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135 cost saving ideas—from the strategic to the tactical

In 2001, Jones Lang LaSalle introduced the Financial Performance Improvement Pyramid model to capture three levels of cost savings initiatives. (Figure 1) CRE teams have raised their game dramatically since then, becoming more financially astute and attuned to their companies' strategy, leveraging the strengths of alliance partners, and using technology and innovation to greater effect.

In the early stages of outsourcing, the greatest opportunities to realize cost savings are tactical – the proverbial “low-hanging fruit.” In real estate terms, tactical enhancements include renegotiating supplier contracts, streamlining leasing processes, disposing of vacant properties and optimizing facility management practices. Once these task-level efficiencies have been achieved, how can CRE teams continue to deliver savings?

The answer is to turn to more strategic initiatives that require a more sophisticated skill set from both the CRE department and its strategic alliance partners. Initiatives such as space optimization, strategic

occupancy planning, workplace solutions and financial alignment all requires a deep understanding of corporate strategy and goals, as well as a collaborative relationship between CRE teams and their service provider.

The result is a flipping of the pyramid: Tactical initiatives which drove value in the early stages eventually run their course, as the collaborative CRE team increasingly turns to strategic initiatives that would have been difficult if not impossible to achieve in a first-stage outsourcing relationship. (Figure 2) It's worth noting that companies considering a first-stage or second-stage outsourcing relationship should carefully consider the strategic capabilities of service providers even if they have no current need for those services; because, sometime soon, they will. In 2001, we identified the most effective cost reduction strategies by tier. We have updated the list of ideas to reflect some of the latest industry best practices and organized them by function.

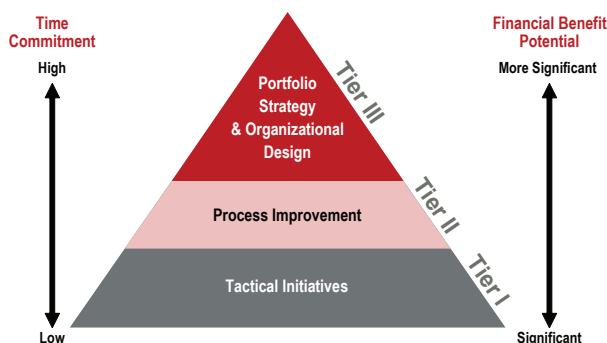


Figure 1: Financial performance improvement pyramid (2001)

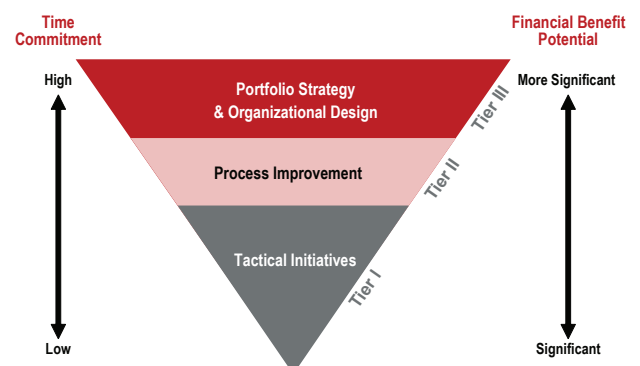


Figure 2: Financial performance improvement pyramid (2008)

Portfolio management

III – Portfolio strategy and organizational design

- Create a Relationship Management function that enables continuous meaningful contact with business leaders
- Ensure that CRE has a strong mandate and is empowered to drive cost reduction strategies
- Outsource tactical services to enable CRE leaders to focus more on business relationships and strategy development
- Align with HR, IT, Finance and Procurement to drive operational excellence and optimize costs
- Maintain comprehensive, accurate and timely real estate information that enables fact-based decision making
- Set “big rules” that align real estate strategies with business objectives
- Work with the business to implement a comprehensive labor-based portfolio strategy
- Develop a workplace strategy that creates engaging, efficient, flexible and productive work environments
- Employ a sustainability strategy that reduces costs and meets the enterprise's sustainability objectives
- Create a financial strategy that is aligned with business and real estate objectives
- Drive CRE performance through key performance indicators across the CRE organization and the use of dashboards
- Seek economic incentives for all major new facilities, renewals and/or major capital expenditures
- Utilize off the shelf or vendor technology without significant customization
- Commit to process enhancement using Six Sigma

