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Can Benchmarking Metrics Uncover Best Practices?

By Jeff Nikol, SIOR

Many corporate real estate (CRE) departments are understaffed and generally overworked relative to the size of the portfolios they oversee. It is not uncommon to have a corporate real estate department that is comprised of two people, a director of real estate and one real estate assistant. When the finance department, operations, or the executive officers elect to get control of the leasehold and owned assets, the task of gathering, understanding, and proactively managing the portfolios can be overwhelming. Without the assistance of a good software system in which to organize the leased and owned assets, the corporate real estate executive is almost powerless to begin to create a proactive strategy of cost reduction, benchmarking, and accounting interfacing. This problem is currently being compounded by the Federal Accounting Standards Board's (FASB 13) review of operating versus capital leases. FASB 13 will affect the review and treatment of both real estate and equipment leases. (For more on the proposed rule changes, see the Legislative Update article in this issue.)

If a company can use a good web-based software system to organize the mounds of data and choose a system that can interface with any of their current general ledger accounting systems in place, the task of managing and proactively creating strategies for their CRE portfolios can be quite easy. There are many off-the-shelf options on the market that both real estate service providers and corporations can purchase. Generally, there will be a one-time set-up fee, and then, depending on the needs of the corporation, an annual fee for the web-based server storage and possible attracting fee for gathering a data entry of the leased and owned assets. Many third-party corporate real estate service providers have these systems and are staffed to assist with the collection of data required. There are also lease administration software firms that will create a proprietary system for each specific portfolio account. However, the off-the-shelf systems we have previewed over the years have managed to reduce or eliminate the many inherent bugs of proprietary custom-built systems.

There are two uses for lease administration software systems.

1. Lease abstracting and the organization of files such as lease documents, floor plans, maps and aerials, amendments, and expenses calculations.
2. Benchmarking the data through analysis to determine a plan for best practices for any particular portfolio.

Benchmarking—the research and analysis of quantitative, empirical data—is a way to isolate weaknesses and strengths and to make connections between best practices and performances. Once these connections have been made, determining which practices are appropriate for an organization to adopt becomes a competitive imperative. Benchmarking can also be used across a CRE portfolio to help companies create practices and systems that better drive down cost, time to market, and other costs related to the portfolio.

Benchmarking Fundamentals

A fundamental question to ask when benchmarking is, "What should we measure?" Many times, these measures need to be aligned with business plan objectives and strategies. Collecting this data is time-consuming, and a corporation needs to know beforehand how it plans to use the data.

The next step in the benchmarking process is collecting and comparing data to determine how the organization stacks up

to others researched. This is what most companies have known as benchmarking.

Metrics allow an organization to understand its operational performance relative to external benchmarks (such as the industry average and top performers) and to assess its own internal progress over time. To ensure comparability, metrics should be normalized (i.e., put on a common unit basis) to reduce issues of operational scale.

Although metrics are useful, it is important to also look at the facts behind the numbers. For instance, simply knowing that cost per full-time employee (FTE) is higher than the industry average will not help an organization improve its performance. Instead, it is important to analyze the data to discover what factors within an organization (e.g., management practices, systems, and organizational structure) are responsible for performance gaps, and then identify key practices for improvement.

Benchmarking Performance

Key performance indicators (KPIs) are the metrics deemed essential to understanding operational health. Measuring performance allows an organization to objectively determine what is working and what is not. In addition, by identifying successes, managers can reward and learn from best practices.

Many times, key employees are being compensated based on their business unit's P & L performance. However, and unfortunately, many times there is no software system in place to gauge what is driving that performance. Retail operators generally will have a point of sale (POS) system to see what is driving sales, but many industrial, quasi-retail, and office users do not use software to analyze key employee performance.

When targets are set using validated, normalized data, measurement will support a means to determine operational improvement. Of course, it is critical to tie process improvement to measures that matter to an organization. In doing so, measures can provide:

1. Feedback to guide change;
2. Assessment and baseline information;
3. A compelling business case;
4. A diagnostic tool to identify areas for improvement and set priorities; and,
5. A basis for communication (using a consistent definition).

