Strategic ATM Channel Management; Prioritizing High Value/High Return Cost Reduction Projects

Part 1 of a 4 Part Series

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Whether it’s attempting to save $50,000 or $500,000, success is dependant on selecting realistic cost reduction projects that deliver the greatest net results for their institution. By using criteria based evaluation tools managers can effectively prioritize and execute projects. Here’s how:

Establish Specific and Relevant Evaluation Criteria for Projects under Consideration

Criteria used to determine relative project value:

- Financial Upside Potential
  - Financial Benefit: total expected cost reduction net of project execution costs (ROI)
  - Payback Period: how long will it take for savings to surpass the cost to complete the project?

- Assessing Risk and Resource Requirements
  - What are the risks associated with undertaking this project – or not?
  - Implementation costs; internal resource impact and/or available external services

- Strategic Implications/Value
  - Does the project support current strategic initiatives?
  - What impact will/could this program have on customers?

- Sponsorship
  - To what level is senior management committed to providing the support needed for the project to succeed?

Utilize Project Priority Assessment and Modeling Tools

Non-bias project prioritization can be achieved utilizing a numeric assessment model similar to the following:

Project Prioritization Worksheet (example)

<table>
<thead>
<tr>
<th>Project</th>
<th>Financial</th>
<th>Risk</th>
<th>Resource</th>
<th>Strategic</th>
<th>Sponsorship</th>
<th>Priority</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Upside</td>
<td>Level</td>
<td>Impact</td>
<td>Value</td>
<td>Level</td>
<td>Rating *</td>
<td></td>
</tr>
<tr>
<td>Project 1 (name)</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1.8</td>
<td>Highest priority</td>
</tr>
<tr>
<td>Project 2 (name)</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Project 3 (name)</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>3.0</td>
<td>Lowest priority</td>
</tr>
<tr>
<td>Project 4 (name)</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2.2</td>
<td></td>
</tr>
</tbody>
</table>

Relative priority ratings should be scored as follows:

- **Financial Benefit**: Is the ROI and payback period attractive/significant?  1= Yes  5 = No
- **Risk**: What is the level of risk associated with the project?  1= Low  5 = High
- **Internal Resource Impact**: Organization impact to implement/execute?  1= Low  5 = High
- **Strategic Value**: Does the project support current strategic plans?  1= Yes  5 = No
- **Sponsorship Level**: Senior Management support/commitment to the project  1= High  5 = Low

* Overall priority: Average score of all 5 ratings (lower the score, higher the priority)
How it Works: A Real Life Project Example

Project Description: Reduce Current Ongoing ATM Hardware Service Maintenance Costs

Starting Scenario:
- ATM Equipment/Units in Operation: 50 ATMs
- Starting/Baseline Annual Service Costs: Approximately $400,000.00/year (and growing)

Objective/Benefit: Reduce annual service/maintenance costs by minimum of 25% ($100,000.00) annually

Projected Project Execution Cost (using performance based fee structure): $25,000.00

Other Issues/Concerns: Strategic need to expand ATM services, ATM uptime and customer availability

Evaluation Criteria

- Financial Upside Potential
  - Net Annual Cost Reduction/Savings: Year 1: $75,000.00  Over 3 Year Period: $275,000.00
  - ROI (Net period savings divided by projected project execution cost): Year 1: 300%  3 Year: 1100%
  - Payback Period (project cost divided by year 1 annual cost reduction): 3 Months
  
  Financial Upside Potential Rating: (2)

- Risk and Resource Requirements
  - Limited downside risks as a result of utilizing performance based, variable consulting fee structure
  - Implementation costs; limited internal resource impact as a result of available external services

  Risk Rating: (1), Resource Impact Rating: (2)

- Strategic Implications/Value
  - Supports current strategic initiatives including lowered cost of expanded customer services delivery via ATM network (vs through current branch network) and relative to competition/peer institutions
  - Proposed service coverage revisions are projected to increase unit availability, customer satisfaction/customer retention and lower in-house network management costs

  Strategic Value Rating: (2)

- Sponsorship
  - The executive team has reviewed the project and provided preliminary approval to proceed, assigned the CFO as designated project sponsor and has requested a project start date not to exceed 90 days.

  Sponsorship Level Rating: (2)

Project Priority Assessment

Project prioritization utilizing the numeric assessment model would be as follows:

<table>
<thead>
<tr>
<th>Project Priority Worksheet</th>
<th>Financial</th>
<th>Risk</th>
<th>Resource</th>
<th>Strategic</th>
<th>Sponsorship</th>
<th>Priority</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project</td>
<td>Upside</td>
<td>Level</td>
<td>Impact</td>
<td>Value</td>
<td>Level</td>
<td>Rating *</td>
<td></td>
</tr>
<tr>
<td>ATM Hardware Maintenance</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1.8</td>
<td>Top Priority</td>
</tr>
</tbody>
</table>

* Overall priority: Average score of all 5 ratings (lower the score, higher the priority)

Conclusions

By utilizing criteria based assessments management was able to quantify various projects under consideration and to identify those that represented the best potential value relative to the institution. This initiative was rated and executed as a top priority project.

Next: Part 2 – Controlling Escalating ATM Network Costs

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