## RE-ENGINEERING A CORPORATE REAL ESTATE SERVICE ORGANIZATION
## Segment I:  Operational Review

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***Abstract:***

*Segment I of this three-segment white paper will provide insight to the key steps and success factors associated with the process of re-engineering a corporate real estate services organization. Topics include defining key business drivers and analyzing the current environment, developing a financial baseline, analyzing the operation and the use of technology and mapping out the desired future state strategy, service delivery model and service level expectations. In Segment II, the focus will shift to strategic sourcing: vendor pre-qualification, bid strategy, development and administration, contract negotiation and transition management. Lastly, Segment III will cover governance and the effective management of the partnership post contract execution.*

*This white paper will focus on Real Estate Services organizations which include corporate real estate and facilities management functions, however the best practices and guiding principles outlined herein can be applied to a broader set of service organizations.*

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# Operational Assessments

## Guiding Principles

To say the recent business environment has been challenging is an understatement of significant magnitude. The operating models of yesterday are no match for the speed at which companies are now required to go to market. So how do leading companies stay on top? They focus on operations as a key to both creating and maintaining competitive advantage.

For Corporate Real Estate Service organizations, the demand for workplace optimization strategies that will help the organization improve the effectiveness and efficiency of time and resources as well as to attract and retain talent, has become crucial. Most managers of real estate services organizations are under extreme pressures to support these objectives and realize that in order to succeed in these highly strategic initiatives, the internal team must focus on high value-add tasks rather than the tactical day to day delivery of services. As a result, many Corporate Real Estate Services organizations are conducting detailed assessments of their operations to identify opportunities to improve service delivery and efficiency of the workplace to all stakeholders.

Whether the operational assessment is conducted by an internal evaluation team, or by an outside consultant, there are several guiding principles that should be considered when developing the overall strategy.

- **Clearly identify the "goals"** of the project. This will enable you to gather all of the relevant data during the initial evaluation phase and align your approach and the focus of the assessment accordingly. Challenge the team to develop a clear framework of intent. Why are you conducting this study? What challenges are you trying to solve?

- **Agree on which functional areas and/or services are to be included within the assessment** and those to be excluded. Set clear boundaries for the project with respect to scope, magnitude, time and commitment of resources. Otherwise the project can spin out of control, lose focus and create more frustration.

- **Communicate with senior management to identify any "sacred cows"** - services or functions that are not to be included within the assessment - regardless of the current structure, process or cost. You don't want to waste time developing new strategies that cannot be implemented based upon factors you don't know.

- **Obtain senior management buy-in and support** for the project at its inception. Clearly articulate the purpose of the study, the advantages of the potential outcome, and how the results would contribute to the overall benefit of the company. Leverage this senior management support when communicating the goals of the project to others within the organization and when enlisting sponsors and participants in the process.

- **Document the critical business drivers** of the department(s) involved within the operational assessment. Any assessment of an operation must be based upon what the unit is expected to achieve. Once these drivers are identified, one can assess the gaps within the operation that are prohibiting or inhibiting the successful attainment of goals.

- As part of the assessment, in addition to collecting and analyzing the data related to policies, procedures, work volumes and cost, make sure to **conduct a "360 degree" series of interviews to solicit feedback from all stakeholders** involved or impacted by the service under review. Interview operational management and staff responsible for delivery of the service, but also interview the key customer contacts, vendors, suppliers, and internal support organizations such as Technology, Accounting, Human Resources, Legal and other groups who interact with, or are the recipients of the service. These independent sources of feedback often provide extremely valuable and objective insight as to where the issues (or the opportunities to improve) exist.

- Clearly **document all findings** from the operational assessment including positive and negative feedback. Do not disclose the specific "source" of the feedback to ensure that trust is maintained and no "backlash" occurs. If those interviewed understand that their feedback will be used but kept confidential, they are more likely to be open, honest, and constructive.

With these guiding principles in place, the team can allocate their energies to documenting process flows, analyzing points of integration and interaction, defining service levels and customer expectations and building a very clear picture of the current environment. To do so, a financial baseline will need to be established.

