

EVERYTHING YOU WANTED TO KNOW ABOUT BENCHMARKING IN 60 MINUTES OR LESS

I. CHANGE

- **Steel Mills** - Big Steel mills in the north have been replaced with “mini-mills” in the south.
- **Supermarkets** - have replaced the corner grocer, the vegetable man, the milk man, etc.
- **Lowe’s** - has combined services of many small businesses under one roof - the local hardware store, lumber yard, carpet dealers, tile installers, plumbing suppliers, nurserymen, light fixture stores etc.
- **Sam’s, Circuit City, Pet Mart etc.** - have taken “standard businesses” that were the heart of every Main Street, and replaced them with high-volume, discount operations
- **Obsolescence** - Its cheaper to buy a new toaster, VCR, modem, fax machine etc. than it is to get your current one fixed.
- **Outsourcing** - Anyone with a good-looking letterhead and your management’s ear can make a pitch for your job, based upon the fact that he can probably find someone to do your job for less money than your company is paying you.

II. PRODUCTIVITY IMPROVEMENT

- **Productivity Definition** - Output divided by input (i.e. \$ sales per person)
- **Productivity Improvements drive a rising standard of living** - Manufacturing productivity improvements have been 2% -4% per year for decades. White collar productivity improvement has been negative.
- **“Lost jobs” are the result of productivity improvement** - Manufacturing contribution to the GDP has remained constant for over 50 years. After WWII, over 40% of U.S. workers were in manufacturing. Now its over 20% and expected to dip below 20% before 2000.

III. TODAY’S PROBLEMS

- **Employee-Employer Relations** -180 degree turn-around
- **Information Age** - Sudden transformation
- **Global Economy** - cost pressure
- **Re-thinking everything.**
- **Rate of change has increased.**

IV. SO WHAT ARE YOU GOING TO DO?

- **Document** - what you do.
- **Anticipate & Answer** - Ref. Jim Codgill’s Nov. 1995 questions about “What executives want to know about facilities”
- **Benchmark** your performance
- **Continuous Improvement** integrate into your operations
- **Communicate** - continually communicate your value to management.

V. BENCHMARKING

- **Definition** - the search for industry best practices that lead to superior performance.
- **Methodology**-

PHASE 1 - NUMBER CRUNCHING

1. Planning

- Identify what is to be benchmarked
- Identify Standards or comparative companies

2. Analysis

- Determine Data Collection Method & collect data
- Determine current performance levels

PHASE 2 - DOING SOMETHING

1. Integration

- Project future performance levels
- Communicate findings, gain acceptance

2. Action

- Establish functional goals
- Develop Action Plan

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- Implement actions, monitor progress

VI. PHASE 1

- Document what you do and where you stand
- **Develop Metrics** - Convert “cost” to “cost per square foot”, “cost per person” or other common “Metric”
- **IFMA SURVEY & BENCHMARK REPORT**- see enclosed (Bi-Annual)
- **BOMA** - Experience Exchange (Annual)
- **INTERIOR DESIGN MAGAZINE** - Design fees, Construction Cost for interiors
- **BLACK’S GUIDE** - Source for tenant workletter
- **BUILDING DESIGN AND CONSTRUCTION** - New construction cost.
- **SAFETY** - OSHA incident rates for accidents and lost work days.
- **Presentation** - Have your data in a format where you can readily compare to similar organizations

VII. PHASE 2

- **Continuous Improvement** - i.e. doing something.
- **Jump-start your performance** - Compare numbers, then ascertain “best-practices” behind “best-in-class” performance. Implement “best-in-class” practices.
- **IFMA Councils**
- **IFMA Best Practices Forum** (See hand-out)
- **Local IFMA Chapter** benchmarking sessions
- **Industry Groups** - (IBM, Utilities Groups)
- **Research Detailed Metrics** - i.e. sq. ft. cleaned per person per hour, or cleaning supplies as a % of total cost - use that to help analyze cleaning cost.

VIII. EXAMPLE - OPERATIONS

You are the facility manager for a 250,000 sq. ft. financial facility. Your company has a new chief financial officer. You are not sure what his expectations of the contribution of facilities to the company will be. You want to be able to explain to him your impact on the company and

also identify opportunities for cost reduction, or process improvement. What do you do?

One answer is translate your budget into IFMA’s operating cost metrics (i.e. cost/sf for various aggregate categories). You can then analyze your cost structure with respect to other companies in the industry. After talking to other facility managers in non-competing financial institutions, you develop a set of recommendations.

OPERATING COST COMPARISON

Cost per sq.ft.

