

CASE STUDY

OCTOBER 2017

ISOLATING CRE COST DRIVERS CAN LEAD TO TRANSFORMATIONAL STRATEGY

Benchmarking takes us beyond tactical CRE analysis and toward broader corporate performance management.

Corporate real estate managers start to become strategic leaders when they recognize their portfolios' impact not only on real estate costs and financial performance but also on broader enterprise strategy. That's one way to get closer to the proverbial seat at the table.

When CRE managers master the multi-layered data associated with their real estate portfolios, they can look beyond the transactional nature of real estate and make broader, data-informed strategic decisions. A metric as elemental as real estate cost per full-time employee equivalent, or FTE, exemplifies this. By understanding the interdependency of the cost components, you can see that a real estate portfolio is more than just a collection of facilities and costs; it's a key element of broader corporate strategy.

The first steps toward this more strategic analysis are to harness your cost data and isolate its components. You can then benchmark the components against those of peer companies – companies in your industry or whose portfolios have characteristics (property types, geographical locations, etc.) similar to yours. Once you see how each metric stacks up, the opportunities become clear. What's more, you'll see how your tactical real estate decisions can support or hinder corporate performance, and you'll establish strategic priorities that are consistent with – or even help drive – broader corporate strategy.

Start the analysis with Cost per FTE, in this case for a single industry segment, or cohort, in the BenchCoRE database. *(The graphs in this paper are actual BenchCoRE reports; values are deleted to maintain subscribers' confidentiality. Companies are shown in the same left-to-right order in each graph.)*

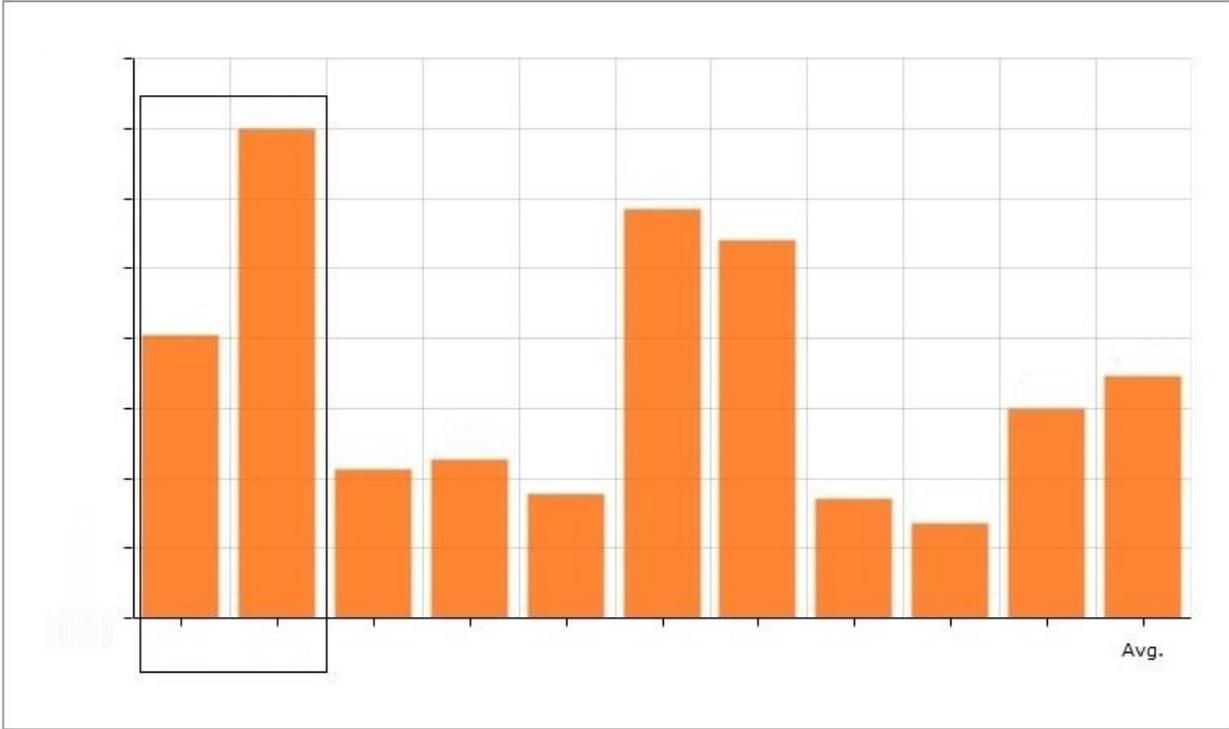


EXHIBIT 1 – Cost per FTE

The bars in **EXHIBIT 1** represent CRE Cost per FTE for the cohort companies. It's easy to see that the highest-cost company has an opportunity, even compared with a peer whose costs are higher than average. The CRE team could consolidate locations as leases expire or consolidate employee teams so they occupy less space, assuming this is feasible geographically. There might be other tactics as well.