## Establishing the Financial Baseline

Most internal service organizations have difficulty establishing a clean financial baseline that adequately represents the services they provide to their internal customers in a manner that enables effective benchmarking against the industry. This difficulty is attributable to a number of factors. First, it is the rare services organization that has the ability to dictate the structure of their chart of accounts to the finance department. As a result, expenses are typically categorized in a way that makes sense for the overall company (i.e. employee salaries, general and administrative expenses, supplies etc.) Nevertheless, in order to compare these costs to the industry, these same expenses may need to be re-categorized differently (i.e. repairs and maintenance, janitorial cost, landscaping cost, project costs, etc.) Second, not all organizations have systems in place that allow collection of sufficient data on the volume and type of activities that are performed. As such, it can be difficult to measure the denominator in the typical cost/per activity equation that is often used to determine market pricing. In order to overcome these challenges, many organizations default to analyzing the operation at a high level with aggregated data. This makes it very difficult to assess the true value of proposed changes and offers too many opportunities for broad based assumptions that could be inaccurate. How can you avoid this trap?

### Data Gathering

The first step is to gather specific data such as internal staffing allocations, cost of salary and fringe benefits, allocations of corporate overhead costs, materials and supplies, contracted services, and annual volumes that relate to each of the services under consideration. Second, build a financial model that maps to industry standard reporting to compile all of this data and calculate a true "total cost" for each service on an annual, activity, or unit cost basis, whichever is most appropriate. One effective approach is to use Activity Based Costing principles to develop a fully loaded cost for each specific function or service provided. Third, validate that the total costs within your model tie back to your operating statements and/or general ledger reports. Keep in mind, the benefits will continue long after the initial assessment is complete as you will now have a "baseline" that you can use to compare expenses year to year internally or to external benchmarks.

Some specific examples of the level of detail in which baseline information could be categorized for different operations are as follows:

- **Facilities Management**: Re-allocate all operating expenses (janitorial services, repairs and maintenance, utilities, roads and grounds and security, administrative costs, and fixed costs) into separate cost categories on a building by building basis. For example, current baseline cleaning costs for Building 1 average $1.35 per rentable square foot, total repair & maintenance costs for Building 1 average $1.80 per rentable square foot. In this structure you can benchmark against industry data.

- **Administrative Services**: Separate the cost for the various corporate support services in scope (food management, mail delivery, copy and print services, etc.) into unique cost categories. For example, total current baseline cost for copying services average $0.08 per copy, cost to deliver incoming mail average $0.03 per piece, etc.

- **Tenant Services**: Break down all costs associated with support of the customer/users (project management, space planning, conference room set-ups, tenant construction, move/add/change, etc.) into separate cost categories by service. For example, current baseline cost for in-house project management services average $1.50 per usable square foot, space chargeback services average $0.05 per square foot, call center services average $6.00 per work order, etc.

- **Real Estate**: real estate portfolio services (transaction management, lease administration, architectural services, space management, strategic planning, etc.) should be separated by service line as well. For example, total cost for lease administration averages $1,200 per lease/per year, full service architectural & engineering fees average $4.00 per usable square foot, etc.

As reflected within the examples above, each distinct service may have a unique cost driver (or metric) used to measure and evaluate the cost of each function - cost per rentable square foot, cost per usable square foot, cost per activity, or cost per year depending on the specific activity. It is important to become familiar with these units of measure prior to conducting the baseline assessment or any external benchmarking activities. Understanding how much services cost in the current state is critical to successfully developing the best pricing model for the future.

**Benchmarking & Analysis**

Once your baseline is complete, gather current benchmark data on comparable costs for each of the services you are evaluating. This step will enable you to assess your current costs in relation to the market. Significant differences between your baseline and the market then need to be further researched and explained. Where costs are high and there are no anomalies in the service levels provided within your portfolio, potential cost reduction opportunities may exist. That being said, there may be good reasons for some variances. As companies focus more on employee experience rather than cost reduction, a conscious choice may be made to invest in service levels above the industry norm. Understanding your original goal for this exercise is critical in ensuring you make the right changes. Be sure to evaluate the differences thoroughly before assuming change will result in improvements and/or before making changes that will impact services levels that may align with corporate goals and objectives. Reducing cost at the expense of employee satisfaction will not be a win for the organization and may have far costlier long-term impacts.

