

Getting to TCOc (Total Cost of Occupancy)

Creating a Repeatable Process in Understanding, Delivering and Measuring Real Estate Decisions

State Farm Insurance

State Farm is the largest auto and home insurer in the United States. We are also a national presence with life insurance and financial products. We have a very diverse mixture of real estate that is needed to conduct business. We recently completed a comprehensive review of our real estate portfolio.

The focus of Getting to TCOc was to identify our current total cost of occupancy and develop a strategy for future real estate decisions at State Farm.

As a company we have approximately 25 million square foot of real estate. The space is comprised of about 800 separate locations which is a mix of 130 owned and the rest leased. The majority of our properties are leased. The majority of our square foot (72%) is owned. Real estate is spread across 50 states and Canada. The floor space ranges from 3000 rentable square feet (RSF) to 3 million RSF.

Our company has to be ever aware of the expenses that we are using to support the facilities that house a workforce of over 60,000 employees. The challenge with getting a full perspective on our real estate expenses has been driven by how we are organized. In our current state, Corporate owns the buildings and controls capital improvement expenditures. Day to day operation decisions of the owned facilities are made at the zone level. Most leasing decisions are made at the zone level. Fragmented information made it very difficult for senior leadership to know the total cost of occupancy for our real estate portfolio.

Phase 1

A project team comprised of internal associates and an external consultant was assembled. The funding for the project was allocated at the company Treasurer level to ensure an understanding of the importance of the study. This was a 90 day work effort that was broken into two work streams. It was designed to understand the quantitative and qualitative aspects of our real estate portfolio. We also looked to more fully understand how our expenses line up with real estate expense and utilization in the external environment.

The Levers

Several categories were identified for us to pull on. We called them the “Seven levers of opportunity.” They are:

- Demand management
- Consolidation and centralization
- Smart sourcing
- Real Estate and facilities processes

- Technology enablement
- Organization structure and governance
- Capabilities and mindsets

The result of this study is the first fully comprehensive study we have conducted on our real estate. The results of this first phase validated our perceptions. We are highly fragmented and that through the variability of procedures with 13 zones and Corporate, there is significant opportunity to improve. At this time we coined the term “we want a repeatable process and do not want to ever repeat this process”. We quickly learned that we had to develop new processes and procedures that would provide this information in an on-going manner. We could no longer be comfortable in trusting the real estate spend obligation under our current processes. New procedures are needed to ensure we know where we are at any given time.

Identified Areas of Opportunity

- Create and reinforce streamlined real estate standards
- Consolidate within and across facilities to improve utilization
- Optimize demand and adhere to service level standards
- Reinforce rigorous smart sourcing and vendor management
- Improve accountability and organizational effectiveness

The results of the first phase of our study were shared with senior leadership. We were given funding for the second phase. This phase was to validate the information gathered in the first phase. We were directed to develop recommendations that would develop our strategy to move us forward in lowering our expenses and get us to making better decisions. We were directed to develop tools that would allow us to always know where we are with our real estate and operations expenses. The new tool is also to be designed as a dynamic tool that would allow us to stress test our proposed real estate decisions going forward.

Phase 2

Phase 2 was a 120 day work effort. The work began with the second phase on three major areas. They are Real Estate, Facility Operations and development of a Real Estate Tool. Our team consisted of those from Phase 1 and internal and external subject matter experts. We also reached out to other areas that have a hand in making employee and financial decisions (ie; HR, Finance, Strategic Resources and Planning and Analysis).

The Real Estate work group looked at our current mix of space. The cost of real estate is significant, but the cost of moving people can be even greater. One of the key phases of this area was to work with the business partner to see if major metro areas would allow for groupings of employees different than what we are doing today. Through this process, we attempted to consolidate employees in a different facility without leading to an unreasonable commute that would change their job status. Our current Claims technology allows the employee to be further from the claimant.

Real estate also took a look at the ability to telecommute. We had to determine the number of workers that start from home. Many of these associates have a desk assigned to them. Their work brings them to the office rarely.

Real Estate developed a four section process using twelve steps to make our future real estate decisions. These steps led us to the key points along the way where metrics come into play and where decision points are recognized.

