

Financial Services

Corporate real estate: Improving return on assets



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Financial services firms are under tremendous pressure to improve their financial ratios. One way to achieve this is by using practice improvements to drive more effective management of real estate holdings. BearingPoint has identified an integrated systems strategy that enhances usage of real estate properties and improves the return on those assets in a way that dramatically reduces costs and increases overall corporate earnings.

Introduction: The importance of corporate real estate

Managers at financial services firms today must comply with two principal corporate directives: increase return on equity and enhance earnings per share. Since stock prices have increased significantly over the past four years—as much as 91 percent for some organizations—achieving the earnings growth required to improve those financial ratios continuously is a constant challenge.¹

Given this situation, two questions follow: Is that kind of exceptional growth sustainable? And, if so, how?

For obvious reasons, financial services firms want to answer the first question with a resounding “yes.” But the traditional answer to the second question—that innovation will keep them ahead of the game—falls short. The reality is that feeding a steady stream of new products into the market does not necessarily translate into increased earnings.

An alternative strategy is to slash costs through innovating internal practices rather than products.² By taking this route, financial services firms can realize greater operational efficiency, as well as deploy capital resources more effectively.

BearingPoint believes that using practice innovation to improve management of the corporate real estate (CRE) portfolio is an overlooked but extremely promising way to increase earnings. By applying the same level of fiduciary analysis to this “fourth” asset class as they apply to their cash, stocks and bonds—and by adopting an integrated, technology-supported practice innovation strategy for managing those assets—financial services firms can achieve the kinds of dramatic cost savings and productivity improvements that lead to sustainable growth.

Help wanted: A single point of access to real estate portfolio information

The typical financial services firm today possesses a multitude of point solutions to manage its real estate holdings. Some firms even operate multiple systems for the same business processes because of mergers or acquisitions. Many still depend on manual activities, such as paper-based intradepartmental information transfers and data re-entry.

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¹Deloitte Research, “Glittering Prize. How Financial Institutions Can Drive Growth Through Process and Service Innovation,” May 2005, http://www.deloitte.com/dtt/cda/doc/content/DTT_DR_GlitteringPrize_May2005.pdf, p. 5.

²Ibid, p. 2.

CRE directors are therefore hampered when making critical decisions regarding their portfolios. Indeed, due to numerous disparate applications, multiple integration points and limited analytic tools, they spend more time gathering data than analyzing and acting upon it.

Additionally, meeting regulatory mandates such as the Sarbanes-Oxley Act³ is a challenge when data is not readily available. Indeed, one of the key issues in the Enron scandal—which was a major impetus for passing Sarbanes-Oxley—was the improper reporting of real estate transactions and holdings.

Many financial services firms are finding that an integrated workplace management solution (IWMS)—if well implemented—can address these and other issues.

Defining integrated workplace management solutions

According to Gartner, “The (IWMS) market is characterized by enterprise-level software solutions that integrate four key components of functionality: project management, real estate portfolio and lease management, space management (moves, adds and changes), and maintenance management.”⁴

Some financial services firms are investing in enterprise resource planning (ERP) solutions with IWMS capabilities; others are choosing to install separate IWMS systems that integrate with and complement existing enterprise applications. In either case, however, the comprehensive view of all data pertaining to the acquisition, management and divestiture of real estate that IWMS provides is essential for financial services firms that seek to improve usage and control costs of what is increasingly a global portfolio of assets.

The ability for an IWMS system to integrate seamlessly with other enterprise applications is key. Indeed, without interoperability with ERP, supply chain management and human capital management software, among others, IWMS will fail. This seamless connectivity is especially important between IWMS and core financial systems. Because real estate costs consume such a large percentage of corporate resources—second only to employee salaries—CRE professionals increasingly report to the CFO or COO and are being required to develop a great deal of financial acumen. IWMS provides these personnel with the strong and robust financial decision-making tools they need to perform their progressively more demanding jobs.

This tight integration with enterprise financial systems also makes IWMS invaluable during mergers and acquisitions. Traditionally, it has been difficult for an acquiring company to absorb quickly the business processes and systems of the acquired company. By implementing IWMS, the CRE management processes of the previously disparate organizations can be integrated quickly and easily, making both current and historical data on all real estate assets immediately available. More importantly, that data then can be used to make better decisions about what assets are performing well, and should be retained, and what assets should be divested.

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³Sarbanes-Oxley Act of 2002, 15 U.S.C.A., Section 7201, *et seq.*

⁴Gartner, Inc., “Magic Quadrant for Integrated Workplace Management Systems, 2006,” by Michael Bell, December 2006.

Implementation challenges

In addition to requiring tight integration with existing ERP and other enterprise applications, financial services firms face a number of other challenges when implementing IWMS.

Get buy-in from stakeholders

Successful implementation of IWMS goes well beyond simply installing software. Without the support of all stakeholders—financial executives, CRE managers and users—it can easily turn into “shelfware” that exists, but that no one uses. A related problem is that a relatively small percentage of IWMS system functionality—as little as 20 percent—is ever used, despite the very real potential benefits of the other features. Getting sufficient buy-in from all employees and managers who will be touched by the IWMS system is therefore an imperative.

