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Real estate and facilities strategy can be a major contributor to a company’s success – if it’s done right.

This guide provides an overview of corporate real estate and facilities sourcing strategies. We’ll discuss some of the obvious and not-so-obvious impacts that real estate can make on your organization.

If you’re considering a third-party sourcing strategy for some or all of your facility functions, this guide offers useful information on how to:

- Select the best strategic partner
- Set up a relationship to align your partner’s interest with yours
- Develop measurable goals and implement strategies for maximum value creation
- Ensure a smooth and positive transition of facility staff

This stuff can get complicated. But we’ve tried to keep this guide simple by boiling down the key information into Seven Things You Need to Know.
Real estate is a strategic corporate function.

Real estate and facilities is one of the largest expense line items for most companies. Avoidable expenses eat into profits, so it’s important to minimize cost as much as possible.
The best way to do that is to use your facilities as efficiently as possible. Here’s the challenge: Leases, acquisitions and developments are all long-term commitments in a fast-changing world. Your real estate team’s ability to anticipate occupancy needs and prepare for contingencies can be vital to your company’s success.

Just as important as direct cost considerations, the quality of your facilities operations can affect the productivity of your people, the efficiency of your supply chain and the level of risk present in your critical operations.
Many executives, if they think of facility services at all, don’t think of it as a sophisticated business: “They work in the basement, right?”

The truth is that real estate and workplace strategies have an impact on many of your company’s critical functions.
FINANCE

Real estate financial experts analyze the balance-sheet and P&L impact of leasing versus owning properties you occupy.

Many capital projects in buildings can be put off a year or two. Your real estate team should be able to estimate the financial impact of different capital planning scenarios, looking at factors such as your cost of capital and possible changes in material and labor costs.

These calculations require a strong understanding of your financial position and strategy, and a savvy perspective on real estate, construction, and capital markets.

RISK MANAGEMENT

Risk assessments are part of many real estate decisions. Is the flexibility of a shorter-term lease worth paying additional rent? How critical are back-up generators to prevent business losses in case of a grid failure? So real estate pros need to know your company’s tolerance for various types of risk.
HEALTH, SAFETY AND ENVIRONMENT

Many companies have HSE executives and others concerned about regulatory compliance, adherence to safety programs, indoor air quality and other issues that necessarily involve the facilities team.

If your company has one or more people focused on corporate sustainability, your real estate team probably plays a central role, implementing energy strategies, minimizing the use of chemicals and helping to measure the company’s greenhouse gas emissions.

HUMAN RESOURCES

Real estate strategies can greatly enhance your key HR goals of attracting and retaining the best workers and helping them to be productive.

HR and real estate work hand in glove in selecting office locations that are convenient to the professional workforce you want. That may mean expanding into cities with the best workforce for your industry, or strategically locating offices within a metro area.

It’s also important to maintain a work environment that enables high productivity. The right office configuration can promote team collaboration, individual focus, innovation, or any combination of these. And studies have shown that factors like natural light, ambient noise levels and thermal comfort have a big impact on productivity.
Technological innovations in mobile communications, wi-fi and cloud computing are altering work patterns and changing the physical workplace. These days, workers need less space for paper files and hard drives, and have more flexibility in where they work within the office.

Individual workstations are getting smaller, and companies are providing a greater range of spaces that employees can occupy when they need uninterrupted quiet time or small-group collaboration. The goal is higher productivity, but these trends also can help companies reduce their office space footprint—if the real estate and IT teams are aligned.

Also, more and more CIOs are recognizing that their real estate colleagues can add value to data center operations, from the site selection and negotiation through the mission-critical facility management that ensures 100 percent uptime.
Cost reduction is only the tip of the outsourcing iceberg.

It’s relatively easy to get quick-hit cost savings in any real estate outsourcing. Your real estate partner can negotiate better pricing on goods and services, reduce energy consumption, and find opportunities to consolidate offices effectively.

With these initial strategies, even a second-rate real estate firm can make you look good.
But real estate is not a commodity service. Minimizing occupancy cost over the long term requires advanced strategies and analytical tools beyond the capabilities of many providers who want your business.

And as we’ve seen, reducing operating expense is not the only benefit of outsourcing. It’s not even the biggest benefit: Even a small increase in employee productivity due to workplace transformation does more for your bottom line than a big improvement in occupancy cost.

