

interact



Key trends in CRE

Location strategy

Top challenges and
how to solve them

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In 2013, I'm in India for the week, visiting facilities and finalizing my company's location strategy. Imagine standing next to me at the edge of a jungle in Bangalore. It's hot, humid, and just before dusk. We're inspecting a piece of property in surplus inventory, a property that we may redevelop one day. That is, until we're surrounded by a swarm of mosquitoes who, in turn, are quickly surrounded by a swarm of bats. I've seen enough. I decide then and there to sell the property. Good thing I saw it with my own eyes.

By location strategy I mean how many facilities you need, where you need them, what size they should be, and whether you should own them, lease them, or partner with someone else who does.



Jill Zunshine
Corporate Real Estate, Procurement,
Supply Chain, and Operations Executive.

When you're developing a new location strategy, you're likely to encounter some challenges



Top challenges

Real estate project only

Location strategy is viewed as a "real estate project" only

Negative impact

Some aspects may have negative impact on employees

No workplace strategy

A good location strategy requires a workplace strategy

Remoteness

Making decisions from a distance

Time

Time constraints

Funding

Lack of funding

Human emotion

People feel strongly about where and how they work

The good news is that there are solutions for each of these challenges





Challenge #1

Location strategy is not just a “real estate project”

It is much more. The goal of any location strategy is to enable the business. Unless you're in the real estate business, real estate is a means to an end, and not the end goal. You should view corporate real estate as a source of competitive advantage for your company. From such a perspective, developing location strategy is a business project to help grow, transform, and enable your company and move its business forward.

Here's an example from my days in supply chain real estate. My company manufactured, sold, and installed telecommunications infrastructure products worldwide. There were several hundred warehouse locations in the U.S. where installers stored material as it slowly trickled in. This wasn't efficient or effective.

Rather than position this as a real estate project, I viewed and marketed it as a business project and a source of competitive advantage. That helped me secure sponsorship from the C-suite executive, who was counting on the project to help him win and deliver more business.

We measured success by the value to stakeholders and the improved business outcomes. The primary goals were to increase on-time delivery, increase customer satisfaction, save installers' time, and reduce cost. After running simulation models and a successful pilot, the business reduced the number of locations by almost 90%. The desired business outcomes were realized, and then some.

When you can show that your location strategy enables the business, it becomes a business project, not merely a “real estate project.” And, you'll get all the sponsorship and support you must have to successfully implement your company-wide location strategy.



90%

“After running simulation models and a successful pilot, the business reduced the number of locations by almost 90%. The desired business outcomes were realized, and then some.”

Challenge #2

Aspects of location strategy may have negative impact on some people

With a new location strategy, some locations may move, impacting people's commutes. Some locations may even close, impacting people's jobs.

When you consider where to locate within a metro area, understand the impact on commutes. Where do your current and future employees live? How long does it and will it take them to get to work? During rush hour?

Before exiting a metro area, understand the impact on people. Work closely with human resources, legal, and the business. Be human, be sensitive. Don't leave people hanging. When you announce that a site is moving or closing, also tell people what it means to them. Will they still have a job? A different job? Will they be expected to relocate? To where? If you leave people hanging, it will make it so much harder for them to do their jobs and make plans for the future.

It's better to deal with the negative impacts on people, head-on. This is probably the biggest challenge of them all.

But you must do it.



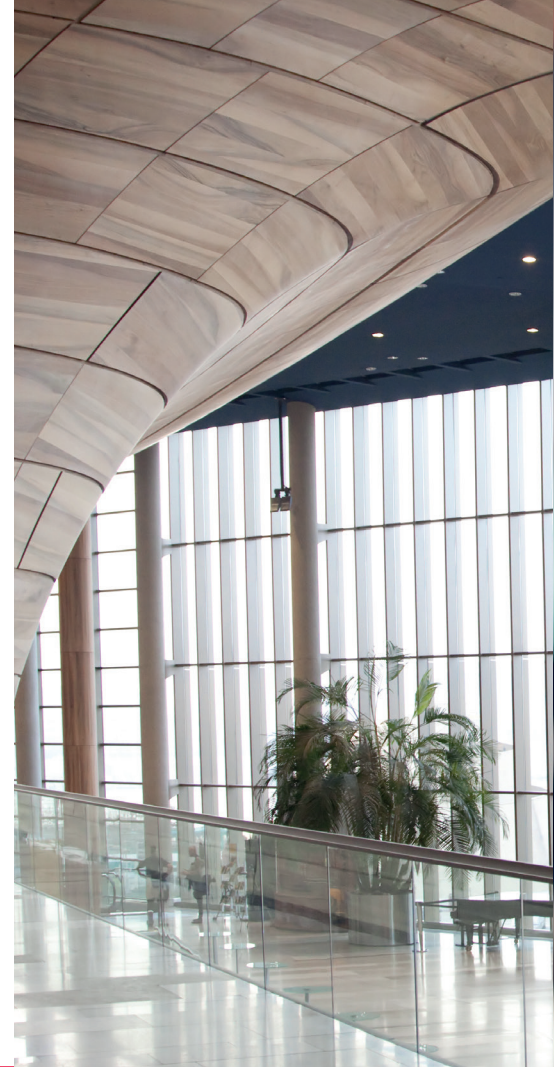
Challenge #3

Designing location strategy without workplace strategy

You just want to get it done fast, so you focus solely on location strategy without solving workplace challenges. But, in fact, you can't develop location strategy without solving, first, workplace challenges.