Implement a change management program

Organizational buy-in also requires a structured approach to transitioning users to the new way of working. Otherwise, although users might make half-hearted attempts to incorporate the IWMS system into their daily routines, in actuality they will still depend largely on workarounds based on Microsoft® Excel spreadsheets and manual processes. Comprehensive training, as well as other components of a well-thought-out change management program, is absolutely essential.

Standardize processes

Another major challenge is that aligning all the diverse assets—especially in a global real estate portfolio—to meet revenue goals requires more than just technical know-how. Rather, it also means putting consistent, enterprisewide processes in place that standardize the way all locations are managed. Although, by necessity, there might be some regional process variations, these differences should be reduced as much as possible.

Manage complexity

Real estate costs make up an inordinate share of corporate expenses. They are also the most complicated to track and analyze. To get accurate data on such things as a lease portfolio, space management utilization or facilities management—or even such a seemingly simple item as how many light bulbs are being used at a particular location annually—means pulling together a broad assortment of data from disparate systems. Indeed, IWMS, if properly implemented, is an end-to-end solution that can encompass up to 150 different processes requiring input from a host of independent data sources. The complexity of such an environment means that the implementation risks are considerable—and need to be carefully managed.

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Put the right management structure in place

At many financial services firms, branch or store office managers still control spending for certain CRE activities at the facilities level—for example, they have their own budgets to call in plumbers or roofers as needed by their particular sites—whereas other types of CRE responsibilities can be distributed elsewhere in the organization. Coordinating this scattered approach to CRE management can be difficult, if not impossible. Part of an IWMS implementation, then, is for a firm to make sure it is organized in a way that allows it to control and manage all CRE functions effectively from a centralized perspective.

Delivering business benefits

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Improve utilization of real estate portfolios

Most CRE assets are currently underperforming. This is largely due to “shadow space” caused by an increasingly mobile workforce. Indeed, middle managers in organizations are only in their offices an average of 30 percent to 40 percent of the time, costing financial services organizations millions of dollars annually in unnecessary operating expenses.⁵

IWMS allows CRE executives to get a comprehensive snapshot of their organization's entire real estate portfolio, including information on owned-versus-leased assets, occupied-versus-vacant spaces and utilized-versus-underutilized space. For retail branches, metrics such as revenue per square foot can be collected and compared to internal or industry benchmarks.

IWMS also provides a chart of accounts to calculate the total cost of ownership (TCO) of each building so that lines of business can be appropriately charged for usage. And because all costs associated with managing a particular facility are precisely tracked, the facility's TCO can be measured against that of other properties, and strategic decisions can be made based on those benchmarks.

Speed payback on consolidation of new real estate assets

Retail banking is back. Indeed, it never went away, despite predictions of an explosion in e-banking. Even the largest financial institutions have mounted aggressive efforts to acquire more retail branches. This was evidenced by Bank of America's \$47 billion purchase of FleetBoston, and JPMorgan Chase's \$58 billion acquisition of Bank One. In each case, real estate was a major driver of the transaction.

⁵According to Andrew Laing, managing director, North America, for the design consultancy DEGW, “DEGW has undertaken several hundred observational studies of space occupancy across different kinds of organizations in North America, Europe and Asia Pacific, and has consistently found that it is not unusual for actual office occupancy to be around 30 percent of typical core days. The occupancy levels vary from job function to job function, but averages of around 30 percent are very common—with average occupancy usually decreasing with managerial hierarchy.”

With these acquisitions comes the need to consolidate operating data and analyze the performance of individual properties. This information can then be used to make solid financial decisions regarding which assets should be sold and which should remain in the portfolio. For this reason, replacing disparate legacy systems with an enterprise IWMS is an especially wise strategic move following an acquisition or merger.

Reduce capital and operating costs

BearingPoint estimates that an IWMS can reduce asset operating and capital costs by as much as 20 percent by employing new business processes and technologies that use space more efficiently. Financial services firms can dramatically slash expenses and overhead by taking such steps as integrating lease administration with accounts payable, reducing the time required to consolidate disparate systems, accelerating branch openings and improving vendor management. Indeed, one organization recently has identified a large financial opportunity by reducing its space costs by as much as \$901 million per year by using new business processes and technologies to enhance the value of its large real estate portfolio.⁶

There has never been a better time for financial services firms to consider IWMS.

Integrated real estate portfolio management: The time is right

There has never been a better time for financial services firms to consider IWMS. By helping them better use CRE space, more rapidly consolidate new real estate assets into the portfolio, reduce TCO and improve organizational efficiency, IWMS allows financial services firms to achieve the larger corporate objectives of increasing earnings and delivering shareholder value over the short as well as long term.

About the authors

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⁶GSA Office of Governmentwide Policy, "Innovative Workplaces: Benefits and Best Practices," January 2006, www.gsa.gov/gsa/cm_attachments/GSA_DOCUMENT/Innovative%20Workplaces-FINAL1_R20D26_0Z5RDZ-i34K-pR.pdf.



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