

Strategic action cuts cost

Michael Ripper explains how one technology business cut its property costs by one-third and asks why so many organisations seem unable to do the same.

Michael Ripper is a member of the RICS Facilities Management Executive Group and on the editorial team for the RICS "White Book". He is a director of Coretex International, which helps clients create high-performing workplaces and facilities services. See www.coretex-int.com.

The economic downturn is having a serious impact on both the public and private sectors in the UK. While the pain in the private sector has been felt for some time, it is clear – if politicians on both sides of the political divide are to be relied on – that most of the pain in the public sector is yet to come. As a result, both sectors need to realign property to fit their new operating models – in the private sector to create shareholder value and increase competitiveness; in the public sector to minimise the impact on frontline services.

It is therefore hardly surprising that everywhere you look people are being asked to think more strategically about how property and facilities support their organisations, due to the high levels of unnecessary cost supported by both sectors.

The Operational Efficiency Programme (OEP) recommended to the government that £9 billion of savings would be achievable across the public sector between 2011/12 and 2013/14 through shared back-office and IT projects, smarter procurement and asset sales. The OEP believes that: "Over the next 10-year period, this workstrand (property) estimates the potential for savings from improved efficiency to be around £20 billion in receipts from property disposals (excluding council housing), and savings in running costs of up to £5 billion a year by the end of that period. Departments are likely to need to prioritise investment in order to pump-prime the rationalisation of their estates."

Similarly, the Office of Government Commerce (OGC) High Performing Property programme is forecast to save between £1 billion and £1.5 billion a year by 2013 through more effective use of the central civil estate.

The Royal Institution of Chartered Surveyors (RICS) has long had an interest in how property performance can support organisations. Recently it has published the first section of its *White Book*, called *The Role of Strategic Facilities Management in Business Performance*, which discusses the strategic focus of property and facilities, and finds that "well-run facilities create competitive advantage".

In addition, the RICS *Public Sector Asset Management Guidelines* discuss strategic property management and how to align the asset base with the organisation's corporate goals, ensuring that its land and buildings are structured in its best interests.

In the RICS report, *Property in Business – A Waste of Space?* Roger Bootle warned that UK businesses are throwing away up to £18 billion a year through inefficient use of property. He also identified that

property is rarely on the boardroom agenda despite often being the second highest business cost after wages; and many companies do not have an accurate assessment of their property costs. Although there has been modest progress, many public and private sector organisations would recognise that a good understanding of these costs in the boardroom is still a long way off.

AN EXAMPLE TO US ALL

So what are the essential steps needed to implement a property strategy successfully and to what degree are either the public or private sector ready for the challenge? Let us start by looking at a notable success story and understand why it succeeded.

A high-technology business operating in more than 100 countries and with a €16 billion turnover saved more than €140 million per annum, representing almost one-third of its total property cost.

It achieved this by establishing clear targets, understanding its current performance and benchmarking against best practice. It listened to concerns about cultural constraints – for example, space utilisation in Germany and the US is often significantly poorer than in Asia Pacific. Having listened, it looked at best practice and challenged itself to go beyond the current thinking.

The business put a huge effort into ensuring its data was right, spending seven-figure sums to achieve accuracy. At the outset, it agreed clear key performance indicators. Individual countries' performance data were gathered, amalgamated and presented to the board monthly, with clear reasons identified for why things were either ahead of or behind target.

Common targets were established for each region. However, each region's real-estate team, together with country managers, had to develop their own detailed plans of how they were going to achieve these targets.

The business developed a five-year plan, with clear objectives for every single building. Flexibility was allowed but overall objectives were sacrosanct. Every month, everybody – from the local business country manager up to the main board directors – knew whether the plan was on target and what their contribution to the plan was. The plan also identified where investment was needed to improve use of parts of the estate. This was necessary to ensure that disposals were achievable elsewhere. As part of this planning it was recognised that a healthy business may need more property when the business expands. This was accounted for separately to ensure that there was no confusion in meeting the clear targets.

LESSONS FROM THIS EXAMPLE

The following themes are consistently mentioned as essential for identifying and delivering major efficiency improvements and were all essential components of our best-practice case study:

- a corporate strategy with an aligned property strategy and plan;
- reliable information about the portfolio;
- planning that incorporates local plans and sets objectives that are monitored and reported on regularly; and
- recognition that investment is often needed to realise savings.