	1996	IFMA	BOMA	1997 PLAN
A. Base Operating Expense				
1. Cleaning	1.50	1.36	0.97	1.00
2. Maintenance & Repair	1.70	1.55	1.25	1.50
3. Utility Cost	2.29	2.15	1.64	2.10
4. Roads, Grounds, Sec.	0.89	0.69	0.42	0.79
5. Admin. Costs.	0.80	0.67	0.95	0.67
Subtotal - Base Operating	7.18	6.42	5.00	6.06
6. Taxes & Insurance	3.00	3.00	2.26	3.10
Subtotal - Base Operating & Taxes & Insurance	10.18	9.42	7.26	9.16
B. Tenant Services				
7. Shipping & Receiving	0.40			0.30
8. Furniture/ Asset Control	0.20			0.22
9. Moves, Proj. Mgt.	0.40	1.14		0.00
10. Tenant Areas - Maint.	0.40			0.40
11. Tenant - Admin./ Safety	0.10	.10		0.10
Subtotal - Tenant Services	1.50	1.24		1.02
C. Depreciation & Other				
12. Depreciation	1.00			1.00
13. Other	0.70	2.27		0.70
Total	13.38	12.93	7.26	11.88

Note: Base Operating Expenses are often associated with “Property Mgt.” and are comparable to BOMA & IFMA. “Tenant Services” and “Other” are associated with Facility Management. Note IFMA & BOMA cost/sf

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do not add, because the total is the average of total costs, not the sum of each category.

IX. EXAMPLE - PROJECTS

You are an architect or interior designer. You have a long-standing relationship with a client, however, your client contact is feeling pressure to control construction cost. What can you do to show the client that your services are indeed helping to control construction cost?

- Work as a team with your client to analyze cost and prepare a presentation.
- **Document the learning Curve** - Let's say you have relocated department "A" three times in the past six years. Has your design fee, adjusted for inflation and different construction scopes, decreased? It probably has because you have needed fewer meetings with both the relocated department and the client representatives. You also probably used the same contractors, so you had fewer construction administration problems.
- **Compare to Tenant Standard Work Letter** - A tenant standard workletter for your area includes clear costs for the "bare basics" required to transform an unfinished space to usable office space. Using the unit costs stated in local work letters, can you "build" a comparable cost for one of your projects to check your "value". For example, if the electrical allowance is \$1.00/sq.ft. and includes one floor monument outlet per 1,000 sq. ft. and your density is 250 sq.ft. per person, you probably need to quadruple the workletter cost. Let's say a certain lineal footage of wall is allowed per 1,000 sq. ft. of rentable area. You will need to "build" on the standard cost per lineal feet to arrive at your cost for the benchmark project. "Above Tenant Standard" construction items should be collected in an aggregate cost classification. If the company is committed to controlling cost, controlling scope is one method. Also costs pertaining to furniture installation, communication cabling, moving or equipment installation should be tracked. Have any of these unit costs changed over time? For example, the information resources department may be requiring a more expensive cable which costs more to purchase and install. If possible identify the areas where costs have been increasing - document why.
- **Document Change** - It could be that you are moving more people or increasing your density. You might be producing occupancy plans, where those were formerly produced "in-house" by the facilities department. Remember, finance managers and executives only see the "top line" of a budget. Get your facts together about annual budget changes, then document clearly the reasons for "more construction".
- **Identify Total Cost** - Clients have capital budgets that cover project costs, but often times, many people in the organization support the project and are "hidden costs". For example, when projects are bid, it requires the services of personnel in the facilities, engineering, finance and purchasing departments. If there is a staff reduction in corporate support personnel, sometimes project costs "pick-up-the-tab." An example of this might be the situation where a facility department employee generated overall project schedules, but that duty is now performed by the Contract design firm. The total cost of the project hasn't really changed, the financial accounting has been transferred from the facilities budget to the project budget. This is neither good, nor bad, but it is certainly not an increase in design cost, which might have been the conclusion if only project costs were examined.
- **Compare your Move costs to IFMA Averages** - Compare your cost per person moved to IFMA averages in the IFMA benchmark survey. How do you compare?
- **Document your process, then compare with other companies** - Draw flow charts of how the corporation manages projects.

