

BEYOND BOUNDARIES

LEVERAGING PARTNERS
TO MAXIMIZE THE VALUE CHAIN

Over the last several years, companies have been rapidly shifting away from traditional hierarchical and vertically integrated business models and have reinvented the value chain to achieve outstanding performance. The traditional “we make and do everything ourselves” approach has become outdated as companies de-layer and focus on true core competencies to be more competitive. Globally competitive enterprises now rely on deep, collaborative partnerships that increase the effectiveness of every aspect of operations. This new reality presents an inflection point for executives serving non-core functions, as they can either thrive as the standard-bearers

of change and improved effectiveness, or be seen as “stuck” in the old way of doing things.

This paper serves to inform, equip and challenge readers to align with this movement and contribute meaningfully to the larger quest for value.

Reshaping Enterprise

Business today is fueled by a single-minded dedication to maximizing efficiency throughout the value chain. This mission has produced a decade-long focus on strengthening a company’s key value drivers and has engendered reliance on outside partners for better execution of non-core functions. Concurrently, the role of internal executives leading non-core functions, such as facility and corporate real estate services, has evolved into a higher competency in managing and controlling alliance relationships and driving strategic planning.

This model is known by many names. In the IT world it is called the Extended Enterprise. CoreNet Global refers to it as the Networked Global Enterprise. PricewaterhouseCoopers calls it Connected Sourcing. Others may view it simply as the next step in the evolution of bundled outsourcing services. The bottom line: This is the way business is done today and in the future.

By any name, this model carries with it the recognition that success hinges not only on a company’s employees and executives, but also on its business partners, suppliers and customers. The elimination of inside/outside boundaries by an organization can improve value to customers, increase speed and flexibility and boost competitiveness in the unforgiving global economy. At the same time, greater interdependence with suppliers makes both open collaboration and appropriate oversight more important than ever before.

Resourcing Value

The development of this model has triggered breakthrough transformations in business. Dell, for example, revolutionized the PC hardware industry by fashioning itself as a product developer and process integrator using supplier-manufactured componentry. Motorola shifted from a classic, vertically integrated organization to one with a marketing and product development orientation via aggressive partnering. Today’s most innovative and agile companies are hardly bureaucratic organizations in the traditional sense, but rather integrators of partners delivering their expertise and efficiency to defined segments of the value chain.

Organizational rethinking engages and preoccupies chief executives at the world’s largest companies. In IBM’s recent survey of Global CEOs, the top three organizational innovations being undertaken were structure changes, major strategic partnerships and shared services (Fig. 1). Senior management looks toward greater supplier-client integration as one way to grapple with a host of difficult and dynamic conditions, including globalization, productivity pressures, scarce resources, intensifying competition, blurred industry boundaries and rapid technology change (Fig. 2).

Call to Lead

Leaders in corporate infrastructure services are being called to respond to these forces by:

- > Understanding the business environment that creates change in the organization
- > Knowing the organization’s overall business strategies and aligning service delivery with these objectives
- > Increasing customer knowledge and intimacy
- > Becoming a master integrator of the delivery supply chain
- > Focusing on key strategic activities that make a difference, and partnering for the rest

One framework for embracing organizational restructure is a historical view of outsourcing’s role in the value chain.

Evolution of Outsourcing

The integrated outsourcing in evidence today is a natural progression of the virtuous cycle of reciprocal improvement between organizations and their suppliers. Viewed over time, outsourcing has evolved through three iterations.

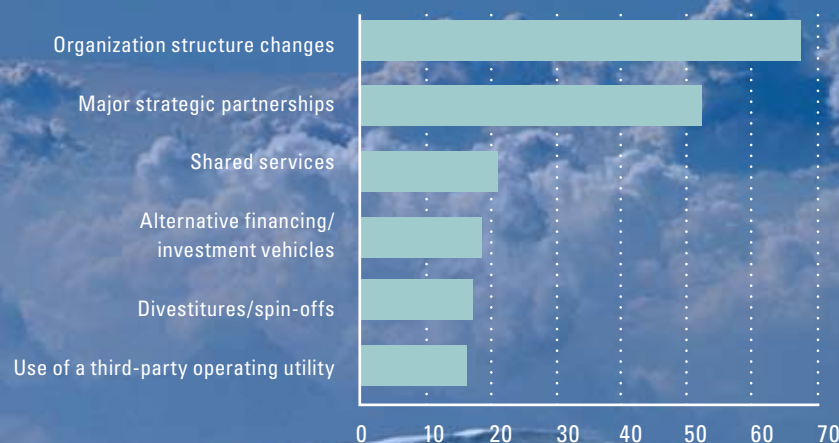
- > **Task outsourcing.** At its onset, outsourcing was confined to individual, high-repetition tasks that could be commoditized to achieve time and/or cost savings. Task origination and oversight flowed from the host organization to the supplier.
- > **Transactional outsourcing.** In this intermediate stage, outsourcing became more collaborative with a two-way flow between in-house and third-party professionals to customize and refine processes.