In some instances, published industry benchmarks are available (such as BOMA and IFMA for building operating costs), yet, in other cases, average unit costs for services such as project management, mail services, and tenant support services may not be published or readily accessible. This information can be obtained by contacting peer organizations, participating in benchmarking forums, or using other resources such as consultants. It is important to make sure that the cost components and service levels included within your baseline assessment are consistent with the cost components within the benchmark unit costs to ensure you are comparing apples to apples. If done accurately, this information can be very helpful to identify where inefficiencies may exist within your current environment and provide a road map to where the greatest opportunities may be to improve efficiency, service or reduce costs within your operation.

**Highlight Financial Inconsistencies**

Using your benchmarking data, you will be able to identify potential inconsistencies in spend and develop a preliminary action plan that identifies the level of opportunity and addresses the ease of implementation. This action plan will become one component of the overall review. The financial opportunities identified need to be weighed against the organizational and operational goals and objectives defined when analyzing the operation, which we will discuss next.

## Analyzing the Operation

As we all know, conducting an honest self-assessment can be very challenging. We all operate within our existing paradigms - those "realities" that we perceive to be our drivers and our boundaries. In order to complete a successful assessment, it is imperative that we step outside of these paradigms and view our operations as an objective party would, with no preconceived limitations. One way to do this is to employ outside assistance in completing the evaluation. Another, is to approach the assessment methodically and to reserve judgment on the results until the end.

Significant variances between your baseline and the market may identify potential opportunities. At the same time, not all opportunities for improvement will be defined by financial savings. Inefficiencies, redundancies, frustrations, time-consuming or unnecessary steps may all occur within an economically competitive process, yet elimination of these difficulties will provide organizations the opportunity to increase their competitiveness. It is these opportunities that an operational analysis will identify.

Begin by enlisting the support of the cross-functional team selected to participate in the evaluation. Designate key people to interview customers, staff, management and support operations. Choose individuals who have the ability to listen objectively, do not have a vested interest in defending the status quo, can maintain confidentiality, and have credibility with both those whom they are interviewing and the department under review. Provide these interviewers sufficient resources, including time and administrative support to conduct the interviews and document their findings. Most importantly, guarantee them absolute support and ensure there will be no "backlash" due to any of their findings.

The focus of the interviews should be to seek candid feedback. Interviewers should ask pointed questions, some of these include:

- What services/activities do we provide to you (do you provide to us)?
- Are these the right services?
- What is the current process through which these services are delivered?
- What works well about this process?
- What would you change if you could?

At the conclusion of the interviews, the group should have all of the information necessary to document comprehensive workflows of the activities undertaken within the department. Each service should be fully defined from point of initiation through delivery and customer follow through. These workflows will be used to develop your future state service level agreements. All points of integration with other entities, data collected and disseminated, products or services developed or delivered and all internal steps should be comprehensively mapped. An objective assessment of the workflows will identify clearly all the redundant or non-value-added steps, the number of hand-offs or points of integration where the opportunity for error is increased, and the "points of pain" within the process that need to be minimized.

The final step is to pull the team together for a "blue sky" session. Given what you have documented, if there are no rules, no limitations and no "sacred cows", how should you do things? Depending upon the number of services under review, the session could take half a day or several full days. The team should focus on desired outcomes. During this time-frame, the words "we can't do that because..." are prohibited. A trained facilitator can add significant value to the session. Your goal is to tear down your paradigms intentionally and develop the "ideal" environment. The focus is to eliminate redundancies, minimize hand-offs, ensure single point of accountability, abbreviate cycle time, and make everyone's job easier. Once the optimum process is defined, the group can then, and only then, begin to look at "how" to achieve the ideal.

"How" may involve organizational realignment, exploration of outsourcing certain activities, acquisition of new technology tools, development of appropriate service level agreements, elimination of certain actions or any combination of the above.

# Business Process Improvement

## Organizational and Service Delivery Redesign

At the conclusion of the operational assessment the team has identified the ideal process flow that will enable the organization to achieve its desired goals. This ideal was specifically designed without parameters or limitations that exist in the reality of the current organization. As the team migrates from assessment to resolution, the focus shifts from identifying what needs to change to how to achieve the necessary changes. Often significant changes need to occur within the organizational structure itself. Although moving boxes around on an organization chart is unlikely to solve major issues by itself, when coupled with changes in policy, development of standard service level agreements, appropriate training, process and management systems changes organizational redesign is usually a key component of successful implementation.