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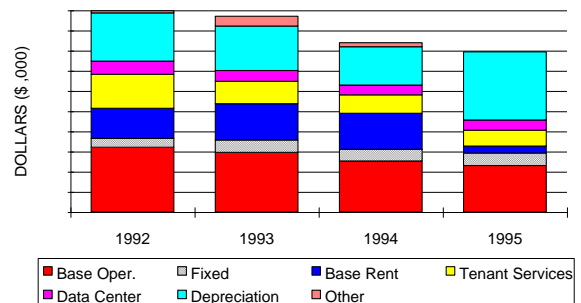
Include all the ugly detail of what it takes to get projects approved. After you have documented the process, look for opportunities to improve the process by cutting cycle time, minimizing the number of people involved, further technical training for staff members or less paper work for the design firm. Contact other companies, who are interested in benchmarking, compare processes and implement "best practices". When Delco Electronics (a division of GM) cut back on purchasing personnel, facility managers were stuck with a project management system that was heavy on paper work requirements, and had no support. They responded by issuing "credit cards" to contractors for each project. This "best practice" resulted in a material savings of 15% on projects over \$750,000. Sikorsky Aircraft implemented a similar program with similar results. These changes came only after existing processes had been documented and "Re-engineered".

- **Re-examine projects that went well** - Identify why the projects went well. You might find that certain combinations of contractors and designers yield a high quality, low hassle project. If one of your goals is to stop bidding fast track projects, you might have to document cost control in past "ideal projects" in order to prove that the method is acceptable

XI. MANAGEMENT PRESENTATION

- Start out with overview - Show how a facilities budget includes more items than rent in a typical speculative office building. (Ref. section VIII)
- Show how Total Facility Costs have changed over time (Are you keeping the increase below the rate of inflation? If not explain.)

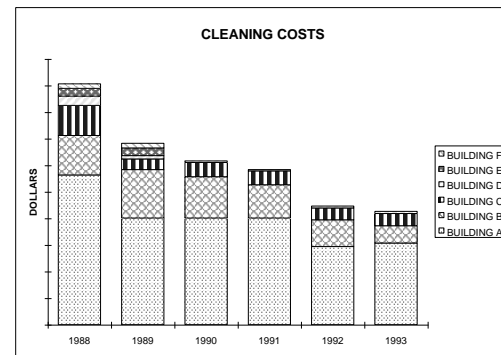
SAMPLE - TOTAL FACILITY COSTS



For detail benchmarking presentations, focus on one area - like cleaning. Show how costs have changed, what you have done and how you compare to IFMA and BOMA.

ABC COMPANY
CONTRACT CLEANING SUMMARY

CONTRACT CLEANING - TOTAL EXPENDITURES						
	1988	1989	1990	1991	1992	1993
BUILDING A						
BUILDING B						
BUILDING C						
BUILDING D						
BUILDING E						
BUILDING F						
TOTAL						



REDUCTIONS IN CLEANING COST ACHIEVED THROUGH:

- Reductions in lease space
- Renegotiating contract

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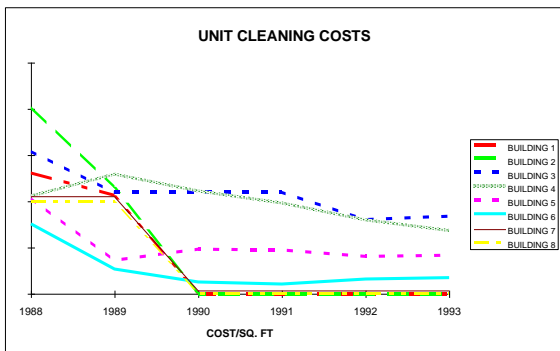
- One format that works well is presenting complex data in a table at the top of the page, then incorporating a graph and footnotes.

COMPANY ABC

UNIT COST SUMMARY

CLEANING COST/SQ FT BY BUILDING

	1988	1989	1990	1991	1992	1993
BUILDING 1						
BUILDING 2						
BUILDING 3						
BUILDING 4						
BUILDING 5						
BUILDING 6						
BUILDING 7						
BUILDING 8						
WEIGHTED AVG.						



COST COMPARISONS

	COST/ SQ. FT.	YEAR	SOURCE
			<i>All comparables are medians</i>
Other Corporate Headquarters	1.07	1990	IFMA - (250 companies)
Dupont HQ	1.10	1990	IFMA
Other Consumer Product Companies	1.07	1990	IFMA (45 companies)
HISTORIC BUILDINGS	1.43	1991	BOMA
All Office Buildings	0.88	1991	BOMA
Charlotte	0.85	1991	BOMA - 10 Speculative Office Bldgs.

- Follow up summary sheets that show changes in total budget by explaining more detailed information, like changes in cost per square foot (see above).