> **Integrated outsourcing.** As partner capabilities expanded to reflect a deeper understanding of client requirements and business objectives, third-stage outsourcing evolved beyond tactical services to encompass multi-functional global platforms. In-house professionals focus on managing the interface with senior management, and the partner delivers an entire downstream integrated function to the company. The transparent flow of knowledge and information is bilateral with an emphasis on delivering strategic value. Individuals who are most interested in (and are best at)

service delivery belong with the partner, and those with aptitude for customer relationship management and strategy stay with the company organization.

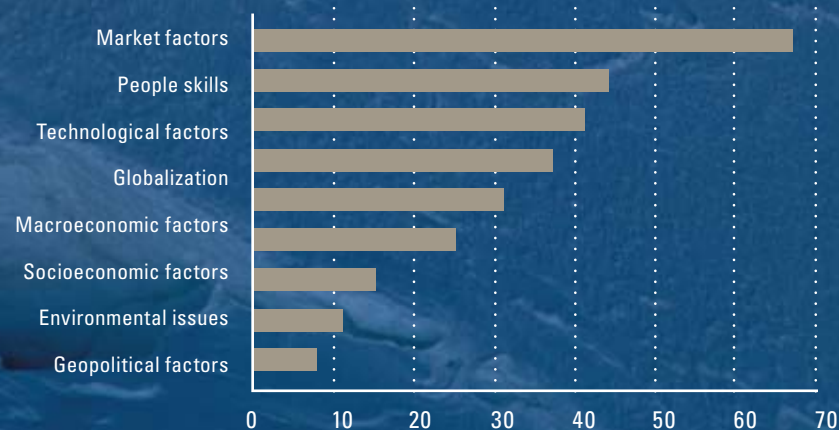
As the harbinger of an oncoming trend, integrated outsourcing had its first application in the manufacturing and IT sectors. With its strong success in first- and second-stage outsourcing, shared services such as facilities and corporate real estate are now very active in integrated outsourcing as the latest accelerant in a rapidly changing industry.

Fig 1>> **Most Common Business Model Innovations**
Percentage of respondents



Source: IBM Global Business Services: Expanding the Innovation Horizon

Fig 2>> **Most Important External Forces Impacting Organizations Over the Next Two Years**
Percentage of respondents



Source: IBM Global Business Services: Expanding the Innovation Horizon

From Supplier to Strategic Ally

The CRE industry has seen a continuum of change in recent years, fueled not only by global business forces but also by the maturation of service providers into strategic partners and advisors.

This change is reflected in the use and scope of outsourcing as reported by CRE and facility leaders. More than 90 percent say that the percentage of departmental expenditure that is outsourced has increased over the last five years, and better than a quarter describe the increase as substantial.

The momentum is fueled by far more than cost. Companies say the five most important factors in pursuing outsourcing are 1) focusing on core competencies, 2) flexibility, 3) service levels, 4) transparency, and 5) innovation (Fig.4). Interestingly, it appears that many service providers are behind the curve in recognizing these client needs. Suppliers most often rate the importance of cost cutting as preeminent while companies see cost savings as important but not the main long-term driver for partnering. Service providers also tend to underestimate the significance of innovation to their clients, a gap that highlights the difficulty in matching more sophisticated client expectations with partner aptitude and expertise.

Aligning Expectations

A successful outsourcing partnership avoids the pitfalls that commonly derail the relationship, chief among them *misaligned expectations*. To that end, executives should also carefully examine whether their partners' strategy is aligned to deliver those objectives. They should invest time in clearly identifying their organizations' goals and objectives, and then ensure those are evident as the key drivers in their supplier relationships. Further attention should be paid to the *positioning of the retained organization* and the question of data and *intellectual property ownership* in the alliance. Improperly addressed, each of these issues can weaken integration and effectiveness, shortchanging and undermining the positive effects of the function as a whole.

