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The Journey from Good to Great: Getting to CoRE 2010

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Introduction

Corporate Real Estate (CoRE) leaders have been searching for the past two decades to find the best ways to align workplace resources more closely with the business of the organization. They have become very good at mastering best practices, improving their performance, listening to the needs of their customers, outsourcing tactical work and cutting massive costs out of operations. The question that has plagued them, however, is how do they now go from 'good' to 'great'?¹ What skills do they need to acquire now to make sure they will even be around to make this difficult journey to 2010.

“Successful CORE leaders in the future must have high levels of financial and information technology acumen; collaborative leadership and relationship management skills; and be able to deliver timely and accurate data on the status and needs of the networked workplace.”³

This quote comes from a critical report released by CoreNet in the Fall of 2004, entitled *CoRE 2010: Enabling Work in the Networked World*. The research was supported by 125 leading multinational corporations representing both industry leaders and service providers. Eight project teams were assembled to produce the work and 200 companies were interviewed during the multi-year project. The three main findings that came from the research were that CoRE leaders would have to:

- *Take competitive advantage of the enterprise, requiring continual business process improvement and utilization of the entire network of business partners.*
- *Emphasize the productivity of the worker (driven by the workers themselves), requiring integrated infrastructure solutions management across the delivery network.*
- *Optimize the entire portfolio of business enterprise resources, requiring a new skill set beyond real estate.*

¹ See Stephen Sendelbeck, "Good to Great Workplaces," *Corporate Real Estate Leader* (January 2005), pp. 28-31. It is based on Jim Collin's book, *Good to Great* (NY: HarperCollins Publishers, Inc. 2001).

³ *Corporate Real Estate Leader* (September 2004), p. 15

In order to have the flexibility to respond to continuous business process improvement, to integrate infrastructure solutions and to be a leading member of the enterprise leadership team, critical real estate, facility management, human resources and information technology data has to be linked in a meaningful way and reported. This is an absolute requirement for both the CoRE leader's communication with the internal business units, upper management, outside vendors contractors and partners, as well as for their decision making on the optimization of the portfolio.

This white paper addresses how an Integrated Workplace Management System (IWMS) is the essential technology to deliver this 'timely and accurate data'. An IWMS is an enterprise platform that supports the planning, design and management of an organization's physical asset base. This platform interfaces with graphical and analytical tools such as Computer-Aided-Design (CAD), 3-D, Geographic Information System (GIS), business intelligence (BI) tools and other enterprise systems in the corporation. The IWMS is thus a key component of a CoRE leader's toolkit for making that journey from 'good to a great' by 2010⁴. Gartner concurs with this concept and predicts that through 2009, 60% of global customers with over 2 million square feet will demand IWMS suites over best-of-breed point solutions (0.7 probability).⁵ We predict that percentage will even be higher.

CoRE 2010 research was divided into eight topics which include:

- *Enterprise Leadership*
- *New Models for Solution Delivery*
- *The Changing Nature of Work and the Workplace*
- *Asset Management and Portfolio Optimization*
- *Integrated Resource and Infrastructure Solutions (IRIS)*
- *Technology and the Web*
- *The Strategic Role of Place*
- *Sustainability and Corporate Social Responsibility*

In order for a CoRE Enterprise Leader to make a successful journey to 2010, Harvard University's Kaplan and Norton's Balanced Scorecard model has been chosen as a framework for the roadmap. It is one of the best methods to describe how an IWMS is required to accept and deliver the data needed to support the business processes in each area of CoRE 2010. The four-part Balanced Scorecard model is a methodology to examine both financial and non-financial processes of an organization. This model has proven extremely successful for many organizations' value creating strategies and has become a common lexicon that executive teams understand in discussions of corporate performance. The CoRE 2010 Balanced Scorecard should be aligned with the strategies of the entire corporation. The four-part model consists of:

- *Financial*
- *Customers (Internal and external)*
- *Processes (Internal and external)*
- *Learning & Growth: Human Resource Capital, Information Technology Capital and Organizational Capital*

⁴ In the CoRE 2010 *Technology and the Web Report*: "Big Bet #6: Business information will be a component of infrastructure information, and integrated reporting tools will assist decision makers in managing the infrastructure in real-time."

