CRE&FM’S CHOICE

Cost-Centric Collusion, or a Customer-Centric Convergence on Integration
CRE&FM’s Choice
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Barry Varcoe and John Hinks
Corporate Real Estate and Facilities Management, Zurich Insurance Group plc
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FOREWORD

Since January 2012 we have hosted three Futures Forums. Over 500 people joined the week-long debates using online crowdsourcing technology, sharing their views on 24 question topics. The debates rapidly broadened beyond the opening topics, often spawning further themes and cross-bridging.

For each of the Forums we have produced an account of the debate, plus some analysis and comment. This paper builds on these findings by considering the wider business context for CRE&FM, key opportunities and challenges that it is facing, what changes it needs to make as a result, and possible consequences if that change is not forthcoming.

We trust that you enjoy and benefit from reading this report, and hope that it serves to stimulate thought and a motivation for progression and change that, in our view, the CRE&FM industry very much needs. As before, we encourage you to pass on this report to all who you think may be interested in it.

Dr. Barry Varcoe
Global Head of CRE&FM
Zurich Insurance plc

Please email me at barry.varcoe@uk.zurich.com with any comments or observations. Copies of the earlier reports are still available, either from me or john.hinks@uk.zurich.com.
ABSTRACT

Demand for increasingly sophisticated infrastructure and places to support work shows no sign of abatement.

Thought leaders in the industry have responded with compelling visions for what that might involve. Most, including CoreNet Global’s 2020 vision, propose progressive integrated service solutions that stretch beyond the current remit, and skillset, of CRE&FM. There is a huge gap between that future utopian view and the harsh reality of current capability. Commoditised and fragmented, at best our industry operates as a coordinator of many service and professional silos, rather than achieving the promised value-add of true service integration.

In this paper we consider what needs to change to make this transition to a truly integrated service model, what is involved with the true nature of integration, and what barriers need to be overcome to make the advance. Our view is that the CRE&FM industry needs to make significant advances in procurement processes and commercial frameworks if it is to develop the new models, built around the principles of ‘intelligent cooperatives’, needed to support the necessary service delivery ecosystem.

This in turn suggests the prospect of a significant change in the traditional professional hierarchy within the industry. However, it is clear that the interests and opinions of incumbent practitioners, within both corporate clients and service providers, present a significant inertia (if not outright resistance) to change. Currently this is manifest as the thin veneer of coordination masquerading as integration – a collusion which, to-date, has maintained a comfortable but increasingly dangerous status quo as the needs of business and the expectations of the people who use corporate workplaces and services continue to advance.

In our opinion, the CRE&FM industry must achieve a 180 degree about-turn across a number of different axes if it is to flourish in the future. In particular, it needs to move well beyond the current fixation on cost reduction onto a wider understanding of enterprise value where cost is but an input (rather than an outcome), and value is correctly seen as a ratio between outputs (numerator) and inputs (denominator) – hopefully with a value greater than one! If the CRE&FM industry achieves this it will enter a new level of significance and worth to the organisations it supports. If it doesn’t then there is a real threat of an accelerated decline into comparative irrelevance.

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INTRODUCTION

No matter what aspect of society you look at, change and uncertainty like never before have taken hold and are rampant. The world of business is no exception.

Every dimension or axis of activity is being stretched to its limit and beyond. New risks, often unclear and unseen until they strike, require assimilation and mitigation. As a result the nature of work is on the one hand relentless in its march towards freedom – any time, any place, any how – yet on the other hand is responding to the need to exert control over precious privacy and integrity, creating physical and procedural shackles in the form of secured environments and regulatory governance.

Amidst this maelstrom even the office workspace has not been immune. For decades the industry has been largely resistant, with the personal allocation of space, a chair, desk, phone and latterly a computer being the basic diet, no matter what the endeavour or character. As technology and new attitudes to work have revolutionised how work is done and the expectations of those doing it, and as the global downturn has pressurised companies to compress their space and reduce operating costs, so the relevance of the corporate workspace to personal and business productivity has changed. It may have needed 25 years to take root, but we should be thankful it is happening at last!

