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Unlocking value from capital programs – retail bank benchmarking

Banking survey | July 2015

The retail banking sector is entering a period of rapid change that will impact significantly on property assets. Our in-depth survey of five major Australian banks signals how property teams can rise to this challenge while making significant savings on capital spend, says Turner & Townsend's Director of Consulting Services, Jon Poore.

What will a customer find when they walk through the door of a retail bank in five years' time? Though everyone's view on this will vary, we can agree that tomorrow's customers will be looking for a very different experience from those crossing the threshold today. It is vital that a retail bank considers the impact on it's physical property portfolio and begins to plan accordingly.

Consumers have already changed their behaviour, moving from shopping centre to internet. And with a willingness to embrace new technology comes a lessening brand loyalty among customers. Tomorrow's bank must compete against incomers such as Google Wallet, Square, iZettel and Alipay to deliver a personalised, integrated experience supported by the latest technology that puts customers first.

Banking is rising to the challenge from its new rivals, investing in new store formats and technology. In 2014, the Australian financial services sector spent AUD2.2bn on improving productivity, digital innovation and transformation projects[1].

Meanwhile in the shopping mall, competition for space from other retailers is fierce. Time to market is crucial as peers fight for customers. To meet this raft of challenges, those managing capital projects must develop new strategies and models.

The results of our benchmarking survey show a significant diversity in the way capital spend on stores is planned and delivered. And they demonstrate that there are considerable opportunities to save money on capital investment programs, freeing up budget to strengthen brands, upgrade financial technology and test new formats.

This report is not only relevant and beneficial to retail banks, but the retail sector as a whole can gain some valuable insights.

Our benchmarking study

We surveyed five banks in Australia: ANZ, CommBank, NAB, Westpac and Bank of Melbourne. Business leaders from their property teams told us about their overall capital investment strategy, spend profiles, capital project delivery model and speed to market.

The results of the survey allowed the five banks to benchmark against each other, identifying areas for improvement and cost reduction. Ultimately, the goal is to deliver more value through their capital projects.

The findings illustrate that there is no magic bullet; differences in approach have evolved based on the individual organisation. However, it is clear that decisions about capital investment must be based

[1]*Innovating for growth – Major Bank Analysis PricewaterhouseCoopers report, November 2014*

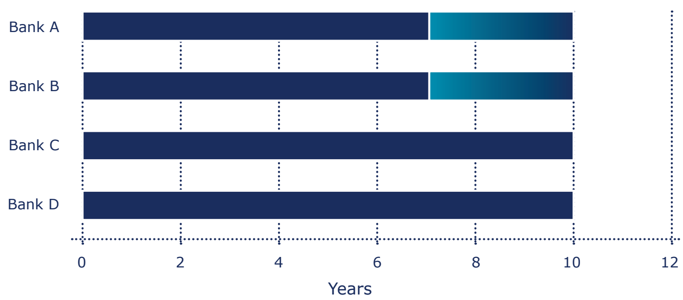
on good data, strong supply chain collaboration and alignment to the overall retail strategy.

We have summarised four key findings in this paper (note in some instances we may refer to only four banks, this is because in some instances two banks work as one due to the same parent company):

1 Target Design Lifecycle

Our survey revealed that target lifecycles vary significantly between the retail banks. While two of the five had a target of between seven and ten years, another two had targets of over ten years and one had no target lifecycle at all.

Target Lifecycle for stores



In practice, lifecycles are often shorter than planned. This is a trend we expect to continue and intensify in some locations, such as city centres, as banks respond to both traditional and emerging competition.

This means there are opportunities for efficiencies if design standards and specifications are tailored to meet a more realistic length of store life. This could seem counter-intuitive. For instance, it may make more sense to invest in materials and design that last for five years rather than ten or 15 for flagship and high-performing stores as they are more likely to be regularly refreshed.