⁵ Mike Bell (Gartner analyst), November 2004.

Figure 1: The CoRE 2010 Balanced Scorecard

FINANCIAL	Asset Management
CUSTOMER	Changing Nature of the Work and the Workplace Strategic Role of Place
INTERNAL PROCESSES	Portfolio Optimization
LEARNING & GROWTH	HR Capital: Sustainability and CSR IT Capital: Technology and the Web Organization Capital: IRIS and Solution Delivery

FINANCIAL: Asset Management

Asset Management concentrates on the financial aspect of providing and maintaining resources for the organization. CoRE 2010 Enterprise Leaders, as stated in the introductory quote, will have to have an even stronger financial skill set than they have currently. The goal in this category is to:

- Increase the performance of the portfolio;
- Reduce operating and capital costs;
- Mitigate operational risks;
- Ensure accurate financial data for Sarbanes-Oxley (SOX) compliance.

Increased Performance of the Asset Portfolio

Most of corporate real estate assets are currently underperforming by as much as 50% as space remains underutilized on a daily basis in our mobile world of work. This can cost an organization millions of dollars in operating expenses. An IWMS allows a CoRE Leader to get a complete profile of all the locations in the portfolio, including information on which are owned or leased, which spaces are occupied and which are vacant, where space is utilized to full capacity and where it is underutilized. It also provides a chart of accounts to calculate what the operating cost of each of the buildings is so that each organizational unit can be charged appropriately. All costs associated with providing and maintaining the workplace are tracked, not only for accountability, but also to benchmark those costs with other properties and real estate portfolios of other companies.

In the UK in late 1999, a group called the IPD Occupiers Property Databank (OPD) launched the OPD Total Occupancy Cost Codes (TOCC). This is a robust and comprehensive standard utilized for capturing all occupancy costs involving rent, tax, fit-out, furniture, building, operations, business support and management. It has recently announced an association with the Open Standard Consortium for Real Estate (OSCRE) which means it will soon be used in the United States.⁶ By utilizing a standard in categorizing costs in an IWMS, variances

⁶ Where it will be “normalized” with existing standard cost descriptions found in BOMA’s Chart of Accounts, IMA’s Workpoint Accounting and IFMA’s Global FM Benchmarking data.

between one building or region and another can be compared. This will allow for a meaningful analysis on the various cost drivers and how they can be reduced in the context of the overall business unit requirements. In addition, unoccupied space costs are beginning to be counted as the workplace becomes more mobile and person-centric. It is for that reason that Enterprise Total Cost of Occupancy (ETCO) was first created by KPMG and supported by the Institute of Management Accountants (IMA). This went beyond real estate costs, in calculating the cost of all resources (both built and virtual) required to make a worker productive (including IT and telecom assets).

With an IWMS, an organization has the data to also measure critical financial data for the business units such as the profitability of their customer-facing resources (retail establishments), RONA, ROA and EVA per asset, revenue/employee/location and cost/employee/location.

Reduced Operating and Capital Costs

Gartner has estimated that an IWMS can reduce asset operating and capital costs by as much as 26%. Savings can be substantial in using an IWMS to:

- Tightly integrate the administration of leases with accounts payable to minimize time and increase accuracy;
- Reduce the time it takes to execute projects which reduces costs due to improved workflow and coordination;
- Increase process improvements by identifying trouble areas and remediating the problem immediately;
- Increase cash flow through componentized depreciation by being able to segment a building by subsystems which each have their own depreciation schedule⁷.

Strategic Risk Mitigation

Strategic risk has been defined as “an unexpected event or set of conditions that significantly reduces the ability of managers to implement their intended business strategy.”⁸ A key risk which can have a large financial impact on an organization is operational risk. This is most significant when it impacts the core business activities of a company. Having a fully implemented IWMS can be critical to both continuing operations or returning to business following an emergency or disaster.