II – Process improvement

- Define one best in class process for each discipline, with cross functional process maps, to enable speed and efficiency
- Define one set of supporting systems to support CRE and integrate with Corporate infrastructure systems
- Develop strategic sourcing guidelines for all vendors
- Formalize KPIs that reset annually
- Conduct an annual portfolio assessment to identify and prioritize cost savings opportunities
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- Conduct periodic master plans for major concentrations of space, seeking opportunities to consolidate facilities or better match supply and demand

- Formalize an economic incentives opportunity review
- Utilize common headcount and capital projections across HR, IT, Procurement
- Conduct internal and external benchmarking to highlight opportunities in the portfolio
- Train CRE staff to drive the use of best practices
- Assess the viability and cost effectiveness of facilities from a labor and logistics perspective annually, partnering with HR and Supply Chain professionals.
- Track and report cost savings and avoidances
- Conduct quarterly strategic reviews of service delivery
- Conduct flexibility and suitability analysis to identify candidates for upward and downward flexibility
- Identify core and non-core facilities and develop appropriate real estate and financial strategies for each
- Categorizes employees according to need for mobility – Assigned, Mobile or Highly Mobile.

I – Tactical

- Complete strategic readiness assessment to establish CRE foundation baseline
- Conduct “Dark Space” study to eliminate under-utilized space
- Perform review of non-core assets to determine if there are opportunities to eliminate space
- Implement work from home to qualifying lines of business
- Evaluate high employee concentrations for re-negotiations of economic incentives
- Conduct overall sustainability audits
- Conduct site-level energy assessments

Transactions

III – Portfolio strategy and organizational design

- See in portfolio management section

II – Process improvement

- Develop lean decision process for all transactions to ensure speed in the real estate process and business decision-making
- Maintain discipline to avoid trading up class of space in soft markets
- Develop streamlined processes for small transactions

I – Tactical

- Consider new leases in Class B and C buildings as opposed to Class A buildings
- Negotiate early renewal “blend and extend”
- Delay relocations through short-term extensions

Integrated facility management

III – Portfolio strategy and organizational design

- Utilize key performance indicators to measure performance and to identify opportunities to improve
- Benchmark costs with companies to identify and share best-practices
- Provide ongoing employee training to maximize the skills of the in-house team
- Implement a detailed energy accounting and reporting program
- Implement employee incentives to reward the identification and implementation of cost reduction ideas
- Leverage the expertise of the supplier network to drive costs lower
- Look for opportunities to convert existing fixed work pools into variable work resources

II – Process improvement

- Implement annual supplier review program to review existing operations and processes and to identify cost savings alternatives
- Labor
 - Reengineer work processes to remove unnecessary steps
 - Utilize computer-based maintenance, inventory control and work order management systems to streamline work processes
 - Utilize reliability centered maintenance techniques to adjust maintenance task-frequency schedules
 - Utilize predictive maintenance techniques to prevent expensive breakdown repairs
 - Control the demand for building services through appropriate departmental charge-back mechanisms
- Energy
 - Value engineer processes, reports and resources
 - Evaluate existing processes to determine the feasibility of taking advantage of ESCO offers to drive energy use down
 - Implement green cleaning practices including day cleaning to drive energy savings
- Small projects
 - Use janitors and porters to perform box moves and consolidate moves

- Soft service
 - Review Janitorial Program Best Practice
 - Obtain procurement benchmark numbers for all operating expense categories to measure success in cost savings
 - Evaluate all large contract scope and ensure that scope is in line with requirements for given space and the business. Reduce scope where possible

I – Tactical

- Consolidate contract services where possible.
- Explore the possibility of national contracts or piggy backing with other contracts across the portfolio
- Establish on-call agreements with major service providers for a guaranteed reduced rate for given work. Aggressively bid all purchases in excess of a threshold amount.
- Utilize electronic ordering and billing mechanisms to streamline the ordering and bill payment process
- Utilize inventory control programs to minimize costly inventory
- Consider lower cost material substitutions where appropriate
- Find vendors who can bring value-added services (e.g. training)