But when you break down those costs into their components, more strategic decision alternatives emerge. Consider the two components of cost per FTE: Cost per Size (i.e., square foot or square meter) and Space per FTE.

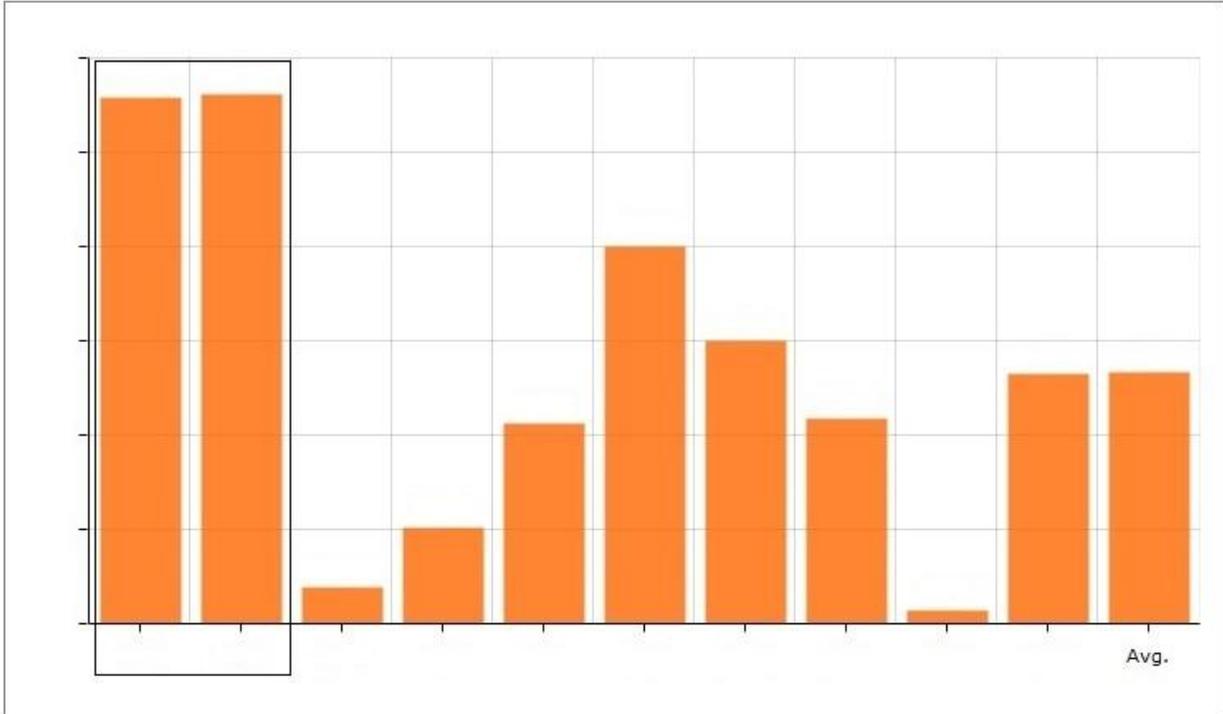


EXHIBIT 2 – Cost per Size

A comparison between the two highest-cost companies in the cohort reveals in **EXHIBIT 2** that each is paying virtually the same rate. Yet we saw in **EXHIBIT 1** that the cost for one is about two-thirds that of the other. What’s going on?

