



Integrated Workplace Management Strategies for the CIO, CFO and Corporate Workspace Strategist

Manhattan Whitepaper No. 5

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Introduction

There is a new language required in the C-suite today - one which combines the concepts of real estate, finance and technology. Never before have the CFO, CIO and CRE needed to understand how phenomenal results can be achieved when they work together with the common goal of increasing value to their corporations. This white paper addresses how one CRE technology tool, not well known to the CIO and CFO, an Integrated Workplace Management System (IWMS), can support the goals of integration of service delivery while greatly reducing the cost of operations and increasing shareholder value.¹ The paper covers the relationships between the CRE, the CFO and the CIO and reveals some of the problems they are facing today. It will be demonstrated that a leading global IWMS, Manhattan Software, can solve these problems, enable an entirely new workspace position and bring value to the entire organization.

It has been shown in a recent MBA thesis that being able to calculate the total cost of occupying real estate assets alone, then monitoring, controlling and reducing these expenses, it has been estimated that a potential gain of 37% in shareholder value can be achieved based on only a 15% reduction in these costs.² Think of what the effect on the bottom line would be if you were able to calculate all infrastructure costs.

There are people in corporations today who do speak this new language. This is evidenced by the fact that the CIO position is now one of the stops on the way to becoming the CEO as represented by executives like Dan Bernauer of Walgreens. Dan served as CIO for four years before assuming the chief executive role and his understanding and deployment of technology is one of the reasons for the drug store's incredible success. The interesting thing is that real estate also is one of the area's Dan understands. He defends his expenditure on paying top dollar for properties since he quickly turns them into hundreds of new "My Walgreens" for neighborhoods all over the United States and soon begins to reap high profits. Dan is a great example of someone who not only speaks the three languages, but can strategize in real estate, technology and finance at a very high level.

The position of the CIO is changing as rapidly as every other part of the corporate structure. Gene Batchelder of ConocoPhillips is a perfect example of this. Gene began his career in

¹ There is a Gartner analyst who covers the analysis of IWMS products in North America, Mike Bell. He released a Magic Quadrant in November 2004 (Research Report #G00123789) and will be revising it in the Fall 2005. The Gartner Strategic Planning Assumption is that "Through 2009, 60% of global customers with real-estate portfolios greater than 2 million square feet will demand IWMS

² Siems, Ole and Morten Dehli, "European Automotive Real Estate Benchmark Study," MBA Thesis for Univeriteit Nyenrode, September 10, 2004.

finance as an accountant and rose to become the CFO of one of Conoco's divisions. After the merger with Phillips he was made CIO and Senior VP of Services of the combined companies, which means he manages all internal services including real estate, facility management, IT and finance. This integrated service management is exactly what 97% of the respondents of CoreNet Global's technology survey predicted would be their organizational structure by the year 2010, an integration of real estate, information technology and human resources.³ This concept is further supported by the academic community which has recognized that this new service sector needs to have more integrated research in management, computing, engineering and social sciences. The University of California has responded with a services science graduate course to be offered in their graduate business school this next academic year.⁴

The manner in which the position of the CFO is viewed has changed also. Due to the past years' financial scandals, accounting acumen is not viewed with the same awe it once was. However, financial performance has never been more important and more closely watched by the CEO, the Board of Directors, shareholders and Wall Street. Dramatic results await the CFO who understands how the cost of infrastructure can greatly impact financial performance. Insightful chief financial officers are assisting their internal support professionals in applying the same level of fiduciary analysis as other cost centers in the organization and thus increasing their financial IQ. And one way of doing this is with the latest enterprise technology tools.

In fact, in today's M&A environment, infrastructure is often the primary reason for the acquisition, as CFOs are recognizing the hidden value in these assets.⁵ If we examine real estate assets alone, according to Chris Price of King & Spalding, *"While real estate may not be a central component of a business, assessing real estate is often a central component of business deals. Lack of attention to even simple factors-think title and certificates of occupancy, lease provisions, and taxes-can turn a good purchase into a dog."*⁶

Keith Perske of Sun Microsystems has observed, *"If an increase in revenue causes an associated increase in expense, better management of facility resources that leverage existing investments can create a wider profit spread with less ongoing expenditures. A 4% reduction in operating costs can result in the same profit as a 25% increase in sales because we're able to shift the savings from RE actions to places in the company where it can be highly leveraged."* John Suyker of Johnson Controls, in a recent review of the internal infrastructure management of Johnson Controls, described how a 10% occupancy cost saving resulted in a 28% EBIT increase.

