

# Corporate Real Estate that Enables & Supports Your Business Plan!

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“If you always do what you always did, you will always get what you always got”. -Albert Einstein

## OLD SCHOOL THINKING

The historic approach goes something like this:

- ❖ “We currently lease X square feet. We probably need about the same going forward or Y square feet because we have fewer people or more people, etc...”
- ❖ “Our current location seems to work fine, so let’s confine our search to that general area”.
- ❖ “We can use the landlord’s architect to design our space. They will do it for free as part of the transaction”.
- ❖ “Although we aren’t crazy about the static nature of leased space, we go forward because space is a “necessary evil, cost center, etc.”
- ❖ We have a vision for the overall look and general location of our facility, but haven’t taken a deep dive to understand how to unlock the true potential of the opportunity that it presents.”

We’ve learned that spaces can be designed and located to produce specific performance outcomes—productivity in one space, say, and increased innovation in another, or both in the same space but at different times. By combining the emerging data with organizational metrics such as total sales or number of new-product launches, we can clearly demonstrate, and measure, a workspace’s effect on the bottom line and then engineer the space to improve it. This will lead to profound changes in how we build and locate our future workspaces. This approach is more important than ever given the direction of commercial real estate markets globally. The “low hanging fruit” of simply asking for, and getting, a lower rental rate and some basic concessions are gone for the time being, so more ingenuity and creative thinking are required. Here are a few great ideas:

- ❖ **Recognize office space as not just an amortized asset but a strategic tool for growth.**

We estimate that average office utilization *peaks* at 42% on any given day and averages just 31% overall! By that logic, the best way to manage cost per square foot is to remove “wasted” square footage. But the data we’re generating reveal that investments in re-engineering space for interactions over simply “less space” will increase sales, support new-product launches, enable more team successes, etc.

- ❖ **Design offices to reflect how 21st-century digital work actually happens.**

The buildings we go to every day haven’t changed as much as the tools we use to get work done. Merging digital communication patterns with physical space can increase the probability of interactions that lead to innovation and productivity.

- ❖ **Re-engineer offices to weave a building, a collection of buildings, or a variety of workspaces into the culture & fabric of the enterprise.**

The office of the future will most likely include highly networked, shared, multipurpose spaces that redefine boundaries between divisions, groups, functions, etc. and significantly improve everyone’s performance. Getting there will require collecting much more data to drive design and support management objectives. It will also transform HR, IT, and facilities management from support functions to facilitators. Companies can change their spaces to reflect how people work and performance improvement will follow. Don’t take that on faith. There is compelling data to prove it.

- ❖ **Astounding Transformation**

Jon Fredrik Baksaas, the CEO of the Norwegian telecommunications company Telenor, credits the design of the company’s Oslo headquarters with helping it shift from a state-run monopoly to a globally competitive multinational carrier with 150 million subscribers. That design, he says, improved communication, accelerated decision making, and even created what he calls “an attacking mind-set.”

### ON THE LEADING EDGE

The use of “Big Data” is leading the way. With the right tools it can be captured easily and securely at very reasonable cost. Critical data collection is done through a range of vehicles, most or all are already in place: The same sensors, workplace/ sociometric badges, activity trackers, smartphones, and networks that we eagerly foist on customers to reveal their habits and behavior can be turned inward, on employees in their work environments.

Recent studies conducted across a multitude of industries, by deploying thousands of badges in workplaces, have begun to unlock the substantial benefits of good office design in terms of density, proximity of people, true functionality and social nature. We’ve learned, for example, that face-to-face interactions are by far the most important activity in an office. The right design ensures that employees “collide”. Data strongly supports that creating “collisions”—chance encounters and unplanned interactions between knowledge workers, both inside and outside the organization—significantly improve performance. On top of that, a world of improvement can be made in the attraction and retention of top talent by including the use of Labor Analytics in the site selection process. Layering in business continuity and security concerns on top will ensure a truly great and transformational result. Exciting times!