Just think about it. Do you want an office or open plan? Assigned desk or unassigned? Traditional working or co-working? These critical choices impact how much space you need, and how much space you need has a big impact on your location strategy.

In addition, two revolutions are reshaping workplace strategies. The Wellness Revolution, giving rise to the WELL Building Standard, and The Fourth Industrial Revolution, giving rise to the Building Internet of Things. Use location strategy as an accelerator for progress in both. Include wellness as a selection criteria for countries, cities, and buildings. Make the buildings smart with automation and intelligence. Enhance the employee experience by improving lighting, improving air quality, and reducing stress levels, all while using less energy.



“ And, remember, the best location strategies solve both the top location challenges and the top workplace challenges.”





Challenge #4

Making decisions from a distance

Making decisions from a distance may be fraught with danger. For example, the location may look nothing like you expected. What looks okay on paper or in photos may not look okay in reality. Case in point, my experience in India. The condition of the property was a surprise. The land and building weren't big enough for all our people. That was just one of many times I made a different decision when I saw it with my own eyes.

Go see it for yourself. Visit the location before, during, and after business hours. Spend enough time there to get a feel for what it's like to visit and work there. Check out the surrounding areas within a several-mile radius.

If you have a big, global portfolio, this is challenging but doable. Prioritize your site visits by the value to stakeholders and the potential for improved business outcomes. Which sites support the most revenue? Which sites are closest to the talent, current and future? Which cost the most to operate?

Seeing it for yourself has many benefits. You put yourself in the customer's shoes. You experience an employee's daily commute and workplace experience. You build relationships with senior leaders. You get a feel for the community, including access to university talent. Before you buy, sell, or lease, you know the impact on the top line and the bottom line.

When you decide from a distance, beware of the pitfalls. Go see it for yourself. It's worth the trip.

“Many times I made a different decision when I saw it with my own eyes.”



Challenge #5

Time constraints

Your company needs a new location strategy, yesterday. Or in a week. Or in a month. And, you have dozens or hundreds of sites worldwide. Plus, hundreds of stakeholders whose input and support is critical.

Buy yourself some time and build support by taking an iterative, two-pronged approach. Do a rough cut, high-level, directional location strategy. Use the data you have and involve the stakeholders who are most critical. To speed things up, leverage network simulation tools as well as big data analytics. Deliver some quick wins, showing that you can move fast in the right direction.

In parallel, launch a broader effort to gather missing data and identify all the key stakeholders. Gather data about the market, innovation, talent, proximity, infrastructure, risk, and cost. Think broadly. Include stakeholders from each business and function, especially human resources, finance, marketing, and IT.

And above all, secure support from the CEO and the Executive Committee. The trend is for C-Suites and Boards of Directors to take a greater interest in corporate real estate. In some cases, like a relocation of corporate headquarters, you may even need Board approval.



Challenge #6

Lack of funding

It's tough to get funding for a location strategy. The business has lots of ways it can invest capital, such as in R&D, manufacturing, digital transformation, or stock repurchases. Real estate is often a source of capital, not a destination.

Tie your business case to the company's priorities, including value to stakeholders and improved business outcomes. If you widen the range of benefits, you're more likely to get funding. Here are some examples of benefits:

- Increasing the number of customer briefings.
- Increasing the number of job applicants.
- Increasing the employee engagement index.
- Decreasing attrition.
- Optimizing financial indicators such as assets, capital expenditures, ROIC, NPV, and operating expense.

Seek a location strategy that has a positive financial impact, overall. If not, consider dividing the strategy up into phases and start with the phase that has the most favorable financial impact.

Include all costs and benefits, not just real estate costs and benefits. Personnel expenses are often several times higher than real estate expenses. So are supply chain expenses. Leverage tax benefits and economic incentives. Consult with tax, government relations, and other experts to make sure nothing is overlooked. For example, some countries provide tax credits for manufacturing in-country. These tax credits can be sizable.

If possible, include the costs of implementing your new location strategy in corporate restructuring, when reserves are set aside for such charges. If not, try to self-fund through sale-leasebacks, but only if it makes sense for you to lease instead of own.

Make your case. Show the value and the improved business outcomes.

Challenge #7

Raw human emotion

It's hard to get everyone to agree on one, company-wide location strategy. A location strategy is much more than just facts and figures. It's raw human emotions too. Everyone has their favorite country, city, and facility.

This challenge is real, and sometimes it's visceral. One time, my team proposed moving a few dozen people from one side of the floor to the other side of the floor to allow another group to sit together. Both sides had the same layout, the same furniture, the same access to sunlight, the same noise levels, you name it. Still, people did not want to move. They did not voice any reasons. They just did not want to move. It was hard and it took a while to reach an agreement.

Now imagine asking hundreds or thousands of people to move within a building, to a new building nearby, or to a new city. It's essential to build a compelling case with facts and figures, but it is no less important to address raw human emotions. Sometimes addressing raw human emotion is the only way to get to a yes.



To conclude, having the right location strategy is a great source of competitive advantage for your company. As you're developing a new location strategy, you'll encounter a number of challenges. But if you anticipate them and solve them, you can put in place a location strategy that will work for you.

Jill Zunshine (@jillzunshine) is a former head of global real estate and facilities at Hewlett-Packard Company. She is a corporate real estate, procurement, supply chain, and operations executive, and an MBA and engineer with over 20 years in IT, telecommunications, financial services, manufacturing, and consumer products.

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