The CFO and the CRE

When *CFO Magazine* recognizes the importance of corporate real estate as they just did in two articles in the first half of 2005, we can see that chief financial officers (of non-real estate companies) and Corporate Real Estate (CRE) executives are finally getting on the same wave length⁷. A stunning example is Deutsche Bank's realization that Sears real estate portfolio was of greater value than the company's entire pre-merger market value. In fact, Deutsche Bank realized their own real estate portfolio was not meeting the bank's 25% return on equity target and it sold its bank branches and offices for €1bn in 2003. CFO Clemens Borsig said, *"For a bank, owning real estate isn't a brilliant idea. We don't need to own the property that we use as a bank, and we can get a better return on our equity by investing in other parts of the business, not in real estate."*

The real estate academic community has written many articles during the last decade on the correlation between shareholder value and ownership of real estate. In one recent research

³ CoreNet Global/Kingsley Associates, *Technology Marketplace Survey*, CoRE 2010 Research Report, 2004, p. 3.

⁴ Lohr, Steve. "A Techie, Absolutely, And More," *NY Times*, August 23, 2005, Section C, p.1.

⁵ See Don Durfee, "Putting Property First," *CFO Magazine*, May 2, 2005.

⁶ Jennifer Caplan, "Meet Your New Property," *CFO Magazine*, May 1, 2003.

⁷ These two articles are the one referenced in Footnote 2 and the other is by Randy Myers, "Looking to Land," *CFO Magazine*, January 1, 2005.

study it was proven that companies leasing all of their property had 20% less debt, 25% more cash and held 40% less inventory as a proportion of their assets than organizations who owned all of their real estate. It was also proven that they also contribute to higher total returns for their shareholders.⁸

Then one looks at the transaction volume recorded for US commercial real estate properties. These properties rose to \$160 billion in 2004 from \$120 billion in 2003 and that was only transactions over \$5 million. In fact, in a USI survey of CFOs done in 2003, 55% say that they took an active role in real estate decisions and 67% believe that role would have increased by now⁹. CRE has become a critical part of the corporate strategy and needs to align more closely with the CFO. An IWMS will allow that to happen.

The Problems

In the past, CFOs viewed real estate as risky fixed assets which had a long lifespan and did not require active participation on their part. For some corporations, these asset portfolios are quite complex and include headquarter buildings, operating centers, service centers, data centers, labs, regional offices, stores, retail branches and even plots of undeveloped land. What the senior financial executives found (as cited in the previously mentioned 2003 survey), was that these real estate assets were not being managed anywhere near as tightly as other corporate assets.

The major CRE problems they cited included:

- Lack of a unified approach to managing the entire real estate portfolio
- Unclear lines of authority between the C-suite and CRE
- No consistency among CRE processes
- A decentralized approach in CRE management
- Lack of concern in significantly reducing operating and occupancy costs

Since only 8% of the CFOs in the survey group gave their CRE function an 'excellent' rating, it is time for CRE executives to take more of an investment approach with their real estate assets and utilize more of the financial analysis tools available in the market today. But before they can do any analysis, they need to have a clear understanding of the inventory of that portfolio of assets and how they are performing, both financially and functionally. Sarbanes-Oxley (SOX) has also put pressure on CRE executives to change how their real estate assets are reported whether that means expenditures, revenues, liabilities, forecasts or specific transactions where creative financing (i.e., sales/leaseback) or debt structures are part of the deal.

The Solution

In order to satisfy this financial reporting, as well as resolve the problems the CFOs have observed in their CRE departments, it is time to create a unified corporate approach to managing both inside plant and outside plant assets. Management must streamline, document and, wherever possible, automate paper-based processes and spreadsheet analyses for infrastructure management. An integrated, centralized database is required to determine where all of the assets are located, how they are performing for each business unit, what their current market value is, as well as what is it costing to maintain and manage them. Gartner classifies these tools as Integrated Workplace Management Systems (IWMS). Manhattan Software is one of the world's leading IWMS providers. Without the implementation of an enterprise system like

⁸ Meziane Lasfer, "Driving Shareholder Value. Corporate Real Estate-Freehold vs. Leasehold." London: Donaldson Research, 2003.

⁹ "Controlling Costs is Top Priority, CFOs Say," *NAIOP's Development Magazine* (Issue 01, 2004)

Manhattan, creating the high performance workplace to satisfy the needs of the enterprise is only a distant vision.