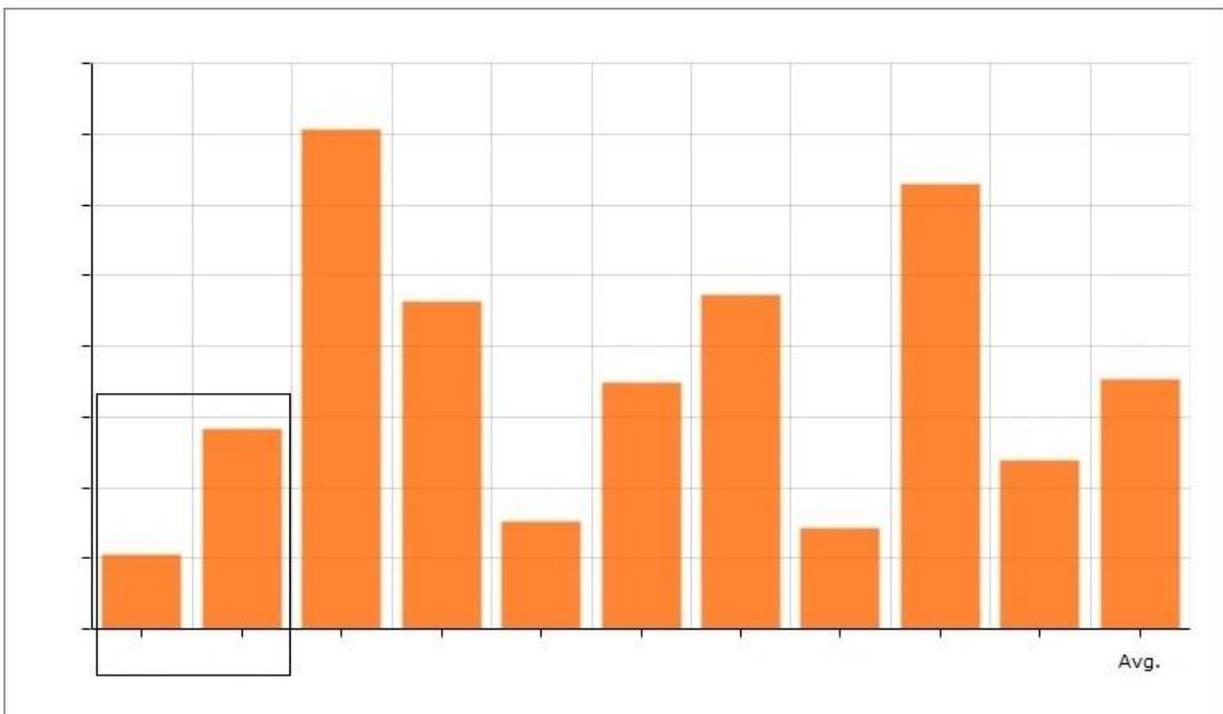


EXHIBIT 3 – Size per FTE

The answer lies in the Size per FTE metric (**EXHIBIT 3**), which, in the case of the two peers, accounts for virtually the entire difference in cost per FTE. Expanding the analysis to the other peers in the exhibits, you can see that the effects of these two components, Cost per Size and Size per FTE, differ widely in their impact on Cost per FTE.

The Cost per FTE report enables users to benchmark overall costs against those of peers. However, by separating costs into its two components – Size per FTE and Cost per Size – users can benchmark each factor’s contribution against that of each peer in the BenchCoRE cohort. In particular, putting the two metrics together in one graphic – the Cost Driver Tree (**EXHIBIT 4**) – helps explain stronger and weaker performers in the Cost per FTE report by isolating each peer’s key cost components.