By conducting periodic condition assessments of buildings and entering the data on the status of building components into an IWMS, remediation can be proactively identified and a capital plan can be prepared with the required projects prioritized. This not only prevents costly emergency repairs (which can represent 20-60% in savings), but can prevent lost productivity due to costly downtime. A roof leaking over a critical manufacturing operation can cause the plant expensive loss as much as a structural failure in a building housing financial trading activities.

Unanticipated disasters do happen and an IWMS (with offsite redundancy) can ensure an organization is back and doing business as quickly as possible. 9/11 certainly taught us more about emergency preparedness than any disaster before it. Businesses that were still able to

⁷ OSCRE currently has a workgroup which is defining componentized depreciation for its standards development.

⁸ Simons, Robert. *A Note on Identifying Strategic Risk* (Boston: Harvard Business School, 1999).

access information on their employees, as well as all of their assets in the workplace that were now lost, were able to resume their operations faster and then receive insurance compensation for the destroyed assets.

Sarbanes Oxley Act (SOX) of 2002

SOX is a result of the “irrational exuberance” that grew out of the greed of corporate executives at the turn of the 21st century as evidenced by the criminal and civil trials which are still going on many years later. It was designed to reign in corporate governance by placing accountability on financial reporting squarely on the desks of the CEO and CFO. By ensuring strict criminal enforcement, the importance of conforming to defined corporate practices and ensuring accurate and timely reporting has never been more important. Jones Lang LaSalle (JLL) has identified SOX as an ‘opportunity’ for CoRE Enterprise Leaders, but feels that it is actually ‘disguised as a problem.’⁹ Hence the importance of an IWMS system. JLL believes that by developing the correct financial data structures and performance metrics across the business, any potential risk can be avoided. Integrated IWMS systems are essential tools in addressing the riskiest areas of the business: excessive costs of occupancy, poorly managed projects, underutilized assets, environmental factors, impacts of business expansion or contraction, inaccurate reporting of the true costs of the CRE and FM infrastructure,. Multiple point solutions cobbled together go against the demand of SOX requirements and leave executives exposed. By identifying real estate’s connections to corporate finances and enabling the data flow, the CoRE Enterprise Leader will also be able to get more attention from the C-suite.

CUSTOMER RELATIONSHIPS

Changing Nature of Work and the Workplace (Internal Customer)

The real estate profession often lags behind other fields in adopting the latest management concepts. What is now a critical component of a CoRE leader’s and their staff’s skill set is Customer Relationship Management (CRM). Companies like Cisco and Sprint understand how critical CRM is to a CoRE group. Mark Golan, Vice President of Workplace Solutions at Cisco, is committed to establishing close relationships between his managers and their customers. For a company like Cisco, these include internal staff, contractors, vendors and partners around the world. The goal of CRM for CoRE is to positively affect the productivity of the workforce. As CoreNet’s research confirms:

Workers needs, expectations, and preferred work/life balance are also undergoing dramatic change...workers will be more likely to demand acceptance of changing demographics, expect access to leading edge technology, and want choice and control over work, working conditions and workplaces.¹⁰

In order to support these requirements, the CoRE customer needs access to timely and accurate data from an IWMS so that they can...

- Enter any problem they have with their working environment (RE, FM, HR or IT) in an easy to use portal
- Get assets, services or schedule their usage for a particular time period
- Provide the right space for the right amount of time at the right cost

⁹ See ‘SOX, CoRE and the CFO’, a Current Perspective Paper by Michael Billing. www.joneslanglasalle.com.

¹⁰ *Corporate Real Estate Leader*, September 2004, p.32.

