

Cutting Costs To Thrive



Credit unions looking for ways to cut costs

Sometimes the best way to save money is counterintuitive and even the simplest solutions may be the most surprising. Here are some ways to trim costs while increasing productivity of branches and headquarters facilities.

Leverage Real Estate

Illustration #1: A 100,000-member credit union needs to slash operating costs. After careful analysis of each of its 12 branch sites, it becomes clear that the credit union could eliminate two branches and still retain 99% of its members. If done properly, this could reduce operating costs by more than 15% annually. (Warning: A market analysis should be required before closing any branch to avoid a potentially negative impact on membership, SEGs, communities, and other branches in the network.)

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Take advantage of real world, practical, cost-saving strategies



Illustration #2: Some credit unions' branches are located 100, 500, or even 2,000 miles apart. In order to increase operational, maintenance, and advertising efficiencies, it may be time to sell a remote branch to another credit union and focus resources on the contiguous target market. In many cases, members in the remote markets could be better served by a local credit union.

Illustration #3: Until its market reaches maturity, a credit union's branches are operating at only 60% capacity. A shared branching network could increase monthly volume while generating incremental revenue between \$1,200 and \$3,500 per month.

Illustration #4: A credit union believes that one of their branches is oversized and underutilized. Careful analysis concludes that the surrounding market is saturated and has reached maturity. A decision is made to reconfigure the floor plan to include a contiguous lease space from which to generate additional income.

Illustration #5: To generate investment capital, a credit union finds it advantageous to sell all their branches and lease them back under favorable conditions. It can lend up to 80% of the loan on space they occupy and secure the loan with their own lease. Additionally, the sales agreement could include an option to re-purchase the real estate in the future.

Staffing Efficiency

Illustration #6: A community credit union would like to accommodate more members without adding branches. They currently have a ratio of one member household per square foot of branch space. By simply re-engineering the in-branch member experience they can increase their efficiency to 1.5 households per square foot of branch space. Although this requires a modest increase in staff, the cost per relationship unit is reduced by as much as 40%.

Illustration #7: A credit union wants to reduce overhead. After evaluating their branch business model, they determined they were overstaffed for their transaction volume during certain times of the day. By cross-training staff and adding cash dispensers, they were able to increase the number of transactions per hour by 25% — with less staff and more productive member development.

Merger / Acquisition Efficiencies

Illustration #8: A credit union with 100,000 members wants to grow at the rate of 8% per year. The average cost of acquiring a new member is \$735 each, so the first year's cost would be \$5,880,000. To service the increased membership, the credit union would need to build a new branch costing \$1.9 million, bringing the cost of this first year's growth to \$7,780,000 plus operating costs. It was determined that merging with a larger credit union could deliver the same rate of growth and higher long-term member retention — for 85% less cost.

Going Green

Some credit unions get more than bragging rights when they go green. Keeping an eye to sustainability is good for the environment, can reduce operating costs, and enhances corporate morale. Consider the following inexpensive sustainable practices:

- In lieu of bottled water, install a water filtration system.
- Replace traditional light bulbs (A-lamps, R-lamps, PAR-lamps) with high efficiency compact fluorescents or LEDs.
- Install motion sensitive light switches so lights turn off when rooms are unoccupied.
- Reduce by one degree the temperature at which the heating system is activated; increase by one degree the temperature at which the air conditioning system is activated.
- Landscape with native plants to reduce water usage.
- Install a rain off-switch on the sprinkler system.
- Evaluate the air conditioning and heating systems to determine if they are the most efficient, given recent advances in technology. Annual operating costs may be dramatically reduced when components or entire systems are upgraded.

There are many ways to cut costs and to thrive at the same time. For help in discovering your opportunities, please call Paul Seibert at (206) 223-4999 or email pauls@ehs-design.com.

