight system rather than relying on branch managers to perform this function. If you had another functional area with similar expenditures, you would surely hire an expert to run it and implement a management and control program – you should do the same with your facilities.

Portfolio Management – A financial institution with 40 branches found that the grounds maintenance cost for their Branches ranged from \$100 to \$800 per month and there was no consistency in appearance. One branch manager would hire the kid down the street and pay them out of petty cash while another would overpay on an annual contract with a professional lawn maintenance contractor. By defining the location, size and specifications for flower beds and landscape maintenance specifications for each Branch the enterprise was able to bundle all branches in its “portfolio” into a bid document that resulted in a program that provided for a consistent appearance, reduced risk associated with using un-licensed contractors and leveraged the sheer number of branches to provide for a price economies. Leveraging your “portfolio” of buildings relies heavily upon the data produced as part of your Preventive Maintenance program (i.e. building and site areas, floor plans, site plans, inventories and so on).

Vendor-Specific Programs – One financial institution “sold” their HVAC units to a contractor

who became responsible for all maintenance upkeep, and even replacement before a certain date. In return the contractor billed the enterprise a fixed amount each year for all maintenance, repair and replacement. The “Would have been” cost was tracked via the CAFM system and the results are shown in Figure 6. In addition to cost savings the program eliminated a significant source of unplanned capital expenditures

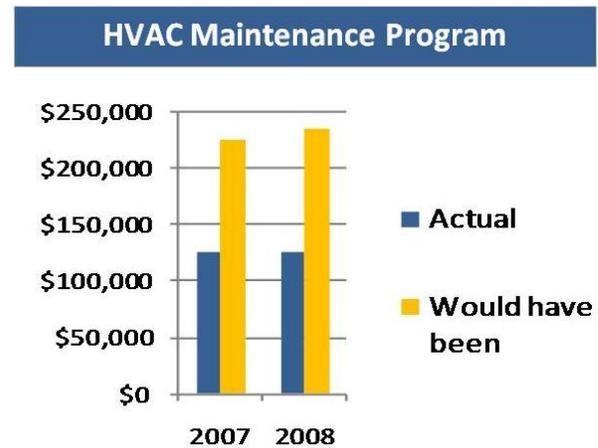


Figure 6 – One financial institution “sold” their HVAC units to a contractor who billed a fixed amount each year. This system resulted in a significant cost savings and eliminated a significant source of capital budget “surprises.”

Standards Programs – By developing standards for furniture, space allocation, equipment and many other items, you can keep branch appearance consistent and control cost, but more importantly you will decrease the amount of time and duplicated efforts spent throughout your organization in the procurement process. Standards Programs provide cost control and cost avoidance as well as allowing you and your staff more time to concentrate on your core business.

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Strategic Facility Planning

While line item cost reduction and strategic cost control programs control the “cost” portion of cost per square foot, strategic facility planning creates value through control of the “square feet” portion. Strategic Facility Planning is a process that aligns the facilities future of the organization with the financial future. For some, it’s a simple long-term capital plan, while others use the following steps:

1. Where you’ve Been – Gathering information about your current and past operating cost, fixed assets, organization, customers, demographics of current locations and other key metrics provides a solid back drop to answer the question – “have we been doing a good job (Branch-wise) up till now?”

2. Where you’re Headed – If you are interested in growing total assets, how will new Branch locations get you there? Where do you want to be located (Come on – you know. You just need the research to confirm what you see driving around town). If there is disagreement regarding locations, what are the facts (traffic counts, demographics etc.) that can support a solid fact-based decision. What is the pro-forma for these locations and what will be the key success factors?

3. How to get There – Your organizational philosophy about Branch locations is an important first step in deciding where to locate. However; the realities of the current real estate market, combined with regulatory constraints, like the fixed asset ratio, can severally limit your options in today’s market place. There are four strategic opportunities in today’s real estate market that have combined to drive new approaches to growing your branch network:

- **Favorable Construction Market** – in many markets, construction costs per square foot have been declining due to a cut-throat bid environment.



Figure 8 A – “Hancock Bank’s College Drive Branch in Baton Rouge is a successful legacy branch, however it’s appearance had become tired and worn” said Steven Barnett, Hancock’s Senior Vice President of Facilities, Real Estate and Administrative Services.



Figure 8 B – Hancock Bank’s College Drive Branch after a high-impact, low-cost renovation.

- **Availability of vacant, stand-alone retail stores in prime locations** – You don’t need to read an article to know that Starbucks, Banks and other retailers have generated quite a number of vacant buildings across the nation. “We’ve remodeled both vacant Branches and retail space for clients for about sixty cents on the dollar compared to new

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construction” said Jay Labarre, AIA, CFM, President and CEO of Labarre Associates.