- View their current space allocations through a visual medium like CAD
- Determine future budgets to support the required changes to the workplace and be able to do scenario planning easily
- View performance metrics (i.e., revenue per square foot, lease costs) for any of their occupied spaces
- Increase attraction of the best workers
- Decrease turnover of workers
- Increase customer satisfaction (as identified through surveys)
- Decrease sick time

Strategic Role of Place (Internal & External Customers)

For both CoRE's internal customers and for the organization's external customers, locational strategies will remain critical to decision making in 2010. Place will continue to play a role in most business unit strategies whether it is a sales/marketing organization (where are existing customers and markets, as well as future ones located?), manufacturing (where do we have existing production facilities, supply chains, logistics hubs and workforce groupings and where do future ones need to be located?), R&D (where are future locations of technology centers?) and finance (where can I locate facilities to satisfy the business units at the lowest operating costs?). By linking IWMS to GIS, not only can the existing locations be graphically represented on a map, but other data pulled from the database can be associated with each location (costs, org units, performance, etc.). GIS can also provide valuable demographic and logistics data for future decision making.

Which locations do you keep and which do you dispose of after a merger/acquisition? For those locations you do keep, what costs have to be incurred to raise them up to the quality or performance level of the acquiring company? All of these questions can be considered when data is collected on the inventory of the new properties and input into an IWMS. Then condition assessment data can be associated with each of the buildings. This was critical data when one of the nation's largest banks acquired a smaller financial institution. An important project in the acquisition process was conducting a condition audit of all the newly acquired ATMs. With this information, the bank was able to replace or bring the machines up to the quality standard of their organization and enhance the image of the new ownership with the existing customer base.

INTERNAL PROCESSES

One process which needs to be focused on by 2010 includes the need to optimize the global portfolio of assets in terms of location, usage, ownership as well as costs. Although input is required from outside consultants (particularly for specific regional and localized knowledge), this will probably remain as an internal process. In order to get the right information to make the right optimization decisions, the method by which assets are classified in an IWMS will also be a CoRE function although the management of those assets may likely be outsourced.

Portfolio optimization and Asset Classification

IWMS allows the Enterprise Leader to play the 'workplace optimization game'. The first step is viewing the entire global portfolio through an existing real world lens. Each asset (location, site, building, structure) can be classified in an IWMS through flexible attribute data, in terms of both the type and use.

Types can include:

- Strategic – unique to the business in terms of location, function and/or design (i.e., headquarters, lab, manufacturing)
- Specialty – for a specific purpose and not built for the general real estate market (i.e., wind farm, airplane hanger)
- Generic – traditional real estate (i.e., office, retail, distribution).

Use classifications could include:

- Core – high strategic value and anticipate long term occupancy
- Key/Cyclical – lower strategic value dependant on the business cycle; shorter term occupancy
- Fluid/Casual – low strategic value dependant on seasonal or random basis of need; may or may not be predictable
- Captive – once core, now with low strategic value, little demand and may have problematic disposal potential.¹¹

By applying these attributes to each strategic asset input into an IWMS, a report can be produced which shows their location with financial and utilization data; this is then mapped to the business unit(s) requirements, and 'what if' scenarios can be played to determine the optimal portfolio configuration.

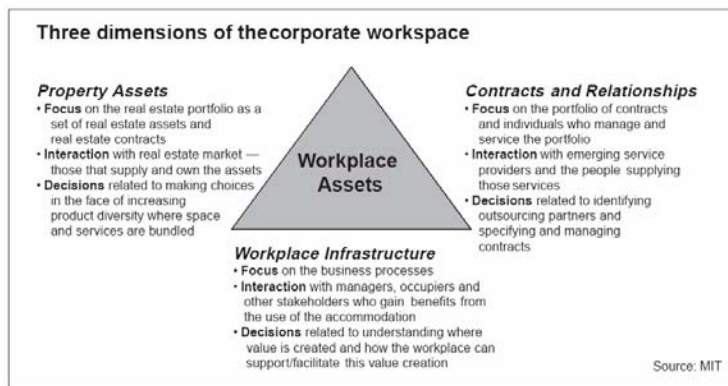


Figure 2: Source: MIT and Gartner's *The Agile Workplace* (p. 52)

IWMS can track all of the information on strategic assets required to manage in 2010:

Big Bet #1 - Real Time Data - Real time data collection will be accomplished automatically. Instant availability of data will allow for complete visibility of every aspect of "space" and allow the enterprise to manage and measure optimization of the interdependent assets on both a granular and portfolio level.¹²

These 'interdependent assets' include (see Figure 2 above):

- Property Assets – all of the data associated with the internal physical locations, as well as the existing external real estate market data
- Workplace Infrastructure – all of the other asset data required to make the workplace and the worker productive (i.e., technology, communications)

¹¹ The Type and Use classifications are a combination of findings from *CoRE 2010* and the *Agile Workplace* (pp. 50-52)

¹² *Corporate Real Estate Leader*, September 2004, p. 35.

- Contracts and Relationships – all of the external legal documents (i.e. lease abstracts) and agreements (i.e., service level agreements) entered into with the CoRE and other vendors/ alliance partners.

The IWMS promotes collaboration between CoRE Enterprise Leaders and their internal departments (real estate, facility management, human resources, information technology, finance, business units, upper management) and external vendors and partners (suppliers, service providers, brokers, property owners and managers, regulatory bodies) through extensive workflow capability and easily accessible reporting (alphanumeric and graphic) capabilities. In this type of reporting, business intelligence systems are becoming a necessity. Hewlett-Packard's CoRE group makes extensive use of BI for their decision making.

LEARNING and GROWTH (Innovation)

This area of the Balanced Scorecard deals with how well the CoRE Enterprise Leader develops their various capital resources for 2010. The IWMS supports performance in the following areas:

- Human resource capital: Sustainability
- Information technology capital: Building Information Modeling
- Organizational capital: Integrated Resource Infrastructure Solutions (IRIS) and Solutions Delivery (Outsourcing).

Human Resource Capital: Sustainability Tracking and Reporting

Non-financial performance metrics are becoming increasingly important to organizations. They are often referred to as: sustainability, triple bottom line accounting (TBL), corporate social responsibility (CSR) or environmental, health and safety (EHS). There are now both the FTSE's 4 Good Index and Dow Jones' Sustainability Indexes for the 'socially responsible investor' to monitor a corporation's environmental, labor or community activities before they make their investment decision. IWMS can aid in the reporting of some of this data needed for sustainable accountability. One method would be to track Building Environmental Performance¹³ data which links HR data to CRE/FM information. This could include: churn costs (average being \$450/employee/year), employee absenteeism and health costs

Another method to consider in tracking sustainable performance is in the design and construction of a new building or remodeling of an existing structure. Linking an IWMS to a Building Investment Decisions Support tool¹⁴ allows budget decisions to be made on investments in facilities based on productivity factors. In addition, an IWMS can include LEED Ratings for New Construction and Major Renovations for office, manufacturing, laboratories and other building types, as well as for existing buildings. For this performance monitoring, either the data is input directly into the IWMS or it is tied into the building control systems for real time accuracy. The Leed rating includes:

- whole-building cleaning and maintenance issues (including chemical use)
- ongoing interior air quality
- energy efficiency
- water efficiency

¹³ See Professor Vivian Loftness' research on BEP Assessments at Carnegie Mellon University.

¹⁴ Also being developed by Loftness, see above.

- recycling programs and facilities
- exterior maintenance programs
- systems upgrades to meet green building energy, water, IAQ, and lighting performance standards.

Information Technology Capital: Building Information Modeling (BIM)

One of the most heralded software developments in the early 1990's was the advent of object-oriented programming (OOP). Now, several years later, we are finally beginning to see the value of OOP to not only the AEC arena, but the potential value to the entire real estate community. As more and more owners demand 3-D models of their new or renovated buildings from their architects and engineers, the AEC profession will have to embrace this new way of creating designs for buildings using the OOP technology and visualization called Building Information Modeling (BIM).