The CIO and the CRE

In the new position of the CIO, all that was written above for the CFO, is also relevant for the professional in charge of information technology strategy for the corporation. As Elana Varon of *CIO Magazine* has observed, "The CIO who doesn't make money for his company, who doesn't drive its stock price higher, who has never had to produce a profit and loss statement, risks losing his seat at the executive table for good."¹⁰

And in this changing role, today 41% of CIOs, like the CFOs, report to the CEO. Meta Group has predicted by 2008, this reporting structure will spread with more than 60% of CIOs reporting directly to the chief executive¹¹. And many of these CIOs, like Dan Bernauer, mentioned in the Introduction, will find themselves catapulted into the CEO chair. They need to join the CFO and integrate more closely with the CRE function.

The Problems

The CIO and the CRE's lives became intertwined the day the Internet was invented. The workplace world changed almost overnight to the workspace world; from being 'place-centric' to 'person-centric'. In this brave new world, there are numerous problems presented to the CIO in their responsibility, along with the CRE, to make the employee the most productive in both the physical and virtual workspaces at the lowest cost. The problem for the CIO is that upper management is demanding that business processes be integrated across the enterprise and that naturally involves integration of disparate IT systems. Lack of integration is costing a great deal of money and lost business. A 2002 research report by NerveWire stated that highly integrated companies have found that revenue growth was on the average of 40%, customer retention improved 35% and costs were reduced by 30%. Therefore, the CIO is part owner of the problem. If the business processes of supporting an employee are in the siloed organizations of IT, RE, FM, Telecomm, HR and Finance, how can systems be integrated across these silos?

To add to these concerns, enter the 'Networked Virtual Enterprise' (as called by Cisco). This is a networked ecosystem that connects organizations, partners and vendors to deliver services and or products. Support services also need to adopt this model. As with other parts of the organization, work in their groups is increasingly being outsourced. Therefore, there needs to be a tight integration with the complex networks created between the internal organization and the alliance partners, service providers and vendors. However, this complexity has to be invisible to the 'end user' of these services and a solution must be created to ensure their work experience is as productive as possible and their problems with the infrastructure are solved as seamlessly as possible..

Additional problems are presented with the proliferation of underutilized assets which are causing unnecessary operating costs. Yet most organizations have no idea what the Total Cost of Ownership (TCO) of these assets are at any time. TCO is well known in the IT world, but they only consider ownership of IT assets. TCO for the workplace (the Institute of Management Accountants calls it Workpoint Costs) must include all of the costs to support the work of an employee (except his/her salary and benefits). This includes all expenses for real estate, facility management operations, information technology and support. When Sun realized that one third of their facilities were not being occupied at some part of the day, they reduced occupancy from 0.8 to 1.8 employees per office. Without that occupancy information, they would never have uncovered those hidden costs.

¹⁰ Varon, Elana, "The Future of the CIO: Scenario One. The Rise of the CIO," *CIO Magazine* (December 15,2003).

¹¹ Passori, Al, "the State of the (IT) Union: CIO to CEO," *CIO Magazine*" (January 21, 2005).

The Solution

Manhattan Software is an Integrated Workplace Management System (IWMS) created to support the infrastructure of an organization throughout the entire life-cycle. It is an enterprise management system which supports the infrastructure from planning and acquisition, on-going operations, change management and disposition or the ending of its useful life. The infrastructure includes whatever resources are required by the organization to do their business from buildings to parking lots to trucks to research equipment and laptops, as well as cabling and telecomm. Manhattan is an enterprise system which integrates the CRE work environment (both physical and virtual), the HR workforce, IT systems and tools, Telecomm's communication tools and Finance's procurement, accounting, reporting and compliance requirements. Manhattan was created to support the Networked Enterprise as it integrates infrastructure information between all involved internal groups and any external organizations. Manhattan enables an entirely new position in the organization, the Workspace Strategist¹² who integrates CRE, HR, IT, Telecomm and Finance to ensure the most productive infrastructure is provided at the right time and for the right cost to the organization based on the enterprise's strategy and the objectives of the business units.

The position of the Workspace Strategist was created to solve the problems presented above. Manhattan Software is the framework for the Workspace Strategist to solve the integration problems in the following way:

1) Data Integration:

Manhattan Software allows the Workspace Strategist to get a complete profile of all the infrastructure portfolio, including information on which assets are owned or leased, which are utilized to full capacity and where they are underutilized. It also provides a chart of accounts to calculate what the ownership cost is so each organizational unit can be charged appropriately. All costs associated with providing and maintaining the workspace are tracked, not only for accountability but also to benchmark those costs with other infrastructure portfolios of other companies.