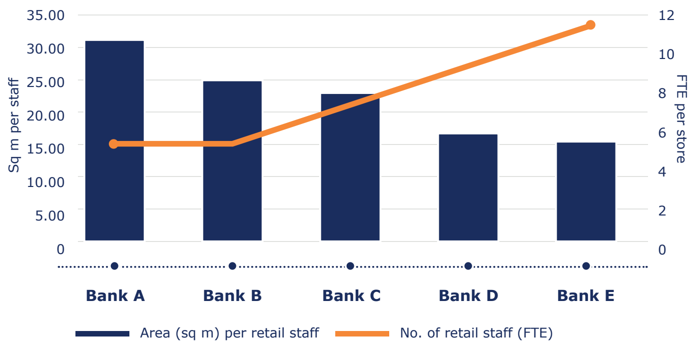
Opportunities:

- Set design standards and stick to them
- Align standards to realistic target lifecycles
- Build in regular design standard reviews and governance

2 Optimise workspace performance

The variation in the front of house area for each member of retail staff could reflect the fact that some banks are already moving towards a self-service format, although there are also differences in how companies count staff. One bank has twice as much space per full-time-equivalent (FTE) as another. This demonstrates different approaches to realising efficiencies in the retail portfolio: reduce space or reduce headcount, or both.

Front of House area (sq m) per retail staff



Whereas for commercial fit-outs, traditional workspace utilisation looks to minimise area and cost per member of staff, these metrics are not appropriate for banking. Customer experience and how that translates into interactions with the bank are the main consideration, an area of measurement which we believe merits more attention and development.

Opportunities:

- Understand retail network strategy and footprint approach
- Review FTE per store with a view to achieving efficiency savings
- Look at transactions for each format to better understand performance

Why benchmarking matters

Benchmarking offers more than a means of comparing your company's performance with the performance of similar organisations. A benchmarking study will reveal opportunities for potential improvement and highlight where effort could be concentrated to deliver the most benefits. It's a good way to initiate change and provides a baseline against which to monitor success.

Benchmarking can also provide a better means of communicating with all those involved. It helps focus on what is important to the business and its core goals and what we should be measuring. Ultimately it gives us a means to measure whether and how we are improving in relation to those goals.

In the world of retail banking, competitive advantage is really driven by the customer experience and brand. Sharing best practice in the property sector, and benchmarking data, provides an opportunity to up-skill resources, learn from each other and develop the sector.

Craig Nash, Cost Management Director, Melbourne

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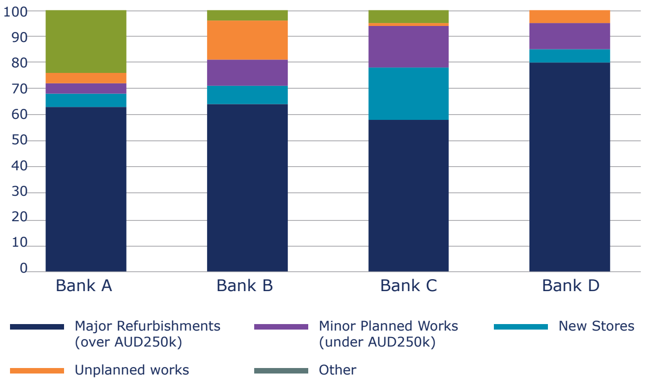
3 Adopt the right delivery model

Delivery models among the five banks range from all in-house at one end of the scale to total outsourcing at the other. The differing approaches are reflective of the organisation's overall strategy towards transferring risk to the supply chain.

While the proportions of expenditure on new stores vary depending on a bank's network strategy and plan, the comparison of planned versus unplanned work is interesting. One bank spends over 15 percent of its annual capital expenditure on unplanned work, whereas another spends just five percent.

Capital Property Expenditure

Annual Capital Property Expenditure (Percentage)



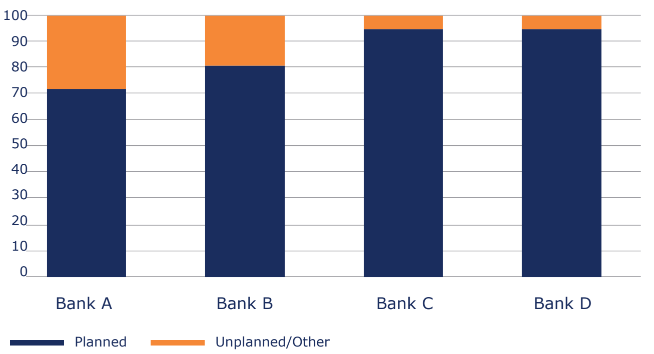
Banks with a greater in-house delivery capability have the ability to be more reactive, which means that more unplanned capital projects are likely to come their way. An immediate response can be provided, unhindered by contractual obligations.