In the pre-BIM era one had to polyline each space in a 2-D CAD drawing, which automatically measured the space and then populated the database; an extremely time consuming and expensive process. Now instead of IWMS linking to 2-D CAD drawing files, BIM eliminates the need to polyline and populates the space records of the IWMS automatically from the 3-D model. Space can now be measured in cubic feet or meters, as well as square feet or meters. When the building is ready to be commissioned, all of the data captured during the building and construction phase will be automatically delivered to the CoRE Enterprise Leader as 'an electronic owner's manual.' The electronic building model can now be managed in parallel with the physical one in real-time. This BIM tool will give the CoRE Enterprise Leader a 3-D model which can be used to:

- Simulate predictive maintenance scenarios and tie to budget planning
- Analyze building component and product performance over the building life-cycle
- Create energy conservation strategies
- Execute post-occupancy studies
- Simulate various business unit occupancy scenarios

Critical to the acceptance and use of BIM is the work being done by both the International Alliance for Interoperability (IAI) and OSCRE. These two groups, along with many professionals from all segments of the real estate industry are currently defining the data standards and processes necessary for easy transfer of information in the BIM world. Universities are also beginning to join in this standardization effort, with the University of San Diego's Real Estate Masters Program in the Graduate School of Business being the first to include an OSCRE project in the Spring of 2005.

Organizational Capital: Integrated Resource and Infrastructure Solutions (IRIS) and Solutions Delivery

The concept of IRIS is that there will more of a convergence of RE, FM, HR, IT and Finance by 2010. A similar idea was spawned both in the CoRE world with the IDRC concept of 'Corporate Infrastructure Resource (CIR) Management' in 1999¹⁵ and around the same time in the IT world with the concept of 'Infrastructure Management' which foresaw the necessity of tracking assets

¹⁵ Englert, John. *The Strategic Alignment Handbook. A Corporate Infrastructure Resource (CIR) Management Application Guide*. IDRC, 1999.

in the same manner, no matter what silo they were managed under¹⁶. What is different about IRIS is that now we are working in more of a 'people centric' model than a 'place centric' one, so the integration of technology, workplace and processes has and will become even more intricately entwined.

IWMS has promoted this integration from their birth as CAFM and RE systems. CAFM had to tie to HR and telecom systems to associate people and organizations with their spaces; RE had to tie to financial systems to track building costs and make payments. With the merger of CAFM and RE into IWMS, all these systems become critical in linking across the silos. And although Enterprise Resource Planning (ERP) systems have added some IWMS capabilities, there is still no one system that can do it all for the large global corporations that CoRE Enterprise Leaders support. And this will probably hold true through 2010.

The CoRE 2010 IRIS model described above represents a highly networked organizational model with critical work done by inside staff (i.e. strategic planning and portfolio optimization) and non-CoRE work outsourced to external organizations (Infrastructure Solutions Integrators, Services Integrators, Service Providers, Real Estate Owners/Operators and Process Auditors). IWMS is essential to the operation of this IRIS model and the system should be owned by the internal group with access provided to the outsourced members of the team, as well as interfaces to their systems. This IWMS is used for:

- Call center operations (all queries regarding assets IRIS group is responsible for)
- Operations and maintenance
- Lease administration
- Transaction management
- Financial Management
- Performance management
- Service Level Agreement management
- Project management

CONCLUSION

An IWMS is essential for the Enterprise CoRE Leader in supporting the CoRE 2010 vision. Manhattan Software is one of the leading integrated workplace management systems on the market today. As this white paper has described, each of the key topic areas require the accuracy and timeliness of information that can only come from a fully integrated workplace management system interfaced with the other key corporate systems of the organization and those of their outsourced partners. As these IWMS systems, like Manhattan Software, increase their functionality, usability and become even more globally oriented, CoRE 2010 comes closer to a reality and it will be even easier for an Enterprise Leader to go from good to great!!

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¹⁶ Sanquist, Nancy J. "The Great Global Infrastructure Management Game: How Technology is Creating New Value Propositions in Infrastructure Management for the 21st c.," *Facilities Engineering and Management Handbook*, editor Paul Smith, (New York: McGraw-Hill), 2001.