- Section 1-Understand needs, current state assessment, identify prioritized RE levers
- Section 2- Generate building level options, translate business level options to real estate tool, evaluate TCOC impact associated with each option
- Section 3- Estimate additional one time and or other recurring costs, conduct holistic NPV, Construct and refine options, discuss with business units
- Section 4- Create implementation road map, create accountability for Real Estate and business unit

The Facility Operations work group broke down the components that make up the basics for facility operations. Our focus in this area was on Repair and Maintenance, Utilities, Housekeeping, Security and Landscaping. Compared to the external environment, we provide a high level of tenant care. As a risk averse organization, many of our self performed tasks took a similar approach. Additionally, we have too many vendors. We don't effectively leverage this spend and our standards for vendors are not consistent.

The Real Estate Tool work group looked at all of the information we had collected in Phase 1 and worked to validate the information. Through the validation of the phase 1 data, we recognized that the payment processing variability is an area of needed attention. We added a subgroup on payment standardization.

The material of the project team was continually reviewed with senior leadership. The outcome of the study identified the significant amount of opportunity.

What we learned

There is significant opportunity to reduce our real estate spend. We will pull on a series of the seven levers to adjust our real estate portfolio and continually look to spend the appropriate amount for the real estate that we occupy. We have the control processes in place for our owned facilities, but we are underutilizing them. Leasing decisions must be given the same amount of scrutiny as owned. Unchecked leasing decisions led us to more space than we needed with a higher level of amenities than are needed for our delivery of work. Space planning will closely fit the employee group identified for their function as they move in. Technology enhancements will lead to a leveling or reduction of the workforce and a higher concentration in our larger facilities. Start from home and telecommuting will continue to evolve and play a larger role in the evaluation of remote locations. Space consolidation should continue. Most real estate decisions on leasing will be for the day one need with no extra for future growth.

Real estate decisions are part of an integrated decision process on how we house the employees that conduct our business. We learned that we needed to be better connected with the decisions makers in the Enterprise on changes to the way that business is being done. We also learned that without a multi department team looking at the movement of the business and the employees, we would continue to struggle with having the right real estate in the right locations at the right utilization. A stronger tie is needed with Planning and Analysis, Strategic Resources, Human Resources and our department Administrative Services (Real Estate)

Turning the outcome of the study into practice

We found that there is a lot of work that needs to take place to fully incorporate the findings of the study into every day practice. A series of tactical steps have been delivered that will be the playbook for immediate and long term execution to recover the opportunity that has been identified and be a resource for those who come after the project team moves on. The outcome was 29 distinct recommendations.

Central Governance of Real Estate and Facility Operations

The study validated that we need to more concisely align our real estate decisions to a central point. The business is changing. There is a mixture of Corporate and Zone employees in many of our buildings. Only through central governance will we be positioned to know all of the moving parts in the business for the real estate needs. Tactical and strategic decisions are ever more important to be directed from one knowledge base.

The study also identified the challenges with facility operation expenses. Repair and maintenance is the largest amount of spend due to the significant amount of owned real estate in our portfolio. We have work to do with our frequency of working on assets, demand management, move support and catastrophe support. Utility management has been fairly successful even in a fragmented environment. However, we have the ability to do better. Vended services which are made up of housekeeping, landscaping and security need to be tightened up in the areas of consistency with the way we do the work. There is opportunity to leverage spend so that we have fewer contractors.

Common Real Estate Tool for decision support and metrics

Having all of the data pulled to one report application is one of the most important things that will come out of our study. We will have the ability to look at all of our real estate spend with a consistent format of pulling the data. We have built the tool to be both our static report tool as well as our dynamic forecasting tool. There will be standard reports that are key performance indicators as to the health of our real estate operation that all will use and make decisions from.

New Metrics

All categories are now looked at for total cost to the enterprise. Each Zone and Corporate (14 divisions) have their corresponding number and all results are posted in a comparative manner regarding their cost, the Enterprise average, the external median and the external top quartile.

New Key Performance Indicators

Real Estate

- Total Cost of Occupancy (TCOc)\Occupant
- TCOc\Rentable square foot (RSF)
- RSF\Occupant
- Space allocation\Occupant
- Utilization

Operations Total spend for the following categories

- Repair and Maintenance
- Utilities
- Security
- Landscaping
- Housekeeping

In summary, our Real Estate study in 2010 will position us to harvest the opportunity identified. Having all of the numbers and data come from the same source will enhance the speed with which we can understand our ongoing spend and adjust to needed changes more quickly.

We are moving forward with the necessary changes to our real estate processes that will enable State Farm to maintain its market place leadership.