### CHANCE ENCOUNTERS AND INTERACTIONS BETWEEN KNOWLEDGE WORKERS IMPROVES PERFORMANCE

In the tech world, tight correlation between personal interactions, performance, and innovation is an article of faith, and innovators are building cathedrals reflecting this. Google’s new campus is designed to maximize chance encounters. Facebook will soon put several thousand of its employees into a single mile-long room. Yahoo notoriously revoked mobile work privileges because, as the chief of human resources explained, “some of the best decisions and insights come from hallway and cafeteria discussions.” And Samsung recently unveiled plans for a new U.S. headquarters, designed in stark contrast to its traditionally hierarchical culture. Vast outdoor areas sandwiched between floors will lure workers into public spaces, where Samsung’s executives hope that engineers and salespeople will actually mingle. “The most creative ideas aren’t going to come while sitting in front of your monitor,” says Scott Birnbaum, a vice president of Samsung Semiconductor. The new building is “really designed to spark not just collaboration but that unique innovation you see when people collide.”

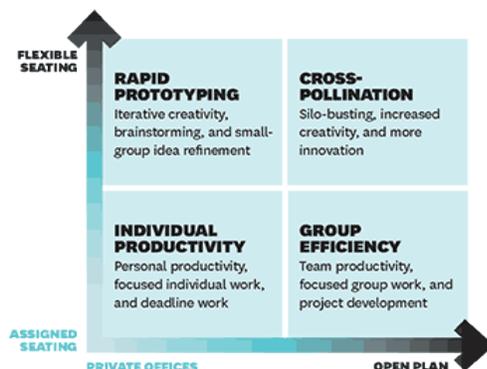
### INNOVATIVE & HOLISTIC APPROACH YIELDS OUTSTANDING RESULTS

Faith is nice, but do executives have proof that this works? What’s to say that isn’t just another in a long line of fads and broken promises in workspace strategy?

Other than very basic barometers, few companies measure whether a space’s design helps or hurts performance, but they should. They have the means. Our clients have seen huge gains in truly meaningful statistics that directly support and actually enhance their business plans! A few examples:

- ✓ **A 22.14% INCREASE IN EMPLOYEE COLLABORATION**
- ✓ **OVERALL COSTS OF SPACE REDUCED BY 19.87%**
- ✓ **EFFICIENCY IMPROVED BY 16.22%**
- ✓ **ENHANCED TALENT ATTRACTION & RETENTION BY 27.67%**

### THE BASICS OF COLLABORATIVE SPACE DESIGN



The type of interaction that's most valuable changes according to goals; what doesn't change is that interaction in itself is far more valuable than we realize. Sometimes exploring, engaging, and increasing the number of people's collisions is more important than individual productivity or creativity. Imagine, for example, that a worker finds a better way to do her job but never tells anyone else doing the same job what she discovered. She has improved her performance but no one else's. If she takes time out of her day to tell others about what she's learned, her productivity drops—but she has increased theirs. We've shown that in some cases even a 5% drop in personal productivity can have a positive outcome on group performance.

Think of the implications: First, most employee performance reviews are based on individual productivity and don't take into consideration how group productivity can grow through more interaction. Second, untold amounts of money are invested in tools to increase individual productivity, but the money might be better used to design a workplace that promotes collisions that will make the organization—not individuals—more successful. Once a company has identified the pattern it's trying to achieve and how the pattern affects outcomes, it can begin to calculate the true value of workspaces, not just their costs.

### ***Case Studies- The Good & The Bad***

***Example 1-*** Sociometric badges were deployed with about 50 sales executives at a **pharmaceuticals company** who were responsible for nearly \$1 billion in annual sales. They wanted to increase sales but didn't know what space influenced behaviors could help. The data collected over some weeks showed that when one of the cited executives increased interactions with coworkers on other teams—that is, increased exploration—by 10%, his or her sales also grew by 10%. An elegant correlation.

So the executives asked: "how can we change our space to get the sales staff running into colleagues from other departments?" In this case, the answer lay with coffee. At the time, the company had roughly one coffee machine for every six employees, and the same people used the same machines every day. The sales force commiserated with itself, marketing people talked to marketing people and so on.

The company invested several hundred thousand dollars to rip out the coffee stations and build fewer, larger ones—just one for every 120 employees. It also created a central cafeteria for all employees in place of several much smaller ones. In the quarter after the coffee-and-cafeteria switch, sales rose by 20%, or \$200 million, quickly justifying the capital investment in the redesign.