Project management

III - Portfolio strategy and organizational design

- Leverage program level managers (highly skilled project managers) to provide:
 - Oversight of the capital program master schedule and budget
 - Expertise for due diligence and advance planning
 - Quality assurance
 - Client communication and reporting oversight
- Create specialized project teams based on CRE requirements—e.g. mergers/acquisitions, re-branding, location consolidations/ dispositions, ATM's
- Enable team integration approach with broker and project management to eliminate Landlord “turn-key

II - Process improvement

- Engage Project Managers early in the planning process to ensure use of master specifications, evaluate building conditions, coordinate consultant activities, and develop a “tighter” budget for funding approvals
- Identify key representatives for governance of annual capital program to include cash flow monitoring and prioritization of unplanned projects

II - Process improvement (continued)

- Integrate facility engineering at key design reviews, ownership of commissioning and punch list completion to ensure the ongoing operational quality of the project

I – Tactical

- Out-task MAC & Asset Management to eliminate non-core competency work and reduce vendor time spent on-site.
- Use unit cost benchmarking and lower cost through competitive bidding
- Out-task oversight of consolidated project lists to increase economy of scale, reduce vendor count, improve cash flow tracking (e.g. regional roofing program)
- Release key capital projects early to ensure early cash flow and eliminate “rush” spending at year-end, often leading to waste
- Execute Key Sourcing Initiatives:
 - AE & GC Consolidation
 - Eliminate/sell surplus FF&E
 - Project Packaging
- Implement in-depth energy audit of the existing lighting systems to retrofit lighting fixtures

Corporate finance

III – Portfolio strategy and organizational design

- Gain consensus from key stakeholders on financial assumptions

II – Process improvement

- Develop a process to capture value on leased assets
- Develop a process for identifying sale-leaseback opportunities
- Conduct parallel work streams with stakeholders & resources to ensure rapid outcomes
- Mine leased portfolio for properties with unique features such as purchase options, above or below market rents

I – Tactical

- Sell assets to raise cash and/or reduce operating costs
 - Sell surplus property from consolidation or M&A activity
 - Execute sale and leaseback of retail and office assets
 - Execute sale and partial leaseback of properties no longer fully occupied
 - Execute sale and short-term leaseback of properties to be vacated in the future

- Lease restructuring opportunities
 - Extend leases early to buy down rent or buy out leases based on specific characteristics
 - Evaluate potential to restructure leases whenever a landlord is looking to sell the property

Occupancy planning

III – Portfolio strategy and organizational design

- Commit to maintaining space occupancy data at the workstation level
- Establish Real Estate Oversight Committee to aggressively enforce space standards

II – Process Improvement

- Implement chargebacks and ensure that policies reinforce behaviors that reduce costs
- Capture all types of vacancy (e.g. marketable vacancy, shadow vacancy, workspace used to store ancillary equipment, etc.), using consistent application of definitions across the portfolio
- Establish accountability throughout the CRE organization (e.g. facilities, project management, etc.) for maintaining accurate data
- Keep business units financially accountable for surplus space until the enterprise disposes of the space
- Reduce number of office sizes and cube sizes

I – Tactical

- Increase sharing ratios and participation rates where work is accommodated through non-traditional workspaces
- Eliminate dedicated workstations for highly mobile employees
- Implement amnesty program to capture vacant space and package for disposition
- Utilize existing vacant space before adding space to the portfolio
- Implement “clean desk” policy to enable use of all offices (including executive offices) as teaming rooms
- Eliminate duplicate executive offices
- Utilize minimal growth projections for vacant space in new leases

Lease administration

III – Portfolio strategy and organizational design

- Commit to a single, centralized global lease administration function that utilizes a single process, system and consistent definitions

II – Process improvement

- Screen leases for 3rd party lease audit potential using criteria such as:
 - 25,000 square feet or greater
 - Lease permits audits
 - Change in ownership or management company
 - Substantial increase in operating costs or real estate tax expense over prior year

I – Tactical

- Tightly manage expense pass-through from leases to subleases
- Review and challenge landlord invoices and operating expense statements for the following:
 - Incorrect base rent, commencement date, or expiration date
 - Review through data validation audits or abstract double checks
 - Review larger expense items for correct categorization (i.e. capital vs. expense).
 - Incorrect base year calculation
 - Incorrect expense cap applied
 - Incorrect tax applied
 - Incorrect OPEX estimates

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