Where the proportion of unplanned work is higher, better planning of capital expenditure combined with stronger program management could offer opportunities to reduce costs through engaging with the supply chain around guaranteed volumes of work.

Opportunities:

- Reduce costs through planning and program management
- Achieve cost efficiencies through bulk procurement
- Encourage innovation in longer-term supply chain relationships

Planned vs Unplanned



A program approach

A program is a flexible governance structure that manages and controls a set of related projects in order to deliver the optimum outcomes for a business, aligned to that business's core objectives. It's all about assuring delivery of the corporate outcomes, rather than discrete goals and outputs for individual projects.

A true program allows well-informed decisions to be made strategically, it encourages lessons learned to be shared and it creates more value for the business. Communicating the purpose and vision of a program can also be a great motivator for individuals and teams.

In retail banking, there will always be a need to upgrade and maintain the store network. The benefits from deploying a program approach will ensure that investment in the network is efficient, targeted and value for money.

Adam Robinson, Consulting and Advisory Associate Director, Sydney

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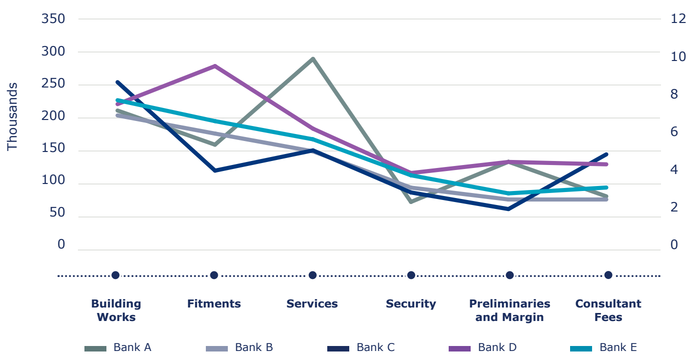
4 Get down to details

While our study showed there is a similar spend by all banks on building works and security, spending on particular elements of capital cost varied significantly, notably fitments and services. There was variation in prelims and consultants fees too.

Capital Cost Elements



Some of the gaps can be attributed to differences in delivery models. Design standards, aimed to deliver brand differentiation, could also be a reason for spend to vary from one bank to another.

Where the cost ranges are significant, it would be useful for all banks to review their capital spend. Overall, differences in category spend can be accepted where they are due to conscious, evidence-based decisions about the brand and design standards.

Opportunities:

- Reduce costs on elements where peers are spending less
- Strengthen brand on elements where peers are spending more

Supply chain opportunities

Longer-term capital planning can have positive impacts on supply-chain relationships and efficiencies. A predictable pipeline of work can allow a supplier to offer more cost-effective services or product.

Ongoing relationships also raise the opportunity to foster innovation in the supply chain. Early involvement and the reward of significant numbers of projects allow suppliers to invest in research and development. True innovation will emerge from partnership and collaboration, driving further efficiencies and enabling sustainable value for money.

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In conclusion

With changing formats, banks must take strategic, informed decisions about where and how they invest capital in their retail portfolio. Capital spend programs must respond to the strategy of the business, and capital projects should be monitored in terms of the performance and benefit to the bottom line that they deliver.

Property teams have an opportunity to become a more integral part of the business, rather than offering a responsive service. With the size of capital budgets involved, the opportunity to make modest savings in percentage terms can equate to significant sums of money which can then be deployed to boost the brand and enhance customer experience.

We recommend that retail banks adopt our vault approach:

Value engineer design to meet actual lifecycle
Adhere to design standards
Understand risk and optimise delivery model
Lock down longer-term plans
Take advantage of bulk procurement

This benchmarking exercise has shown that making informed decisions about brand, customer experience and store investment will improve the delivery of retail strategy and protect, or improve, performance in an increasingly competitive market.

For more information please get in touch with:

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