***Example 2-*** A highly profitable, old line **tech company** engaged our team to evaluate their existing headquarters consisting of 72,000 square feet of office space. While business was great, the company's leaders had concerns about productivity, efficiency, overall cost and their ability to compete for top talent. Our leading edge team developed detailed modeling and analytics that lead to a relocation of the company's headquarters office. The new location was only 6 miles on the ground from their former HQ. Results were truly astounding:

- ❖ Occupancy costs reduced by \$1.2Mil/ year
- ❖ Efficiency increased by 22%
- ❖ Collaboration increased by 18%
- ❖ Employee attraction and retention increased by 19.5%
- ❖ Secured government incentives valued at \$21mil

***Example 3-*** Leadership at a large **furniture manufacturer** had significant concerns about cost of sales and the group's overall performance and growth. An internal study suggested that the Call Center area within the company's headquarters should be reconfigured from classic cubicles to an open-plan office in which approximately 60% of the workforce had unassigned seating. Before moving forward with the fairly costly renovation, that also had significant cultural implications, a test was performed where badges were deployed to 65 sales and marketing team members. This data, along with feedback from key employees and customers, ultimately led to a significantly better solution. Sales & Marketing were moved closer together within the overall HQ. A joint meeting room and several interactive spaces were designed between the two group's areas. The seating configuration remained "assigned", but podded into more logical groups for sales. This drove a significant boost in interaction and collaboration through high "engagement". Follow-up studies showed members of both groups leaving their work station and "colliding" 43% more frequently! Cost of sales dropped significantly due in large part to more "active" design and shared common areas along with a shortened sale cycle. Employee retention also increased by

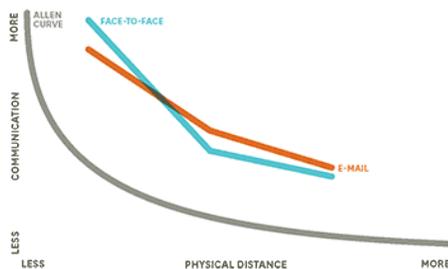
double digits for those groups and most importantly, sales increased by nearly \$200mil in the year following the renovation.

### WORK BEYOND THE OFFICE

One factor complicates all this: Office buildings are no longer the sole locations for knowledge work. In fact, research from the consulting group Emergent Research suggests that a significant portion of it now happens outside the office. Consequently, no matter how precisely we design office space to create collisions, the design is incomplete if it doesn't take into account digital work and collaboration that are independent of space and time and for which immediacy is more important.

In some ways the digital workspace enhances in-person collisions with file-sharing and communication tools such as chat, e-mail, and archiving. It can gather more ideas from more places: Research indicates that interactions and engagement decrease as the physical distance between work groups gets bigger, whereas online engagement increases with the number of users. However, data show that digital communication can't replace face-to-face interaction and may actually be enhanced by it (see below "The Allen Curve Holds"). Studies with sociometric badges confirm that remote teams don't perform as well as those in physical proximity.

### THE ALLEN CURVE HOLDS



### SUMMARY

The chasm between corporate expectations and "market" realities is widening. Obviously, a good deal of this is cyclical and will continue to swing/ vary over time. However, tightening of current markets is more complex, and will be more long lived, than most previous "up" cycles. During the span between the "dot-com" bubble (2001) and "financial crisis" (2007) and through today, very little new office space was built. Couple that with the fact that the bottom third of office buildings has aged significantly during that period, and now has features/ specs that are mis-aligned with corporate needs (lower parking ratios, smaller floor plates, narrower column spacing, etc.). This is further compounded by the proliferation of institutional landlords over entrepreneurial owners. Institutional owners mainly take a longer view and have a more sophisticated team in place to maximize their return on investment. While this all seems daunting, it is driving innovative thinking and forcing CRE practitioners to substantially "up" their games and bring a lot more to the table than a simply "reactive" mindset and "market" driven approach. In the right hands, with the right approach, truly outstanding results, that clearly support and enhance the company's goals, can be achieved with corporate real estate!

*Intrigued by these concepts and results: Contact Mike for a free consultation.*

Mike Maroon, SIOR is the Managing Partner of The Acclaim Group, a leading real estate adviser to corporations locally, nationally and globally.