

# Breaking Down Walls

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Corporate America says change is good, but often that mantra doesn't apply to my department. When the corporate real estate department of Chicago-based insurance giant Aon Corp. wanted to centralize its facility expense management system to save big bucks, it anticipated resistance from business unit managers who might perceive the move as a loss of control.

The solution? Call in the client relationship managers (CRMs) to guide the change. Client relationship management — the hottest buzzword in corporate real estate circles these days — is taking on heightened importance even as several real estate functions are being outsourced. Combining a corporate background with real estate expertise, CRMs form a bridge between real estate and the C-suite to maximize the overall corporate strategy.

Aon has one CRM for each of the company's six major lines of business, and each comes from a background in his or her line. "We wanted to manage the expenses, rather than let each office do that," says David Kamen, senior vice president of real estate at Aon, referring to the proposed change. "But centralization can make local managers nervous."

Coming from the real estate department, the initiative might have seemed like penny-pinching, he says. The client relationship managers, who knew and understood the concerns of their business unit, were able to help the corporate real estate department present the initiative to the business units in a way that answered their concerns and demonstrated the companywide benefits of the plan.

"In the three years we've had CRMs, they've become an integral part of how Aon handles its real estate," says Kamen. Besides helping to frame corporate real estate initiatives as business initiatives, they are instrumental in fashioning the initiatives from the get-go. "They do a sniff test, so to speak, to see what problems or concerns there might be before it's rolled out to the business," he says.

## The move to CRM

Aon's experience isn't unique. Until recently, corporate real estate departments were practically synonymous with in-house transactions. Need new back-office space in Boise? Call Bob down in real estate, he'll get you a deal on 40,000 sq. ft. right away.

Now the transactions that used to be the crux of corporate real estate departments — find space, negotiate the deal, get the employees moved in — are leaking out like air from a balloon, increasingly outsourced to third-party specialists.

**"We see an emphasis on outsourcing," says Eric Bowles, director of research for CoreNet Global, an industry association that serves 7,500 members who manage \$1.2 trillion of corporate real estate worldwide.**

**According to a recent CoreNet survey of Fortune 500 real estate executives, an average of more than 90% of construction is outsourced, while about 70% of transaction, project and facilities management are outsourced. By contrast, an average of only about 12% of CRM functions are outsourced, indicating a large number of respondents who do not outsource any CRM.**

**"CRM is the critical piece that connects real estate with a business unit," says Bowles. "Real estate typically hires someone from the business to be the CRM for that business line, rather than an outside provider."**

Tom McCarty, executive vice president of Jones Lang LaSalle's strategic consulting group, agrees with that assessment. "The CRM needs to be a trusted advisor to his or her business unit," he says.

"The CRM has to develop access to the business unit, ask the right questions about strategy, then translate that information into a real estate requirement. It isn't a position for an outsider."

David Montross, CEO of real estate service provider Equis, points to issues of control within a company as a major impediment to CRM outsourcing. "It's one thing to hire people to do tasks, such as transactions and facilities management," he says. "But most companies are going to be reluctant to cede much control of the relationships between the real estate department and the other business units."

Parallel with the evolution of CRM as part of corporate real estate's strategic role has been the development of sophisticated tools and processes to support CRM, mostly created in the last five years. **According to CoreNet's survey, companies tend to approach their CRM with sophisticated tools or well-defined processes, but not necessarily both.**

**"Organizations with strong data-valuing cultures tend to manifest their capabilities in sophisticated tools," the report notes, "while organizations with less advanced data solutions compensate with simpler tools supported by well-executed, formalized processes."**

**But regardless of their approach, companies tend to see the objectives of CRM as similar. According to the survey, the most important CRM functions include:**

**understanding the business-unit organization, strategies, and objectives;**

**translating business strategies and objectives into real estate space demand assessments;**

**balancing the needs and concerns of the business unit vs. those of the overall organization.**

## **Process is key**

Since 2002, McKesson Corp., the San Francisco-based health care services firm, has put much emphasis on real estate relationship management. Three employees, referred to as real estate relationship managers, handle 10 different business units between them.