So as we begin to observe tectonic shifts in the value of corporate workplaces and the role of corporate real estate and facilities management (CRE&FM) industry that produces them, it seems timely to reflect on what this means for the industry, to take a closer look at the nature of the CRE&FM industry itself, and to consider what needs to change as a result over the next few years.
Driven at least in part by the changes in work and the workplace, recent years have seen predictions of new combinations of support services aligned around delivering integrated outcomes. Arguably foremost amongst these has been the work of CoreNet Global through its Corporate Real Estate 2020 study. This built on an earlier CRE 2010 research study that, amongst many predictions introduced the ‘IRIS’ model – Integrated Resource Infrastructure Solutions. This essentially comprised the closer collaboration of CRE, HR and IT. The subsequent 2020 study updated this, renaming the concept as the ‘Super Nucleus’ whilst expanding it to embrace Finance and potentially other corporate support functions. Six key success criteria were identified:

1. Business unit engagement.
2. Core business competency.
3. Alignment to enterprise culture, attraction and retention, productivity, and efficiency.
4. Integrated strategy.
5. Innovation.
6. Service Provider alignment.

The logic of this vision is hard to fault. It surely makes sense to align around the outcome – productive places in which to work – all of the capability needed to create and effectively use them. As a minimum CRE&FM creates the physical workplace, IT creates the digital workplace, and HR provides the people who use both. Viewed from the consumers’ perspective this is obvious too – why should they be exposed to the separated management of the individual components when all they want is to simply and productively utilise the whole? Lurking within this seemingly compelling evolution is a radical change of emphasis, however. For CRE&FM is an industry steeped in buildings, whether that be designing them, building them, changing them or operating them. If CRE&FM practitioners are the equivalent of stage builders and stage hands in a theatre, then they have remained focused solely on the stage (in effect, providing the same stage irrespective of the play or the players using it). But no one goes to the theatre to stare at an empty stage for 2 hours, or even at one with a beautiful scene set. An audience (customers) goes to the theatre to watch and absorb the play, acted out by the players (the staff). Likewise therefore, if CRE&FM is to perform fully in this newly aligned and integrated world, what matters is not so much the workplace (the stage), but the work itself (the play), and the people doing it (the players). At the moment CRE&FM is not trained for this and, as a result, is ill-equipped to understand how they operate as an integrated system.

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Figure 1: The CoreNet 2020 CRE Model
OUR FRAGMENTED STARTING POINT

It already appears that the journey to a fully integrated customer-centric future is not going to be easy, as we do not have the knowledge to fully appreciate the needs of the consumers of our services. But before we set off on this journey we first need to understand where we are starting from. Are we at least starting from a good position? Alas, no.

There is fragmentation everywhere, and in multiple layers. Let’s start with FM (see figure 2, Workplace Operations). FM is made up of many industry sectors that are each massive in their own right – maintenance, cleaning, security, food services, reception, mail, energy etc. – and all of which for the most part perform their own operational duties in isolation from each other. Whilst some companies sell ‘Integrated’ FM, in truth this is nothing of the sort. What they should really say is ‘Veneer’ FM, because they provide a thin layer of co-ordinating management over the top of these silo’d services, giving a single point of contact and an attempt at reducing the loss of value between the component parts. This is, in other words, service bundling, which is not the same as providing an integrated service.

Real integration offers far more. It is the search for value beyond the sum of the component parts, and it does this by providing integrated approaches to integrated problems. This is the world of ‘end-to-end’ process re-engineering, something pioneered in the early 1990s and deeply advanced since then but still rarely seen in CRE&FM.

Figure 2: Layers of fragmentation

- **Workplace operations** (maintenance, cleaning, security, food etc.)
- **Workplace management**
- **Workplace environment**
- **HR + IT + CRE&FM**
- **FM + Projects + CRE**
- **FM** (maintenance, cleaning, security, food etc.)
At the next level the fragmentation continues (see figure 2, Workplace Management). Here the combination of FM, Projects and CRE delivers the physical workplace, each silo’d by their respective underpinning professions, commercial models, processes and propositions. In other words this level remains profoundly multi centric. The major concern at this level is not the lack of true integration and a repeat of the management co-ordination ‘veneer’ (significant as this is), rather it is the basic business proposition that has been consistently and successfully sold over the last 2 to 3 decades... prima facie cost reduction. This is now arguably leading the industry into something of a death spiral that is becoming increasingly difficult to escape from. Because cost reduction has begotten lower outsource service provider margins, which has begotten less investment, which has begotten commoditisation, which has begotten cost reduction... and so on.