Historically, service organizations have been structured one of two ways, functionally or customer focused. Functional hierarchies enable complete control over a particular activity from initiation to completion within each functional unit. Hand-offs occur between functional units as activities migrate through the delivery cycle (e.g. design to construction, construction to facilities management, receiving to mail, mail to operations). Customer focused organizational designs center around delivering all of the functions required to satisfy a particular client's needs. Clients can be defined by line of business, geography or some other rational method depending upon the organization. Customer focused structures present multiple opportunities for inconsistencies in service delivery and redundant efforts across customer groups yet ensure efficiencies for each individual client. Each organizational type offers challenges to be overcome, and each can be effective. The ideal organizational design is one that enables the attainment of key business drivers most efficiently. In today's competitive environment, an optimized organization usually involves significant use of technology and an appropriate balance of internal and external resources.

A number of factors need to be considered in the final design. Even though the optimum process was designed in an "ideal" environment, the future organization will need to operate effectively within the reality of the culture of the greater organization. For some, this may mean that any outside providers will need to communicate to internal customer/vendor managers who communicate directly with the client. For others, outside contractors are part of the culture and will be accepted as easily as full time company employees. Even if the culture dictates the need for internal customer/vendor managers, it is critical that there is no duplication or shadowing of roles and responsibilities. Development of a shadow organization (where internal staff duplicate duties of external providers) results not only in duplication of costs, but in confusion and frustration for both the internal employees and the external provider. All parties' duties need to be fully defined and cannot be redundant.

Well-defined service level agreements and expectations will also affect organizational design decisions and will allow both internal employees and the external provider(s) to have a clear understanding of the service delivery expectations.

Technology will have a tremendous impact on the appropriate organizational design as well. More sophisticated systems that allow full integration of component data from a variety of processes and automated workflows will enable minimization of staff. Additionally, comprehensive management and reporting systems accessible to clients will support and potentially replace some of the more time-consuming customer/vendor management functions. Realistic appraisal of what technology is available and how soon additional solutions will be in place is critical to designing a workable organization.

The optimum process should significantly influence the ultimate organizational design. The completed process map will have defined all points of integration, highlighted critical path activities and indicated where "source of truth" data is developed and utilized. The ideal design will ensure that accountability for these areas resides with individuals within a single line of reporting and that units requiring close teamwork have similar accountability.

In the final analysis, the design should create a vision of the ideal organization where redundancies are eliminated, hand-offs are minimized and a single point of accountability is achieved.

## Technology & Automation

As a first step in the solution design, the team creates a vision of the ideal organization where redundancies are eliminated, hand-offs are minimized and a single point of accountability is achieved. In many cases automation will contribute significantly to an organization's ability to achieve streamlined operations.

Nowadays, with the plethora of software packages available for just about any business process, there is little need to create homegrown systems. Keep in mind that software is a tool, not a magic potion. It will not – by itself – create the utopia you seek. Solutions available, range from fully integrated suites to best of breed/narrowly focused boutique packages. The selection process, if managed effectively, will determine which is the best solution to meet the organization's need.

Before exploring alternative technology solutions, consider tools that are already in use which may work well with additional investment or more defined processes and procedures. To begin, delineate system specifications. Break the specifications into three categories: critical functionality, necessary capabilities, and desired but not required functions. Prioritize your needs and place weights on each for ease of comparison. Identify and evaluate your options using the previously developed criteria. Finally, develop a business case to support your selection. This methodology will help cut through the promotional blitz received from the software providers and keep the team focused on what is important.

As a support organization it is often difficult to obtain the funding and prioritization of critical I/T needs. One technique is to enlist the support of an executive sponsor. When a prominent senior manager in the company spearheads the project it often ensures the commitment of resources needed and the appropriate level of attention from top management. Most automation projects impact multiple business units and necessitate significant policy, process, and cultural change. The more powerful the sponsor, the more likely the project will receive the support it needs. Keep the sponsor updated on the project status and ensure their buy-in on an ongoing basis.