XII. INTEGRATE WITH ANNUAL REPORT

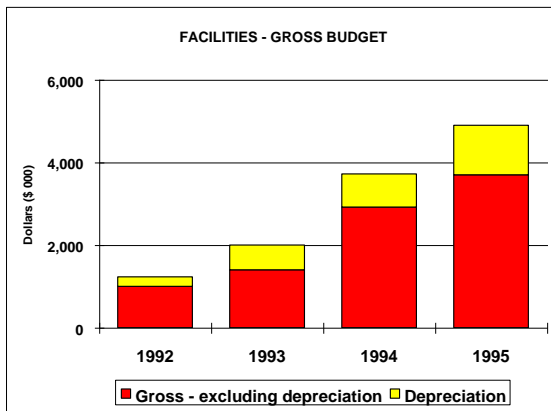
You are a facility manager of a rapidly growing division. Each year you add more space. Each year your budget increases and executives want to know why. You attended a previous IFMA Piedmont Triad Benchmarking session where a facility manager shared how he successfully communicated his situation and did a little educating on the side. He prepared a series of graphs that have been consolidated to the following two:

GROWING COMPANY

FACILITY BUDGET OVERVIEW

Ref. Cost/ sq. ft. spreadsheet

(Cost in \$,000)	Gross - excluding depreciation	Depreciation	Total	% Increase from baseline year
1992	1,000	230	1,230	Note one-half year depreciation 63% 202% 298%
1993	1,401	600	2,001	
1994	2,920	800	3,720	
1995	3,700	1,200	4,900	
TOTAL	9,021	2,830	11,851	

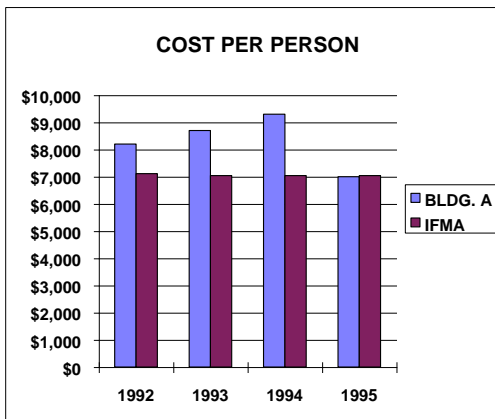


GROWING COMPANY

KEY FACILITY METRIC - COST PER PERSON

Ref. Cost/ sq. ft. spreadsheet

(Cost in \$,000)	Total Budget	People	Cost/ person
1992	1,230	150	\$8,200
1993	2,001	230	\$8,700
1994	3,720	400	\$9,300
1995	4,900	700	\$7,000
TOTAL			



Remember that executives don't have a frame of reference with regards to facility data. Comparing your performance to IFMA comparables in your Facility Annual Report will

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PIEDMONT TRIAD IFMA CHAPTER

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help executives gauge how well their facilities - and you - are performing with respect to similar organizations.

survey size, and therefore the usefulness of our facilities benchmarking database.

XIII. REVIEW OF 1996 BENCHMARK SURVEY

The IFMA 1996 Benchmark Survey will be released in May, 1996. Response time will be 5-6 weeks. Final results, in published form, will be available in early 1997. Note: this published report is free to all IFMA members and is one of several "Research Reports" published each year. Non-IFMA members typically pay more for these "Research Reports" than you do for your membership because the market places great value on them.

Seize the opportunity to participate in the 1996 IFMA Benchmark effort by completing the enclosed questionnaire. Our chapter has been chosen to preview the survey. Our comments and suggestions would be appreciated by IFMA national. We need to get comments to them quickly - Fax comments to Barry Lynch at (910) 741-5020 by Monday April 15 (questions - call at 741-7814).

If a significant portion of our chapter completes the questionnaire and mails it in by the national deadline, we will receive a special "print-out" summarizing benchmark data for our chapter - probably by late summer - a full 5 to 6 months before the report will be published.

Participating in the Benchmark 1996 survey will allow you to:

- compare your performance with other organizations using the most widely accepted facility management metrics;
- uncover costs, which by comparison, may be excessive in relation to performance;
- improve your organization's performance and contribute to the bottom line; and
- make a worthwhile contribution to the IFMA membership as a whole by increasing the

XIV. CONCLUSION

Reflect upon the following story and what it means to you and your organization:

TODAY'S ENVIRONMENT

- Every morning in Africa, a gazelle awakens. It knows it must run faster than the lion or it will be killed. Every morning a lion awakens. It knows it must run faster than the gazelle or it will starve. It doesn't matter whether you are a lion or gazelle; when the sun comes up, you'd better be running.