In a lot of organisations this is probably accentuated further by the business executive’s expectations, which are now well attuned to the cost-saving mantra and proposition. As a result they cannot now see beyond it. Globalisation simply brings a change in scale as national becomes regional which then becomes (increasingly) global, at least for some. For many though it represents just another dimension of fragmentation as globally ‘integrated’ models are in essence bundles of silo’d regional or national operations. The key point is that the basic proposition remains unchanged and unchallenged. Globalisation has mostly been just a scale phenomenon. Anecdotal evidence of this overall state is the oft-heard cry of muted and perhaps slightly guilty delight from some suppliers at the onset of the next economic downturn as they anticipate a sharp upturn in business prospects. It is almost as if there has been a migration, at least in part, to become an industry constantly waiting for the operational environment to change (to recession) to match its proposition (cost reduction driven by outsourcing). Nonetheless, the industry has encouraged its clients to take cost-reduction over innovation at every opportunity, and has failed to invest in Research and Development (R&D) to advance itself, so its bedrock proposition is also now suffering as a whole from this ratchet effect.

Into this mix has stepped procurement which has accelerated and consolidated the cost-reduction process further by approaching it as if buying commodities. And as the suppliers have become progressively more reliable at delivering the inevitable (if unspectacular) service proposition, the question arises “who needs the corporate CRE&FM role anymore?” Increasingly, all that is left for CRE&FM is contract management, which procurement can do very well too! As the corporate CRE&FM skillset declines through the combination of outsourcing, staff transfers, a lack of investment in new knowledge and the demographics of an ageing workforce, it looks like the industry may have sold itself into a corner.

Finally we must consider the third integration layer that was mentioned earlier – the ‘Super Nucleus’ – where CRE&FM cooperates with IT with HR (see figure 2, Workplace Environment). In the context of the starting point from which CRE&FM approaches this level, it is little wonder that not much progress has been made. It can also be conjectured that both IT and HR will be similarly challenged, at least in part. Trying to overcome fragmentation on such a large scale and degree of complexity when at least one (if not more) of the components is itself fragmented to at least 2 degrees of separation (3 if you include globalisation) is a near impossible task to achieve, other than entirely superficially with yet more veneer. And perhaps the final ‘nail in the coffin’ is the vested interests of the existing CRE&FM supplier base. Even as they have become increasingly lower margin commodities, they still know how to make money at this, and at comparatively low risk and with modest requirements for cash. So why change, and risk other industry sectors taking over a domineering position (particularly as IT and HR tend to have seats nearer to the centre of power in most organisational hierarchies, along with the influence that usually comes with that)? Ironically the current loose co-ordination model, with its complexity borne of layer upon layer of fragmentation, sustains this, and there appears to be little motivation to challenge it. 

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Who needs the corporate CRE&FM role anymore?
If CRE&FM is to break out of this (for now) comfortable but increasingly dangerous status quo, what are the key areas of change that will help release the necessary energy and enterprise?

Fundamental to making any advance has to be the underlying value proposition. CRE&FM must move on beyond cost containment and reduction. Cost will always be a central concern, but it is only one component of any equation of value. It is the denominator, but more important are the beneficial outcome numerators it enables. After all, CRE&FM does not exist within the organisations to spend less money – rather it exists to deliver something valuable with it (otherwise the ultimate service would be the nonsense of providing nothing at no cost).