Aligning corporate and property goals

For a property strategy to be aligned with the organisation's objectives there needs to be a clear process. This process involves gathering information about the organisation and its current and future needs; defining options and communicating recommendations in clear business language, including financial implications, risk and impact on the organisation; and obtaining commitment to the plan.

Although some organisations have great processes and have a clear understanding of how their property contributes to overall success, the following situations may unfortunately appear more familiar to you.

A district council was advised that its single office was significantly underutilised and there were opportunities for subletting space that could reduce its revenue costs by 40% per annum. This spare space could be used to accommodate charities that already received council funding or public sector partners – including the nearby police station that could be disposed of if it could find accommodation locally for 20 people.

The district council decided not to do anything about the poor use of space. The chief executive did not believe the council should invest because it was a freehold property and therefore the property was “free”.

A private sector manufacturer specialising in large sophisticated electronic equipment in the defence industry was occupying 1920s accommodation that did not meet its minimum requirements, which included six-metre-high working space throughout the manufacturing area. The product therefore had to be moved during the manufacturing process at significant risk and cost. In addition, the property was poorly utilised.

The property department identified a number of options that demonstrated a lower cost and risk to the organisation. However, a lack of engagement with the business meant that although the property department had excellent ideas about how to improve business performance, it never had the business language to persuade business leaders this was a good approach. Major question marks about whether future business will go to the British site or the more productive French site will almost certainly be an issue going forward.

Reliable information

Most people would argue that unless you know where you are now, how can you ever identify the best way forward? For major portfolios, developing the right level of data can require repeated efforts before there is confidence that the data are mainly correct. For the best-practice case study, this process took more

than 12 months, and required considerable resources. Once this information can be reasonably relied upon, it must be used to help define appropriate change – in the best-practice model it was used to establish best practice and targets for the whole portfolio.

Organisations such as Investment Property Databank (IPD) have developed standard measurement protocols that ensure organisations are able to analyse the efficiency and effectiveness of their portfolio at a building level. Being able to collate and study this type of data is vital to help define the level of change required.

In the public sector, it may not be adequate just to know your own department or estate, as other public sector organisations are potential partners. Savings may therefore rely on others also being well organised.

Planning and reporting processes

People at the top of organisations can set ambitious targets, and people in property departments can think of great ways to help their organisations. However, unless their approaches are joined up, with clear objectives, agreed strategies and reporting that allows everybody to know whether they are on target, the chances of success rely on individuals – individuals who have the seniority, knowledge, charisma and fortitude to carry through their ideas. The bigger the organisation the less likely this is to happen.

At any time, the right people in an organisation need to know what the target is, whether they are on target and, if not, what the organisation is doing about it.

Investment

To use the estate more efficiently may well require capital investment at the start and may increase FM costs in individual buildings. In the long term this approach will enable savings; in the short term there needs to be recognition that you will probably need to spend to save.

TOWARDS SUCCESS

With the obvious need for good strategic planning and removal of unnecessary cost, why is the implementation of major property strategies often doomed to fail? Almost certainly, if organisations have the components in place highlighted in our best-practice example, there is a significantly greater chance of success.

Looking at the government, many of the parts of the puzzle are in place for successful implementation, including excellent work by the OGC with the central civil estate. However, would the Chancellor of the Exchequer, like the chief executive in our best-practice business, know whether this month the overall objective is being achieved and who is ahead of the game and who is behind? And could the property manager in a district council, fire brigade or a central government department say, “we are on target and this is how we contributed”? Probably not as many as we need.

Equally how many private sector organisations would be able to ask a similar question and get the right answer? Again, probably not as many as we need to be globally competitive.

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INFORMATION

To download *Operational Efficiency Programme: Property Final Report*, visit www.lexisurl.com/FM192.

Information on the High Performing Property strategy is available at www.lexisurl.com/FM221.

Go to www.ricsbooks.com to order *The Role of Strategic Facilities Management in Business Performance* (RICS, 2009), *Public Sector Asset Management Guidelines* (RICS, 2008) and *Property in Business – A Waste of Space?* (RICS, 2002).