The Case for Transformation

Approached thoughtfully, each phase of successful partnering produces improved service delivery, incremental cost savings, product enhancements and reduced cycle times. These outcomes are in line with the benefits of business model innovation being sought by CEOs, who cite cost reduction, speed and flexibility, and product focus as their foremost

Fig 3>>

Where we've been, how we got there and where we are now

Evolution of an Industry

1980 Shared services outsourcing begins without real estate

1990 Corporations outsource real estate basic functions by project

1995 Service providers begin delivery of integrated services, compensation structures begin to reflect that change, preferred provider status ensues

1997 IDRC Foundation sets focus on workplace management and the changing nature of work, including expanded role of service providers

1999 Service provider industry consolidation begins, ramping up delivery of services on a global scale; strategic partnership status emerges

2000 Real estate functional focus moves to integrated portfolio management

2004 CoreNet Global defines Integrated Resources Infrastructure Solutions—IRIS—as the model driving globally integrated strategic and tactical services

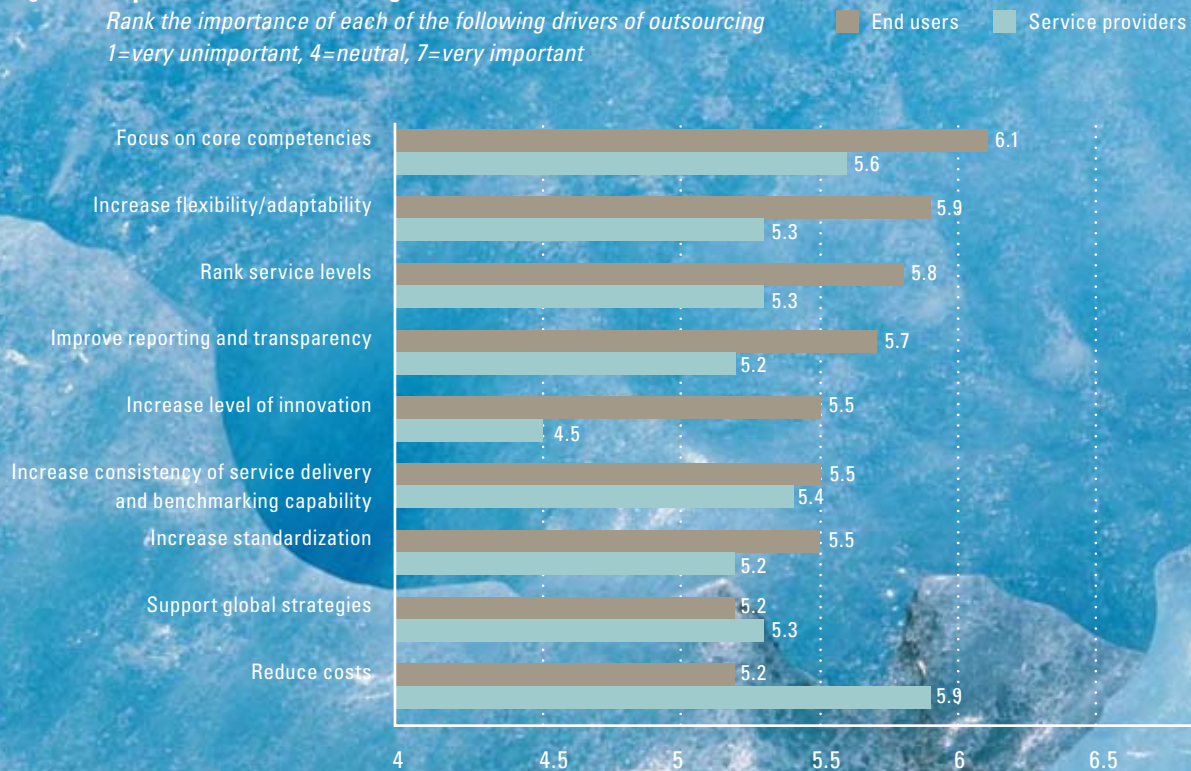
2007 Client relationship management, strategic planning and strategic alliance management remain as the key corporate in-house functions

The timeline shows a moderate evolutionary rate through the mid-90s and then reflects the compression of more change over a shorter time span starting thereafter

▲ Individuals who are most interested in (and are best at) service delivery belong with the partner, and those with aptitude for customer relationship management and strategy stay with the company organization.