In selecting a real estate outsourcing partner, look beyond the immediate savings opportunities. Ask yourself: Which partner has the track record and deep bench to continually provide value as your needs change over time?
Experience matters. A lot, actually.

Some business people think managing corporate real estate and facilities is so easy, anyone can do it. Or at least, people want to convince you of that idea – as wrong as it is – so that you’ll hire them to do it. If this sounds reasonable to you, consider going to your hair stylist for surgery, or to a surgeon for a haircut.
In the past, management consultants tried to convince companies that their knowledge of financial markets and corporate strategy qualified them to guide real estate strategy.

More recently, some firms that make building infrastructure equipment and provide the technical expertise to maintain and repair it in plants and airports, have tried to expand their scope into real estate outsourcing, including transaction management.

Now the new kids on the block are providers of “soft” building services like cafeteria and janitorial. They’re making the argument that companies can “cut out the middle man” and hire them as facility managers, where they will go to the mat on your behalf and drive a hard bargain—against themselves.
These companies are trying to convince you they’re more capable than firms with established track records have a couple of things in common.

First, they already have good relationships with many companies. They may have the ear of decision-makers in your company who know them, and like them, and don’t know any professional real estate service firms. If they can get you to “go with what you know” rather than undertaking a proper due diligence process to find the best partner.
Second, they have a limited view of what managing corporate real estate and facilities entails. Financial guys think real estate is financial, technical guys think it’s technical, and soft services providers think it’s about a quality end-user experience.

They’re all about one-quarter right—it’s about all those things and more. And part of the “more” is the ability to tie all the pieces together in a cohesive strategy tailored to your company’s specific needs.

If you hire them, you’ll miss out on the full range of strategic benefit that a real estate services firm can bring, even if you benefit from their expertise in areas they know well. And that’s a big ‘if’, because in some cases, these partners may not be on your side.
“Alignment of interest” is not a mythical creature in the real estate realm.

The key to a successful real estate partnership is achieving alignment of interest.

Now, if you’re an experienced outsourcing professional, you may view the term “alignment of interest” as something from the world of fantasy rather than reality.

But in real estate, it’s real.
For many business processes, outsourcing is just a way to reduce cost, period. In those situations, outsourcing is essentially a zero-sum game: the client wants to pay the vendor as little as possible for the product or service, and the vendor wants as much money as possible.

Sure, these relationships work, when the vendor can achieve the goal more efficiently, so the client reduces cost and the vendor makes a profit. But the parties still have opposing interests—the only way for the client’s savings to increase is for the vendor’s profit to decline.
Real estate services work differently. It actually is possible to set up the relationship so that the service provider wins when the client wins, and loses if the client goals aren’t met.

Virtually all of Jones Lang LaSalle’s corporate client relationships are set up this way, and have been for more than a decade.

And we’re not alone—some of our competitors could make similar claims. The real estate services business is uniquely well-suited to the goal of setting up a true collaborative client/vendor relationship.
Why is this so? Several reasons come to mind:

- Cost savings from real estate strategies build up over many years, as quick-payoff strategies are joined by longer-term occupancy planning that pay increasing dividends over time.
- Companies that invest in a broader range of real estate services usually get back far more than they pay the vendor. That’s a win-win.
- As discussed, real estate outsourcing produces many benefits besides cost reduction. The relationship’s success is often based on a combination of financial and non-financial (but still measurable) criteria designed to align interests.

And one more reason…
More than most forms of outsourcing, real estate and facilities are embedded into the fabric of the business.

Executives of vendor organizations routinely work at client sites rather than their own company’s local office, and maintain email addresses with both companies. And of course the engineers and facility managers work on-site.

This closeness creates a cultural bond at the individual and team level with the client organization – bearing in mind that many staff members came from the client company as well.
So in a nutshell, your company’s goals become the goals of our professionals because they identify themselves emotionally as your team.

That’s good for your business, and if it means our folks do a good job that cements the relationship, it’s good for our business too.

Here’s the kicker: Alignment is good for the professionals themselves, because their compensation is also tied to our mutual success.

Which brings us to our next point…
A great sourcing relationship involves clear, measurable goals that motivate everyone to work together.

Developing the right set of Key Performance Indicators (KPIs) is critical to a successful relationship. KPIs focus everyone’s attention on reaching or exceeding the metrics that constitute success.

At Jones Lang LaSalle, we work with clients to develop KPIs at the outset of every relationship, and then update them periodically as goals are achieved and corporate priorities shift.
When KPIs are designed right, the service provider receives higher compensation when the client’s goals are surpassed, and a lower amount if the goals are not met.