There are current projects underway to standardize real estate data, much like the standardization in The Information Technology Infrastructure Library (ITIL), which is a set of books developed by the United Kingdom's Office of Government Commerce (OGC). Describing an integrated, process-based, best practice framework for managing IT services, to date, these books are the only comprehensive, non-proprietary guidance for IT service management. The real estate standardization work is being done by a non-profit group, OSCRE. Manhattan is in the best position to embrace the OSCRE standards, as it has been supporting the PISCES (UK) real estate standards for several years and is getting recertified for the latest version, as well as supporting the work of the Occupiers Property Databank Total Occupancy Cost Code metrics (www.opd.co.uk). In fact, there are standard OPD reports that are run directly from Manhattan.

The Manhattan IWMS can also cross functional lines, and include the tracking and managing of all asset data for an organization such as production and delivery equipment, structures, plants, office buildings, service and training centers, maintenance shops, grounds, parking complexes, pipelines, rights of way, and fleet and information technology assets. In many large organizations there are hundreds of systems created to track these assets separately and an IWMS can be used to support an enterprise-wide asset portfolio strategy. With Manhattan, an organization now has the data to measure the critical financial data associated

¹² CoreNet Global's 2010 research calls this new position 'the Workplace Strategist' and we have renamed it to Workspace Strategist to add the virtual work aspects of the job.

with all of these assets for the business units. Examples of KPIs which can be tracked measure the profitability of customer-facing resources (retail establishments), define the RONA and/or ROA per asset, and compare the revenue/employee/location versus the cost/employee/location.¹³

2) Process Integration:

Manhattan is an application which addresses the business processes of facility management, real estate, project management and enterprise asset management. The entire system sits on one RDBMS, typically Oracle or MS SQL Server. Manhattan has standard integration with core applications such as ERP systems (SAP, PeopleSoft, Oracle and Lawson are typical), Document Management applications (FileNet and Documentum are most common) and Computer-Aided Design tools (i.e. AutoCAD). In fact, there is a comprehensive Manhattan plug-in for AutoCAD that enables full two-way integration. With the right authority, users can update either Manhattan or the CAD drawing and those updates synch with both applications. In addition, users can determine which attributes from Manhattan should be displayed on the CAD diagram. The Manhattan OBS functionality ports across as well as enabling hierarchies to be displayed on the CAD diagram (departmental or physical). For those without AutoCAD licenses, a CAD Viewer comes up so those users can at least view and redline the drawing.

As more and more organizations are adopting SOX-based standards and processes, the full financials that Manhattan offers is critical to their infrastructure portfolio management. The entire Manhattan application is based around solid financial management and control, with embedded linear workflow to support transaction processes and the more powerful Manhattan Flow application for management and control of more complex processes. Manhattan Flow is a Business Process Automation (BPA) and modeling tool that automates the execution of distributed business tasks running in and across an organization. By creating more efficient and effective processes, Manhattan Flow helps improve customer service, optimize business partner communications, streamline operational costs and reduce time to market. This product is an optional add-on module to Manhattan. As a powerful graphical tool, Manhattan Flow helps solution architects model and automate business processes and tasks by aligning and connecting the process to the application environment for improved workflow execution.

3) Partner Integration:

Manhattan has made integration of data and business processes among internal and external organizations possible. Manhattan adopted Compuware's new Portal technology and adapted it to Manhattan, creating the Manhattan View module. Manhattan View allows each user to tailor their own portal interface. Manhattan View is a web-based application deployment framework that provides a pre-personalized and configurable web-based workspace to end-users and partners/alliances/vendors' organizations. Manhattan View helps users more efficiently do their work and collaborate in and across communities in an environment that is tailored to the needs of each individual and each group. Content comes from a variety of sources, including web-based applications, which can be deployed using this framework. Manhattan View brings value as a low cost, easy to implement and easy to use web-based application deployment framework that is very appealing to customers who want to take a low risk approach to portals. Manhattan View makes this possible because it has a built-in infrastructure and does not require any additional application servers or DBMS systems.

¹³ RONA=Return on Net Assets and ROA=Return on Assets

4) Functional Integration:

According to CoRE 2010 research, Integrated Resource and Infrastructure Solutions (IRIS) was a response to the growing misalignment of the infrastructure with new business models and ways of working; it was a “breakthrough strategy” that was created to stimulate a new leadership mindset. IRIS is an integration between resource and infrastructure functions (CRE, HR, IT and other functions as required), as well as between enterprise and external service and solution providers. A Manhattan implementation begins with initially integrating the various functions in the real estate silo (facility management, transaction management, project management, lease and ownership tracking, accounting and procurement) and then focuses on adding integration to the other siloed data and processes. As Robert Fitzgerald said so succinctly, “Competitively, I do not see any other way around this initiative.” And this initiative is NOT possible without an IWMS.