Most measurement occurs at the process level, where the transformation from input (resources applied) to output (goods and services) takes place. The four main categories of metrics to assess performance at the process level are:

1. Cost effectiveness (e.g., $6.22 per invoice);
2. Staff productivity (e.g., 93 invoices processed per FTE);
3. Process efficiency (e.g., 11.2 percent error rate); and,
4. Cycle time (e.g., processing time of 3.8 days).

Cost Effectiveness

Cost effectiveness measures tell how well companies manage cost. Normalized data usually includes cost per unit, cost as a percentage of revenue, cost as a percentage of total budgets, and actual costs versus budgeted costs. Supporting indicators include cost components as a percentage of total and disaggregated cost per unit. Examples of measures follow:

1. Customer service/call centers
   - Cost per call (or cost per minute)
   - Cost per reported complaint
2. Finance and accounting
   - Cost per invoice
   - Cost per remittance
3. Human resources
   - Cost per recruit
   - Benefits administration cost per employee

Process Efficiency

Process efficiency gives insight into how well procedures and systems are supporting the operation. KPIs usually include error rate and forecast accuracy rate. Supporting indicators can focus on factors that influence process efficiency such as system downtime rate and the degree of process automation. Examples of measures follow:

1. Customer service/call centers
   - First-call resolution rate
   - Total resolution rate
2. Error exception rate
   - Payroll processing error rate
   - Invoice processing rate
3. Human resources
   - Turnover rate
   - Ratio of acceptance to hires
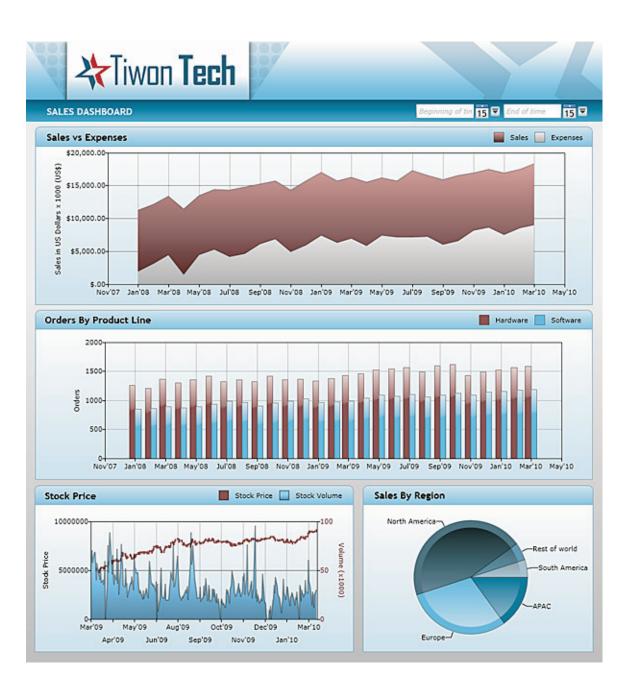   - Ratio of acceptance to offers

Cycle Time

Cycle-time measurements deal with the duration required to complete a task. They are almost always expressed in units of time and include processing time and time to resolve customer inquiries. Supporting indicators can focus on factors that influence cycle time, such as the frequency of system breakdowns. Examples of measures follow:

1. Customer service/call centers
   - Average time to answer
   - Average time to resolve complaint
2. Finance and accounting
   - Average time to process an invoice
   - Days sales outstanding
3. Real Estate
   - Average time to market
   - Internal response times
   - Legal review

The four measurement categories represent a "family of measures" framework. This framework provides a comprehensive view of the business process. For example, measures can be developed to assess performance in all aspects of customer service, including cost management per call, quality of service, and labor costs.

Taking a Look at the Big Picture

KPIs are also known as dashboards. A dashboard provides insights into business performance in one snapshot. Similar to the dashboard on a car, which provides the driver with an overview of key aspects of the car's operation, dashboards provide a high-level understanding of how a business is performing. They are considered "measures of wellness," in that by simply looking at them, organizations can assess the health of the operation. Example:

Beyond the numbers, organizations want to know what qualitative factors impact performance. Using statistical techniques such as correlation and cross tabulation can help reveal those factors that most prominently influence good performance.

Ultimately, corporate real estate executives want to provide a service to their companies that allows key executives to use the CRE portfolio to drive bottom-line performance and shareholder value. Without a high-quality and thorough web-based software system to gather and then analyze that data, it is very difficult to benchmark internal performance and move to best practices.