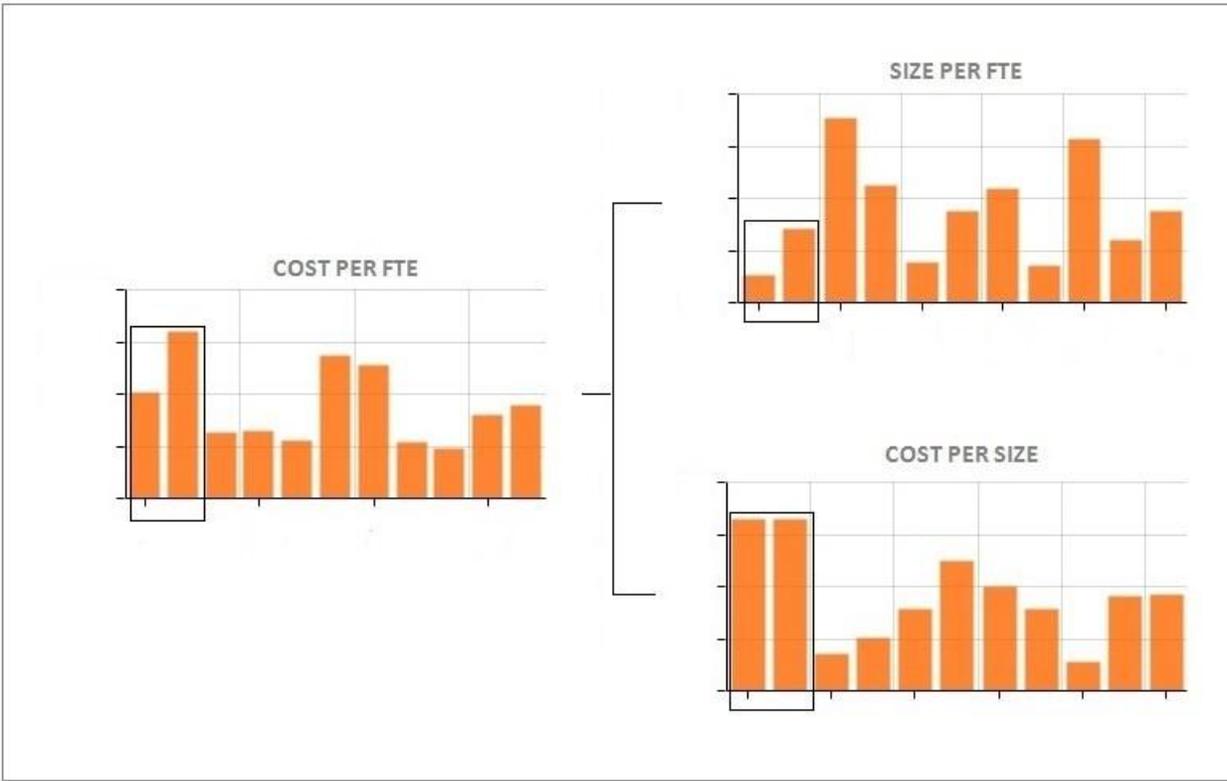


EXHIBIT 4 – Cost Driver Tree

This takes the analysis further and starts to transform a tactical exercise into bona fide strategy. The next step is to break down Size per FTE into its two components, Size per Seat and FTE per Seat. When you put the Cost Driver Tree elements side-by-side visually with BenchCoRE reports for these two metrics (**FIGURE 5**), you unearth opportunities for designing a potentially

transformational real estate portfolio. You’ve expanded the discussion beyond cost metrics to encompass strategic – even “cultural”– factors such as mobile workforces, virtual work teams and collaborative workspace design.

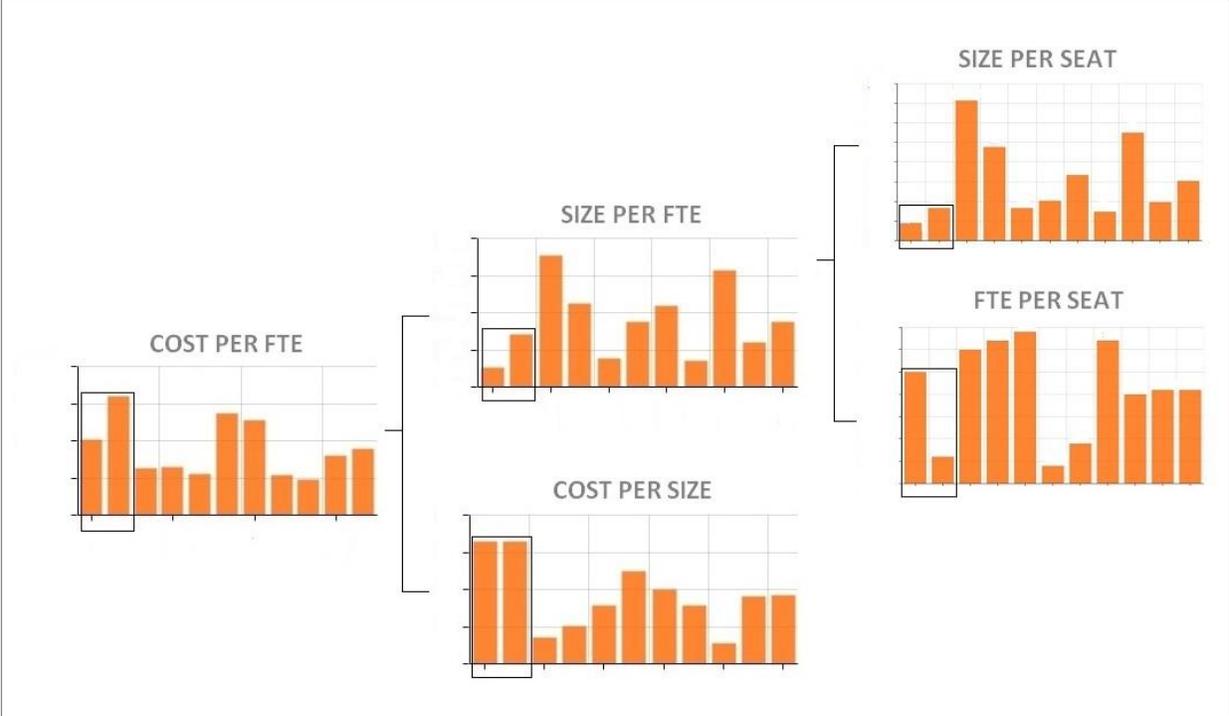


EXHIBIT 5 – Taking the Cost Driver Tree one step further

In taking the analysis to these additional levels, you can help design CRE strategy that’s consistent with – and could even help drive – your company’s HR, IT, workspace-design, and construction strategies. You could even add value to corporate marketing discussions, as workspace design could help promote a culture of innovation and magnify a company’s reputation for creative leadership.

The process – isolating costs, visualizing cost factors side-by-side, and benchmarking against peers – has removed the CRE “echo chamber” of anecdotes and personal bias and replaced it with data-informed decision making. Benchmarking has taken us beyond tactical metrics and toward broader corporate performance management. Cost analysis has morphed into transformational strategy.