# It's Time To Focus On The "M" In IWMS

For most of the last decade, multi-location corporations have begun to focus on their expense and investment in real estate. Much of this emphasis has manifested itself in the collection of information, development of corporate standards, and improved internal processes. The utilization of new technology platforms has brought forth the Integrated Workplace Management System (IWMS) platform, with the dream of a single corporate database of space, facilities management, utility, contracts and even environmental information shared across the organization.

In most companies, these initiatives are being driven by the IT or Sourcing function, with an eye towards standardization and information control. Depending on the strongest advocates in the organization, the individual modules are implemented in a serial fashion since the "Integrated" concept really spans many different departments and stake holders. In many cases, after installing one or two of the modules, the project loses momentum due to lack of sponsorship across all functions.

With the current economic downturn affecting all corporate activities from headcount to funding new initiatives, the benefits sold when undertaking these projects have not always been realized, and business leadership is asking a very simple question: "What is our return on investment for continuing to move forward?" Unlike some other capital investments in productivity that can show an immediate impact in reduced labor costs or speed to market, the benefits to a true IWMS environment come in both short term and long term returns. Unfortunately, unless the company was tremendously sloppy (which is rarely the case), getting large returns from the "low fruit" is not always enough to justify the investment and resources.

How then do companies begin to realize the 10% to 20% savings predicted by Gartner and other consultants who promote and support these systems? The answer lies in the "M" of IWMS: MANAGEMENT. Too often all of the effort is on the system and the data, and not on utilizing the Business Intelligence created to effect meaningful and cost saving changes. Many companies might implement a facilities management or transaction module, but will not have implemented the Real Estate module where the most significant savings lie.

The most successful companies in gaining the benefits of IWMS have accomplished this by bringing the key real estate information into their overall business planning cycle. Developing key metrics and standards such as Capacity and Utilization, Cost per Seat, Cost per Employee and Rent to Revenue Ratio, provide high level benchmarks and targets for the operating businesses. Including property reviews in the budget/planning cycle to identify upcoming critical dates or capacity issues, makes real estate decisions a part of the proactive business plan, instead of a reaction to upcoming expiration dates when leverage and options are limited.

Armed with better intelligence, here are ten areas where businesses can significantly influence the financial impact of real estate investment and expense through proactive Management:

1. **Understand the true cost of occupancy.** Use the data available to develop metrics of cost per employee or per dollar of revenue and manage to it. For office space, that cost can range from $7,500 per employee per year to over $15,000. As an illustration, if a company recently reduced the workforce by 3,000 people, but did not implement a space reduction plan to coincide with the employee reduction, the company is still spending +/-$30,000,000 per year for idle capacity.

2. **Negotiate Better Leases**. Large company credit has never had more value and leverage in the marketplace. Surprisingly, in reviewing thousands of Leases, the primary reason companies cannot realize faster payback on the IWMS investment, is that they have signed or acquired Leases with very onerous terms. Many times these are renewed without negotiation or are executed under duress due to last minute reaction. Planning well ahead of expiration, auditing key business terms and developing standard language on critical clauses all generate long term savings for the business.

3. **Restructure Leases Ahead of Schedule**. Many businesses manage Leases to expiration or notice dates. In many cases, it is easier to restructure Leases early, to take advantage of market conditions or when you might have greater leverage to improve the terms of the Lease. Also, balancing long term and short term Leases provides a blend of flexibility and cost. It is estimated that the annual cost difference between a short term and long term Lease could approach 20%. That is a rather significant "flexibility premium".

4. **Regularly Audit Operating Expenses**. Operating Expenses can represent 25% of the cost of occupancy. Many times these costs are paid without any audit process of the invoices submitted by Landlords. Provided the proper rights are negotiated in the Lease (See Item #2), the review of all invoices should be standard practice within the Lease Administration function.

5. **Develop Standards for Workspaces**. In some companies, local autonomy is preferred over corporate control, so space design, furniture procurement and project guidance are left to local management. The ability to enforce standards may be the single easiest way to manage occupancy costs. This impacts total square footage, type of building to be occupied, level of finish and standard furniture that can be reused in the organization.

6. **Consolidate Rooftops.** As companies have reduced headcount or outsourced various functions, they create "shadow space" across their portfolio. These sections of unoccupied space within a larger installation are difficult to isolate for reduction or sublet. Consolidating functions and reducing the number of locations provides dramatic cost savings in redundant space, support and technology costs.

7. **Manage Security Deposits and Improvement Contributions.** For many multi-location corporations that have grown by acquisition, there can be millions of dollars in Lease agreements related to security deposits, letters of credit or Landlord contributions to Tenant improvements. Rarely are these well managed or controlled to insure recovery.

8. **Include Real Estate Plan in Business Plan.** With the proper information, it is relatively easy to include real estate needs in the annual budget and planning cycle. As mentioned above, many companies manage to expiration dates. Using metrics for cost, utilization and incorporating growth or contraction plans, can provide better leverage in negotiations and reduce the overall cost of occupancy.

9. **Incorporate Real Estate Review in M&A Work.** Acquisition due diligence often does not include a detailed review of leased or owned properties. With established corporate information standards and a review of potential obligations, risks and opportunities for consolidation, companies can generate significant savings and implement a more effective use of purchase accounting rules.

10. **Manage The Spend.** Once the business leadership understands the correlation between space and occupancy costs and profitability, managing to targeted benchmarks becomes a natural extension of the overall Management process. For a company with 10,000 employees, a mere 10% reduction in occupancy costs can save $10,000,000 per year.

It all begins with the foundation of accurate data capture from the source legal documents that hold the economic information, rights and responsibilities. Integrating all of the aspects of IWMS and managing to measureable targets yields proactive decision making and a better return on investment.

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