For example, if the goal is to reduce costs by $500,000 and the team manages to save $700,000, the service provider might get a share of the $200,000 of incremental savings. If the team falls short of the $500,000 target, the service firm might not get its full fee.
The KPI principle can also be extended to individuals. At Jones Lang LaSalle, executive compensation is based on a salary plus an annual bonus based on the achievement of pre-determined criteria. Professionals responsible for a particular client KPI may get a larger or smaller bonus depending on how well the goal was achieved.

This system aligns the interest of service providers – both teams and individuals – with the goals of the client using compensation as an incentive.
Frankly, the chance to pocket a few extra bucks usually isn’t the main motivation for professionals to strive for client goals. The real reason for establishing KPIs is to keep the service team and the client team focused on the metrics that are important to the company’s success. Simply put, people work better when they have clear goals and a way to measure success.

KPIs can be anything that’s measurable. Money obviously springs to mind, and many if not most KPIs are financial in nature. But there are also many non-financial measures of performance. The best programs usually include a combination of financial and non-financial.
Examples financial KPIs might include:
- Reduce procurement costs by 10 percent over 18 months
- Reduce direct occupancy costs by 15 percent through space consolidation over three years
- Analyze the balance-sheet and P&L impact of ownership versus sale-leasebacks of major facilities

Examples of non-financial KPIs might include:
- Achieve a 4.5 out of 5 average score on employee satisfaction surveys after every service call
- Complete a major new space buildout in time for the move-in date
- Implement a program to measure greenhouse gas emissions across the portfolio, and then develop a plan to reduce emissions by 15 percent
A smooth employee transition is the most critical part of the outsourcing process to get right.

The biggest obstacles to a successful outsourcing stem from concerns that client managers and employees often have about their jobs.

Many people believe outsourcing means service quality will be diminished and jobs will be lost. Actually, companies that outsource facilities functions are able to improve efficiency while improving service quality, and without throwing people out of work.
In fact, both the vendor and the client need facility management professionals to stay on the job during and after the transition. These are the people who understand the complex operations and unique quirks of the buildings in a corporate portfolio. If we’re going to manage your portfolio, we need those guys on our team.

In most corporate real estate outsourcing, facilities pros become employees of the provider firm. We make sure their compensation and benefits overall stay the same or get better when they join our firm.

Facility professionals who join Jones Lang LaSalle improve their career opportunities. They gain access to better training, practices and systems to make them more effective.

Plus, career mobility is greatly improved by joining a company that specializes in the type of work they do.
Nevertheless, your facilities employees are likely to be fearful of change, and leery of our claims that this will be good for them. It’s a natural response to the unknown. And the term “outsourcing” has taken on a lot of baggage in recent years, as people think it’s the same thing as “offshoring”.

If these concerns make your business unit leaders or facilities professionals resistant to an outsourcing initiative, it can threaten the success of the initiative.

What’s needed is a well thought-out strategy of communication and implementation to ensure a smooth transition of facilities professionals.
In selecting a real estate partner, it’s important to consider the firms’ track record of employee job satisfaction as well as client service.

Your request for proposal (RFP) might ask service firms about turnover rates, average employee turnover, and any third-party recognition they’ve received as a superior workplace.

Also important is an employee communication plan. Too often, rumors that jobs may be outsourced circulate through companies before managers are prepared to answer questions.

Without a strong communication plan, employees will fear the worst. Morale and productivity may suffer as workers engage in speculation or update their resumes. In a worst-case scenario, employees find out about an outsourcing initiative from news sources that erroneously report widespread layoffs.

This problem can be avoided with a clear set of messages for managers and employees, to be used if word gets out prematurely. Facilities pros need to know they are valued and won’t lose employment or income due to outsourcing.
A facility management vendor without a well-organized process for on-boarding your employees is not going to make a good long-term partner.

Starting them on the right foot in terms of new procedures and programs is critical to the success of the initiative. If their initial experience with the firm they’re joining is frustrating or discouraging, that does not bode well for the relationship.

Facilities outsourcing is unusual in that your professional staff members remain in place and continue to interact with their co-workers after changing employers. The key ingredient that makes it all work is an atmosphere of job satisfaction and advancement opportunities.

In an effective outsourcing relationship process, your partner recognizes the objections that can come from within your organization, and knows how to replace those concerns with the eventual realization that the change was for the better.