Within the implementation phase, focus resources on reengineering process, policy and controls to support the new technology. This may entail terminating access to the "old way" of doing business. Monitor compliance, manage expectations and strive to stay current with user needs. No initial design will be perfect. Stay flexible yet maintain the integrity of the solution.

Finally, if the new system was purchased with the intent of generating a significant Return on Investment (ROI), refer back to the original financial baselines to validate the savings or revenues projected. Compare the results to industry benchmarks and confirm that your measurements are accurate. Throughout the process, report frequently to your executive sponsor, senior management, and the end-users. There is nothing like positive results to keep the momentum going.

Examples of technology solutions the can be implemented in Corporate Real Estate Services organizations include:

- **CMMS System** – far more than just work order management systems, today's CMMS systems enable the initiation, management and closeout of work requests, the tracking of preventive maintenance schedules, service providers and contracts, and reporting on labor resources and activity costs. Many can also be linked directly to e-procurement solutions, inventory management systems, accounting or ERP systems and executive information or reporting packages.

- **Executive Information System (EIS)** – a management tool which enables the consolidation of all workplace data into one centralized repository including information related to facilities, space, assets, personnel, lease information and financials.

- **Project Management System** – a tool to be used for the entire project life cycle, from project initiation through project close-out. These systems enable clients to bring consistency and standardization to process workflow including; developing, formalizing and approving project scope, project budget and managing the project schedule.

- **CAD/CAFM** – technology that assists a company to plan, manage and maintain people, places, processes, and assets of the organization in its physical spaces.

- **Lease Administration** – comprehensive tools allow companies to track and manage lease information easily, accurately and efficiently and can be integrated into A/P systems to manage the payment process.

- **Financial/ERP** – originally just centered on the financial management and reporting aspects of a back-office systems, today, ERP can encompass full supply chain management and CRM (customer relationship management) as well as the more standard account payable, general ledger, asset management and purchasing functions.

- **IWMS** - IWMS or Integrated workplace management systems are enterprise platforms that typically span facilities, real estate, space management, project management, and sustainability.

## Closing

Now that the current Environment Assessment is complete the team has all the data and analysis required and has made a clear recommendation on the design of the future organization and the service delivery strategy. These recommendations typically span people*, process, technology and cost*; i.e. changes in organizational plans and staffing models, specific recommendations relating to process re-design and definition of service level agreements and expectations, required technologies and the development of a sourcing strategy (if appropriate) that enables partnership with providers in the industry to support the organizations strategic goals.

In Segment II of this white paper, the focus shifts to the next phase of the process. Whether the solution design entails a fully integrated outsourcing strategy or not. It is rare today for an organization to be able to resource every aspect of their service delivery internally. Therefore, it is imperative that the organization effectively manages any strategic sourcing efforts in order to capture the full benefits of partnering with external service providers. We will cover topics including vendor pre-qualification, bid strategy, development and administration, contract negotiation and transition management.

## About SIREAS, LLC.

From high-level corporate real estate strategy to organizational design and performance, SIREAS, LLC provides incomparable real estate advisory services. SIREAS has expertise in operational reviews, solution design, vendor management and sourcing for all functional areas of corporate real estate. We enable corporations to streamline their operations, improve service delivery, and increase shareholder value. We provide integrated strategies for reducing costs, as well as portfolio management, workplace optimization, talent retention, facilities services, outsourcing and vendor/supplier decision making and governance.

Our leadership includes co-founder and Executive Chairman, Michele Flynn, co-founder, President and CEO Ingrid Fenn and Managing Director Chuck Fuller. Together, they have decades of visionary real estate leadership that offers a unique perspective on both the supplier side and the client side of the industry. They have been the driving force in real estate management's shift to performance-based service delivery models. This approach develops more extensive collaboration and aligns both expectations and the interests of service providers and corporate real estate organizations. It provides a truer partnership that is linked directly to desired outcomes.

In addition to our expertise in performance-based outsourcing, SIREAS has been named a Vested® Center of Excellence. Vested® is a sourcing business model that fosters a highly collaborative environment.  and establishes partnerships that enable true win-win relationships in which both parties are invested in each other's success.

Please visit SIREAS website for more information about our firm and our service offerings.