The Methodology: Decision Support and Performance Metrics

Gartner has recognized (May 2005) that in order to improve competitive advantage and employee impact, new innovative business models must be created¹⁴. Therefore, they have defined the ‘high performance workplace’ (HPW) which integrates technology (including IWMS, business intelligence and collaborative support), business process improvements and management, with the physical workplace and infrastructure. In order to define how this model would work in a particular organization, we must start with the following questions: ‘What does the business need from the Workplace Strategist to satisfy their enterprise strategies to enable the creation of the HPW?’, ‘How will the performance of this HPW increase shareholder value and satisfy the compliance regulations?’ and ‘How will it impact the productivity of the employees?’

In order to provide answers to these questions for the Workplace Strategist, an integrated IWMS must be designed around improved business processes. The business must have a clear understanding of what information is required to effectively demonstrate how real estate (and later on all infrastructure) can have a positive influence on business-related performance measures by:

- **Operational Metrics: Improving the efficiency and affordability of operations:** An IWMS provides the framework to be able to capture all the costs of occupying owned and leased space (referred to previously as the Total Occupancy Cost-TOC or the Total Cost of Ownership-TCO). This cost can then be a key performance indicator when it is divided by number of occupants, square feet/meters, total revenues, business unit revenues, total SGA (sales, goods and administration) costs, business unit SGA and invested capital. We suggest that TOC, and its accompanying metrics, should be made more transparent to the C-suite and shareholders and found listed in the Annual Report.
- **Productivity Metrics: Improving the productivity of people and place:** By creating KPIs that measure revenue/person (gross), EBIT/person (net) and comparing these to revenue/square foot (particularly with commercial space), the productivity of the employees can be measured by location and benchmarked with others both within the company and outside. In addition, metrics which determine how efficiently an organization is making use of its real estate include identifying total cash occupancy costs and doing a comparison with the company’s turnover and operating costs.
- **Value Metrics: Improving Return on Assets:** ROA is often the key value driver in a company. Therefore, ROA metrics should define how the real estate portfolio is affecting the value drivers in the organization. They include determining what the CRE cost of

¹⁴ Tom Austin et al, “Introducing the High-Performance Workplace: Improving Competitive Advantage and Employee Impact,” Gartner Research Publication ID Number: G00127289, 16 May 2005.

capital is and comparing it to the company's cost of capital, as well as calculating the TOC as a percentage of the free cash flow the organization generates. Another metric would be to capitalize the value of the CRE's debt and equity and measure it against the company's enterprise value. The ROA KPIs aid in setting key targets for measuring the High Performance Workplace. An IWMS was the only way a global financial institution was able to increase their ROA and proved so valuable that they were able to realize a ROI for the implementation in 18 months with the investment coming right out of the business units budgets.

We believe the Workplace Strategist can help the CFO realize a higher return on both assets and equity. By investing in the implementation of IWMS systems, processes and education, the CIO can be assured not only that controls are in place for more efficient and effective standardized business processes, but there is integration of data, partners and functionality and there is better management financial reporting for the CFO. This should ensure the decisions that are made on the infrastructure portfolio are done so in light of the business strategies and increased value is created for the enterprise. An IWMS can support the new language of the integrated Corporate Real Estate, IT and Finance and even HR lexicon, as spoken so eloquently by the Workspace Strategist. This has to be music to the CEO's ears.

As one of the first and most financially successful Workplace Strategists, Bill Agnello, former Sr. VP of Workplace Resources at Sun, has said, "I believe that CEOs and their management teams could be given an important lever to pull that helps their business models become more scalable, flexible and less costly. This is the 'infrastructure lever,' and includes both hard infrastructure (i.e., place and technology) and soft infrastructure (i.e., process, policies, and rules of engagement) that allow for successful deployment of the workforce."¹⁵ It is time for all CREs, CFOs and CIOs to pull this lever.

This is the fifth in a series of Manhattan Whitepapers written by Nancy Johnson Sanquist, IFMA Fellow and Vice President, Marketing of Manhattan Software. She can be reached at nsanquist@manhattansoftware.com.

¹⁵ *Integrated Resource and Infrastructure Solutions*, CoreNet Global CoRE 2010 Report, 2004, p. 18.