As already suggested, productive work (from people) has to be prime amongst potential numerator candidates. Anecdotal evidence points to the cost of staff in office-based service organisations typically being between 4 to 6 times the cost of the workplaces they use, so surely it is wiser to concentrate on how better alignment of the CRE ‘$1’ can drive significantly higher returns from the workforce ‘$4-$6’, rather than on achieving modest reductions in the CRE $1 that do not noticeably subtract value from the workforce $4-$6. Also relevant in this calculation is the typical IT cost per capita of $1-$2, noting how this corresponds to the CRE&FM $1 and how both relate to the workforce $4-$6. Suddenly the potential leverage of the workplace budget is looking like a relatively smart target for investment (and conversely a relatively dumb target for myopic saving).

This approach can be further extended to the revenue and profit/return generated by the workforce. Of course every industry’s ratios will be different, and the CRE&FM leverage will vary accordingly, but by way of illustration a range of perhaps 70% for SMEs where the relative cost of labour is high through to 20% for some of the larger banks means that the potential for value enhancement is even more considerable than the already attractive salary costs ratio. And, since businesses understand their cost/income ratios, this may be a good place to start advancing the debate beyond cost-reduction.

There is a further potentially powerful multiplier effect that CRE&FM may release in the future. Consider the alternatives of increasing labour capacity by 10% through a headcount increase against an equivalent increase in productivity through a change in work practices brought about through ‘dynamic’ workplace design. Here the cost of achieving that necessary capacity growth through the CRE&FM budget is potentially a fraction of one fifth or less that of direct recruitment!
Understanding the dynamics underpinning the financial logic of smart CRE&FM and integrated services clearly requires new learning and research into fields such as the nature of modern work, human psychology, satisfaction, engagement, productivity, overall enterprise performance and how they all relate to each other, but the potential rewards of success in this regard are enormous. Successfully attaining and deploying such knowledge would transform the perception of CRE&FM forever, away from being a cost overhead (to be contained) towards being an asset (worthy of investment).

Our existing industry hierarchy traditionally reflects the layers of fragmentation in figure 2; placing CRE at the top, followed by project management and design, with FM the poor cousin bringing up the rear. This of course is in direct proportion and relation to the relative amounts of money involved, but from the consumer’s perspective the exact opposite is true. It is the FM function that delivers their day-to-day experience, and has the potential to differentiate. Consumers may interface with projects once or twice throughout their working life, but hardly ever if at all with the real estate function as they undertake transactions of any sort and the basics of lease administration and portfolio management. In truth most will not even know the function exists (or be able to articulate what its value to them is). So once again is the industry placing greatest value, worth and status on the wrong part of what it does (reflecting our fixation with costs and not value-add)? At the very least there needs to be a more balanced approach and alignment of thinking towards the perspective of the consumer and the value add of the elements of the service. Patently there also needs to be a vertical integration across the layers too!

The prospect of such a shift hinges on the reversal of the current predominant management focus, which can be illustrated by the ‘4 E’s of Performance’ model (3) (reproduced in figure 3). The CRE&FM industry currently fixates on economy, but what matters to consumers is efficacy. As we look at the value chain linking (resource) inputs and (efficacious) outcomes, taking in effectiveness and efficiency to eventually derive the correct cost (economy) – and not the other way around as is the convention of the industry – the mature tools of ‘LEAN’ and Six Sigma process improvement techniques come to mind as being very useful with their ‘end-to-end’ re-engineering of problems and opportunities. This in turn could drive another significant and interesting change in perspective for the industry.

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**Figure 3: The 4 E’s of Performance (3)**

<table>
<thead>
<tr>
<th>Resource inputs</th>
<th>Process</th>
<th>Outputs</th>
<th>Satisfied needs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Value for money</td>
</tr>
</tbody>
</table>

**Efficiency** = making best use of resources

**Effectiveness** = degree of achievement of outcome

**Efficacy** = Degree of relevance of outcome

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*Potential leverage of the workplace budget is looking like a relatively smart target for investment.*

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*Is the industry placing greatest value, worth and status on the wrong part of what it does?*

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The change in emphasis from cost and inputs to customer relevant outcomes will also require a rethink of the usual procurement approach. Just about everything associated with this at the moment is built around maintaining the
current ‘value’ proposition of commoditised and fragmented services primarily attuned to delivering cost savings. The model has become self-referential and self-serving. A quick look at a list of typical commercial (costing) models built into customer requirements or supplier responses illustrates this:

- Time and materials.
- Cost plus.
- Fixed price.
- Gross maximum price.
- Maximum price/target cost.
- Fixed open book.