Fig 4>> **Importance of Outsourcing Drivers**

Rank the importance of each of the following drivers of outsourcing
1=very unimportant, 4=neutral, 7=very important



Source: CoreNet Global, Corporate Real Estate Leader Sept./Oct. 2006

objectives (Fig. 5). Innovation is increasingly seen as the “business of the business,” and in an era of specialization, strategic partnerships are viewed as the means for creating mutually beneficial value.

Geographic Reach

Just as the whole organization is being reshaped and redefined, corporate infrastructure faces its own dynamic challenges. Rapid operational expansion hastens the need for multi-regional and global integration. As companies broaden their geographies, there is a concurrent push for centralized control, albeit with local delivery of services.

Service providers have also globalized and centralized. They have taken the lead in advancing the performance standards of the industry through platform development, enterprise technology and best practices. Increasingly, providers integrate outsourced functions into a complete platform of end-to-end

solutions, incentivized and rationalized through KPIs, process improvements and performance management.

A Call to Action

Amid these market forces and internal developments, infrastructure managers face a choice: to lead change or fall victim to it. Inertia is counter-productive to an evolutionary process; those executives who do not autonomously initiate integrated outsourcing may well see it imposed on them from elsewhere in the organization.

It is encouraging to note that facilities and CRE executives are uniquely positioned to introduce change. Among infrastructure managers, corporate real estate and facility leaders are uniquely qualified to thrive in the new business model, as they possess natural integration skills and interactive contracting experience. These skills, combined with a customer-centric focus on servicing the goals of the company, are the keys to future success.



The Frontrunners

Global leaders use integrated outsourcing and partner collaboration to drive value, productivity and performance in support of corporate priorities.

Whirlpool Corporation

Geography

Americas, Europe, Asia Pacific

Portfolio type

Distribution centers, technology centers and plants

Portfolio Size

75 million square feet

Supplier services

- > Consulting
- > Corporate Finance
- > Integrated Facilities Management
- > Project Management
- > Transaction Management

Whirlpool has grown its outsourcing in lockstep with its increasingly global activities. New efficiencies have driven more than \$100 million in positive cash flow and uncovered savings of nearly \$3.5 million in facility operating expenses. Improved occupancy strategies using an asset positioning model have freed up millions in cash now helping fund Whirlpool's global expansion.

Motorola

Geography

Americas, Europe, Asia Pacific

Portfolio type

Office, R&D, manufacturing

Portfolio Size

23.3 million square feet

Supplier services

- > Consulting
- > Integrated Facilities Management
- > Project Management
- > Transaction Management

Motorola has partnered with its provider to achieve an integrated platform focused on lowering operating costs, improving processes and devising workplace strategies. The collaboration has also delivered aggressive new approaches to strategic sourcing and energy management. A truly global operation, Motorola corporate real estate has proven itself to be a leader in innovation, leverage and effectiveness.

Procter & Gamble

Geography

Global

Portfolio type

Office and technical centers

Portfolio Size

16 million square feet

Supplier services

- > Integrated Facilities Management
- > Project Management
- > Sub-Region Transaction Management

After globalizing the business and achieving cost savings through internal programs, P&G selected a global provider that leveraged sourcing relationships and other strategies to reduce costs \$1 million below budget in the first year. P&G and the provider then consolidated dining services and reduced the number of soft services suppliers from 110 to a single worldwide source, resulting in further cost efficiencies as well as enhanced service consistency, cost analytics and implementation of best practices. Through the supplier partnership, services are provided in 77 countries.

Conclusion

Executives serving non-core functions can look to leading edge industries, innovative companies or change-makers in their own organizations to see the next generation business model taking hold. Integrated outsourcing increases the reliance on outside strategic partners to provide global, multi-functional service platforms to maximize the value chain. Embracing this change can initially present a professional challenge, but is often the first step in elevating the strategic role of the retained organization and its leaders.

Sources

“Expanding the Innovation Horizon: The Global CEO Study 2006”, March 2006, IBM Global Business Services.

“Service Delivery Comes of Age”, *Corporate Real Estate Leader*, September/October 2006, CoreNet Global.

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