"Corporate real estate had long been reactive, and we wanted to get away from that," says Tom LaDue, director of real estate relationship management.

Essentially, he says, the McKesson real estate relationship managers need to understand their business units' overall strategy, how that creates demand for real estate, and how the market supply of real estate can meet the demand.

"They take the lead in real estate for their businesses," he says. That's in direct contrast to the way that real estate was managed, with the department responding to real estate requests without the benefit of an intermediary like a CRM.

But even an executive who understands business strategy and who has a knack for how real estate fits into the strategic picture might not be an effective CRM without detailed processes, says LaDue.

Success in a transaction-oriented real estate department can be, and often is, dependent on a skillful individual, but in McKesson's view there are too many variables to take an ad hoc approach to CRM.

"Every person in a CRM role is essentially following the same process that's documented and works — not necessarily complicated, but well understood," says LaDue. "If a company doesn't use a documented process, even a good process can't be replicated across the different business units."

## **Lockheed's crystal ball**

Two other large companies that have put client relationship management at the heart of managing

their real estate are Lockheed Martin Corp., the aerospace giant, and Sprint, the telecommunications company.

Both companies, leaders in their fields as well as organizations with sprawling real estate portfolios, have taken different approaches to managing their real estate, but they both use highly sophisticated tools to facilitate a host of real estate functions — office site selection, retail closures, even the spacing of cell phone towers in the case of Sprint.

"When you have as much real estate as we do, it's easy to 'sub-optimize' any particular decision," says Terri Beattie, president of Lockheed Martin Corporation Properties Inc. "The thinking is, 'Hey, this is just one little space we're talking about, it doesn't matter if some of it's unoccupied or underutilized in some way.' But each decision affects the portfolio and ultimately overall operations, especially as they aggregate over time."

Lockheed essentially built a CRM model from scratch. The term of choice for the company is "embedding" real estate into strategic business decisions. The goal is to enable senior management to leverage the real estate portfolio as they do human capital or manufacturing capacity.

Lockheed Martin developed a tool it calls FutureView — so proprietary that the company is applying for a patent on the product. FutureView is a Web-accessible application that enables senior management to manipulate various kinds of data to simulate the outcome of different business decisions. Included are headcount, revenue and margin data, which can be combined with real estate data such as square footage and occupancy costs.

"We needed a tool for scenario planning," says Beattie. "FutureView links everything back to the revenue goals of the whole company, and helps a business unit determine whether it is making its profit margins. Did it attain margin if it leases or buys a facility? What will be the impact of additional projected sales on the need for real estate?"

In one case, notes Beattie, the use of FutureView discovered an opportunity to save \$30 million by taking 1 million sq. ft. out of the business unit's real estate portfolio. "The tool doesn't give you all the answers, but it points in the right direction."

## **Real-time decisions**

Sprint has also developed a sophisticated tool to revamp the way it handles its real estate, which it calls Enterprise Location Optimization. "It's the enabling program that allows real estate to communicate with the business, and the business to see real estate's value," says Charemon Tovar, manager of portfolio strategy at Sprint.

"The concept is about getting the business units to understand how the decisions they make affect real estate and vice versa."

ELO, according to Tovar, focuses on site selection on a global level. ELO takes real estate data and the business data and overlays them on a single computer screen display in real time.

"ELO allows you to analyze markets using business information such as number of customers or revenue per customer for both current and prospective customers, together with real estate market data," says Tovar. Various data can be overlaid in different colors, making essential connections between real estate and business strategy easier to grasp, she adds.

Moreover, even performance information — how many telephones are sold at one location versus another, across a specific length of time — can be displayed on a map on the Web in real time.

"Business unit decision-makers can watch in real time, and make decisions in real time about real estate," Tovar notes. "It has worked for every asset class we own or lease to create greater efficiencies."