All are built around cost. None primarily addresses the value of the outcomes to be delivered, and hence the value of the service is indeterminable. Even the more sophisticated models, which maybe embrace some sort of gain-share model to release funds for re-investment in improvement initiatives, are locked into an underlying logic of only achieving marginal improvements to the existing operation, with no hope of transformation (usually the gain-share is predicated on the basis of reduced cost for equivalent service). Indeed, with the current prevalence of closely scripted customer requirement statements, based on tried and tested models deliverable by many (so that they can be market tested and as a result are functionally substitutable), and with the ultimate selection decisions being based on the lowest cost for the defined solution, it is no wonder that so little has changed or advanced for so long.

There has to be a change. But how?

When looking for future service providers customers need to seek partners who can transform and reinvent themselves and what they provide over the period of the relationship. And that means asking a completely difference set of questions – or indeed just one question – from the outset. There needs to be an end to the current process of asking ‘hundreds’ of questions that collectively seek to find out how successfully each supplier can morph themselves into the same shape, model and requirement. This can be replaced instead by simply asking “what makes you different?”, and if a second question is really necessary, “what do you stand for?”. This should tell you all you really need to know to choose the best fit partner(s) for the journey ahead. New commercial models are also required that treat cost management excellence, 100% service reliability and continuous improvement as the basics, and instead focus on achieving differentiation through deep alignment around innovation and transformation of outcome value over the course of the relationship. It will be interesting to explore in detail how this can be enshrined in a contract, but at least for now it is important that the terms and conditions make due recognition of it, and do not prevent it from emerging.

All components of the service delivery system will need to have strong partnerships with everyone else, creating a tightly-integrated lattice with a strength and purpose far greater than before.

All of this will, through necessity, drive integration within and between the many levels of the ‘end-to-end’ proposition model. By asking an integrated question, it demands an integrated solution. As well as achieving integration across the dimensions already identified – FM, Workplace and the ‘Super Nucleus’ – a further integration perspective is required; that of the overall service delivery eco-system. This means that it will no longer be sufficient for the corporate team or ‘client’ to have a strong partnership with one or more of the key suppliers, perhaps akin to the hub and spokes of a wheel without a rim. Rather, all components of the service delivery system will need to have strong partnerships with everyone else, creating a tightly-integrated lattice with a strength and purpose far greater than before. Still at its heart remains the ‘client’, but in another change the ‘client’ is no longer the dominant source of so-called ‘intelligence’. Rather than an ‘Intelligent Client’ what develops is an ‘Intelligent Cooperative’, a proposition that could release the elusive value that is far greater than the sum of the parts.
AN ABOUT TURN

The CRE&FM industry is arguably standing at a crisis point in its journey. Does it continue its decline towards a marginalised cost-reducing commodity, or does it realise its true potential to become an enterprise enabling asset?

To achieve that elusive value enhancing proposition required by the enterprise CRE&FM needs to execute a 180 degree turn in some fundamental ways:

• Focusing on people, and not just buildings.
• Understanding work, and not just the workplace.
• Demonstrating value, and not just lower cost.
• Leveraging cooperation, and not just competition.
• Building systems, and not just a compilation of components.
• Achieving integration, and not just benign co-ordination.

The outcomes of the Zurich CRE&FM Futures Forums, published in previous ‘Disruptive Thinking’ series papers[4, 5, 6], give plenty of insights into where to begin this journey. Critical as well for many will be to change the expectations of the ‘client’ organisation, who for the last 20-30 years has been fed a relentless diet of cost reduction. Arguably, business is getting the workplaces it deserves – a new level of enlightenment is required.

If CRE&FM doesn’t achieve this change soon there is a real threat of an accelerated decline into irrelevance. And how long has it got before this becomes irreversible? If it can achieve this transformation, however, it will enter a new level of significance and worth for the enterprises it supports. So CRE&FM has a choice. A continuation of co-ordinated cost-centric collusion, or a journey that convergences on customer-focused integration. At least for the time being it is a choice that it is able to make.
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