- **Available retail space in strip shopping centers** – especially the coveted “end cap” units, which can be easily converted to drive thru.



Figure 7 – “La Cap’s O’Neal Branch in Baton Rouge is in the right location, at the right price in the right time-frame. We employed retail sales techniques throughout the branch to enhance the brand experience and improve cross-selling opportunities” said Bert Callender, Vice President of Facility Planning and Control at La Capitol Federal Credit Union.

- **Willingness to rethink branch operations** – many financial institutions are reducing staffing levels for new branches and the smaller, more compact Branches are infused with branding and cross-selling tactics to improve both the customer experience and “share of wallet.”



Figure 9 – the New Orleans Firemen’s Federal Credit Union’s 1,200 sq. ft. Mid-City Branch is infused with “Branding” that

ranges from the close-up photos of fire fighters gear to the “ladder” hanging over the teller line, to visual display screens (not shown) said Travis Eiermann, Labarre’s Customer Service Manager (Contract Facility Manager for the Firemen’s FCU).

4. Review, analysis and consensus building -

Strategic facilities planning is not that different from politics. There may be different contingents within any organization advocating various approaches to locating branches. Financial analysis for multiple options provides a foundation for understanding the impact of different approaches and when layered over other data like traffic flow and demographics, the best solution typically rises to the top.

One caveat is “know thy customer.” Years ago, one financial institution thought they had hit a home-run because they secured a coveted site in a country club area with superb demographics, traffic flow and by every key metric they thought they had a winner. As it turned out, the location never met expectations. Upon analysis and reflection they realized that they weren’t a country club financial institution. They quickly relocated to a new location where the demographics more closely matched their customer profile and where their product offerings and income potential had a better match with the demographics.

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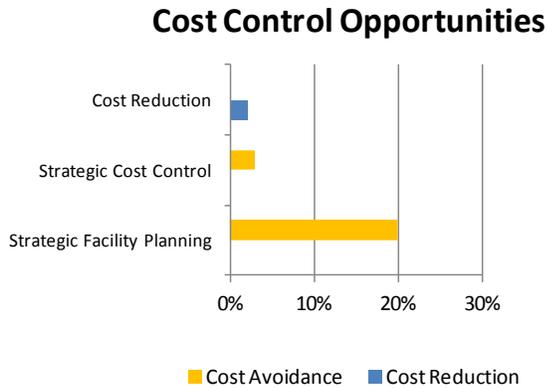


Figure 10 – Cost savings and cost avoidance opportunities for controlling facility costs

Moving Forward

Financial organizations have had to dramatically alter their approach to managing and growing their branch network. Banks have focused on acquisitions and Credit Unions are downsizing and locating branches in shopping centers and stand-alone retail locations.

Some organizations like Campus Federal Credit Union in Baton Rouge have taken the time to use the strategic facility planning model in new ways to leverage long-term corporate goals. “We used the strategic facility planning process, not to identify when we would have to expand our headquarters, but to answer the question ‘how long can we postpone construction of a new facility?’” said Rob Nading, Manager of Facilities and Purchasing at Campus Federal.

All financial institutions have had a laser-like focus on improving operating cost over the past few years. Those who have embraced new cost control methods have been secure in their repair/ remodel/ expand/ buy/ sell decisions and those who have developed a strategic facilities plan have had a chance to pro-actively improve their future cost structure for branches.

About the Firm

Established in 1984, LABARRE ASSOCIATES, INC. is a diversified organization that offers Facilities, Architecture, Construction, and Real Estate services. We uniquely provide clients with practical, high-quality and cost-effective services from site acquisition to design to construction to facility management. Our four divisions operate together as well as independently to provide clients with **"One Source, One Solution"** for their building needs. With its headquarters in Denham Springs, LA and a branch office in Tallahassee, FL, LABARRE ASSOCIATES, INC. services the Gulf Region from Louisiana to Florida. **"Total Care of our Clients"** is our goal. Each associate is dedicated to total client satisfaction as well as attention to quality, schedule, and budget. This service promise is delivered to our clients seamlessly; by one or any combination of our four divisions. Every project is custom-tailored to meet clients' specific needs and exceed their expectations.

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END NOTES

ⁱ Shah, Mehul and Christopher Dwyer, “Strategies to Reduce Operating Costs” Aberdeen Group, U.K. 2010, www.aberdeen.com.

ⁱⁱ Experience Exchange Report (EER) , published annually by the Building Owners and Managers Association International, www.BOMA.org.

ⁱⁱⁱ “History of Property Taxes in the United States,” EH.Net Encyplodedia, edity by Roger Whaples, 2010.